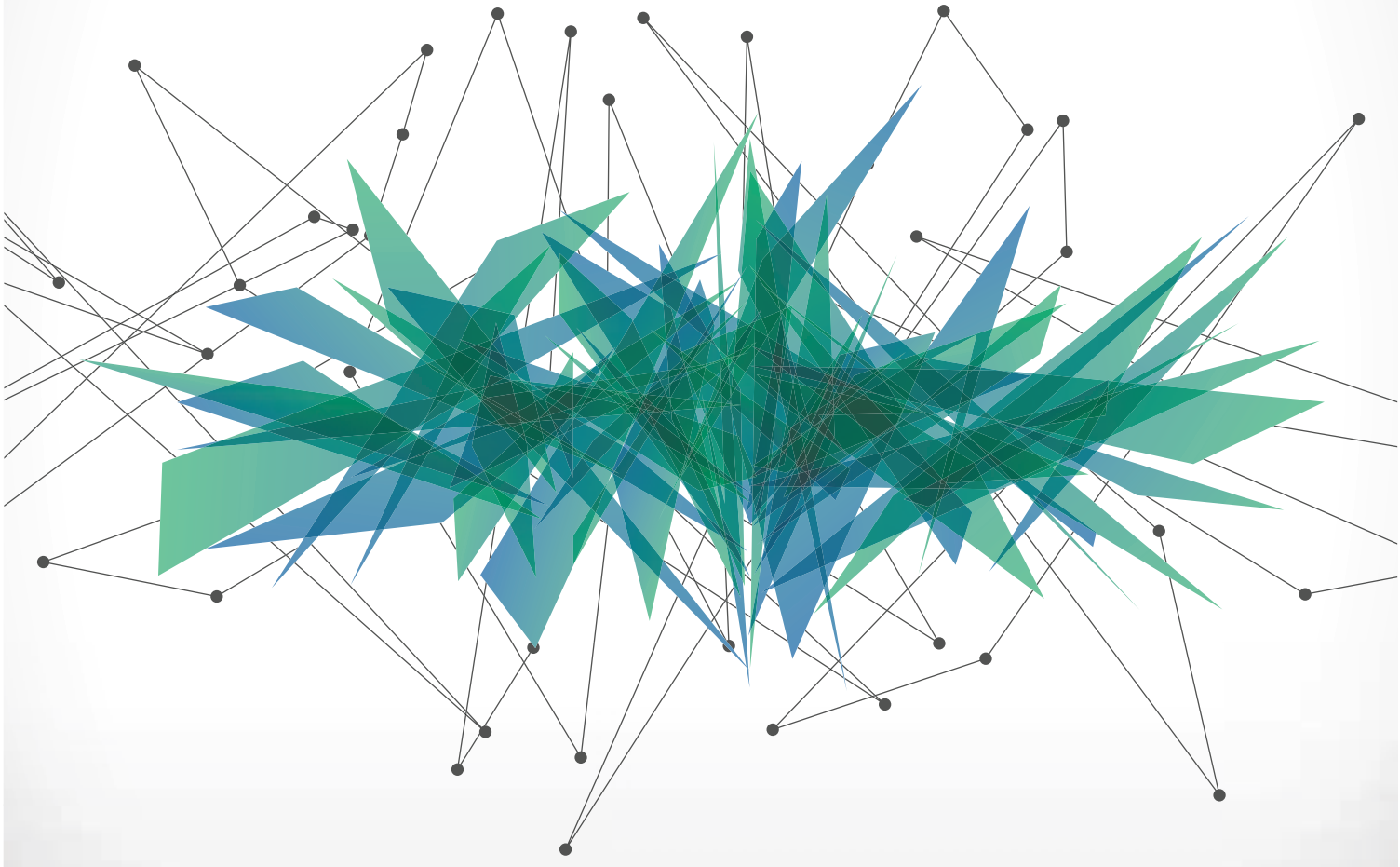
StrategicRISK

ASIA RISK REPORT



THE TOP CONCERNS OF ASIA-PACIFIC RISK MANAGERS

REPUTATION
NATURAL CATASTROPHE
REGULATION
HUMAN CAPITAL
CYBER
ECONOMIC
POLITICAL

UP FRONT

The risk management function in Asia is yet to mature into an integral part of the business with an enterprise-wide oversight of risk management. Corporates expect their supply chains to reflect a greater focus on risk management in addition to quality and business resilience. Increasingly, it is their reputations that are on the line, not only those of their suppliers

Keith Thomas
chief executive
Global Corporate
Asia-Pacific,
Zurich
Insurance
Company

The speed of transformation must accelerate if Asian companies are to achieve their ambitions on a global platform while protecting their business from an array of risks associated with operating overseas. Achieving this is possible, but it requires those responsible for risk and insurance management to work differently, embrace new technologies and focus on the opportunities in risk management rather than risk transfer alone. Increasingly, corporates wanting to expand overseas are turning to technology to help them map risks and visualise the impact of macroeconomic, environmental, health, geopolitical, technological and business risk factors on individual countries. Access to reliable data is crucial in helping them to make strategic decisions about locations in which to invest.

Asian companies are also showing more interest in international programmes. These companies are rightly questioning how their policies would respond in the event of a claim, and wanting to determine what insurer premium taxes will need to be paid for out-of-territory coverage. Without the relevant local policies in place, companies could face risks with contract certainty and reputation.

A major priority for the insurance industry in the region is to educate corporates to adopt a thorough risk management mindset. As the understanding of the effect of risk increases, more and more local firms utilise risk engineering and mapping tools to mitigate risk. In addition, insurance companies such as Zurich are starting to provide risk benchmarking data.

A changing and less predictable regulatory landscape also presents corporates with added complexity to managing their risks across multiple markets. It is now more critical than ever that risk managers and insurers are equipped with the necessary local knowledge of the countries in which they operate.

Additional factors such as ageing populations, especially in Japan and China, greater scrutiny and accountability of management teams, and the prevalence of outsourcing to markets where IT systems may not always be robust, make Asia a uniquely fascinating challenge – and opportunity. To capture those opportunities, corporates need to partner with experts who can help them manage today's risk while keeping an eye on the right long-term risk management and sustainability for their business or investments.

Today's technology and heightened speed of change in technology now make it a requirement for forward-thinking risk management professionals to embrace the power of analytics. Companies that are willing to do things differently are driving risk out of their business, becoming more resilient to threats and opening their doors to opportunities.

Sean Mooney, Asia Editor, *StrategicRISK*

Welcome to the 2014 **Asia Risk Report**, *StrategicRISK*'s most extensive pan-Asia research project to date. It is the culmination of a series of country-specific events – held throughout the year and sponsored by Zurich Insurance – that focused on the risk management challenges facing countries across the region.

Indeed, the *StrategicRISK* team has been busy travelling to various locations across the Asia-Pacific region to host a series of roundtables with its leading risk professionals. These risk and insurance management roundtable events form the backbone of all the *StrategicRISK* risk reports, including this regional overview that looks at the risk landscapes of Australia, China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, Thailand and Vietnam.

Just to give you a taste of these events, the *StrategicRISK* Japan Risk Management Roundtable held in Tokyo brought together risk and insurance professionals from some of Japan's biggest multinational corporations. There was plenty to discuss in addition to human capital and natural catastrophe issues, with money laundering and fraud, cyber risk, economic uncertainty, threats to supply chains, product recall and reputation risk all covered in great detail. A similar event held in Ho Chi Min City had challenging economic conditions, supply chain disruptions, regulatory changes and natural catastrophes high on the agenda. The list goes on.

Furthermore, more than 100 of the region's top corporate risk and insurance managers took part in the *StrategicRISK* Asia Risk Report benchmarking survey, also sponsored by Zurich, which provides risk and insurance managers with comparative data and additional material to enable them to benchmark their roles, internal risk function, risk priorities and salaries with others in the profession.

The survey identifies alternative career paths into corporate risk management in the Asia-Pacific region; compares the level of experience and qualifications among risk managers; measures the scope of the risk management function across the region; and creates a salary benchmark for the region's risk profession. It also reveals the risks that industry practitioners think are most likely to affect their business, and which of these would have the biggest financial consequences were they to occur.

The top risks from the survey are outlined in the following pages, together with commentary on how they apply to the countries profiled in this report. We trust that this information will assist Asia's risk professionals to outline to senior executives the type of threats they should be anticipating (and hopefully side-stepping). In the end, risk professionals are meant to ask appropriate and searching questions of their businesses and to propose innovative solutions to the challenges they face.

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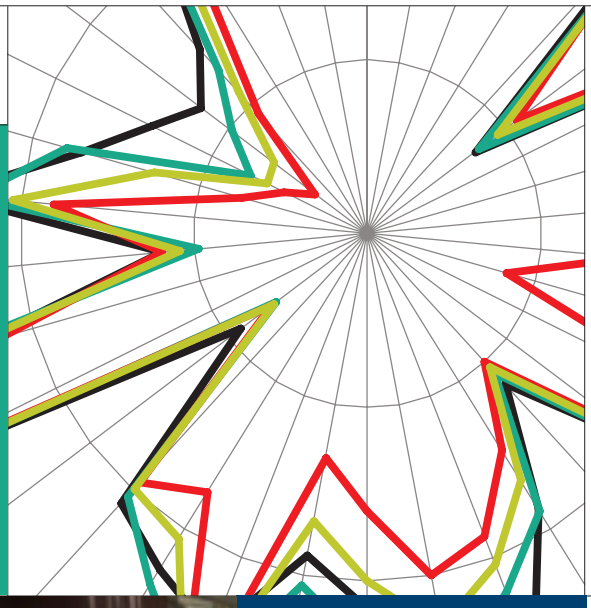

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BENCHMARK SURVEY

The corporate risk and insurance managers who took part in *StrategicRISK*'s Asia Risk Report benchmark survey were asked to name their current risk priorities. They were asked to reveal the risks that they thought were most likely to affect their business and which of these would have the biggest financial consequences were they to occur

In 2014, *StrategicRISK* conducted its first annual Asia-Pacific Benchmark Survey to gauge Asia-Pacific corporate risk/insurance managers' opinions on the state of the profession and the risk management challenges facing companies in the region.

The survey formed part of *StrategicRISK*'s Asia Risk Report, an annual thought leadership study examining risk management best practice, sponsored by Zurich Global Corporate and supported by the Pan-Asia Risk & Insurance Management Association (PARIMA).

The benchmark survey set out to provide comparative data and thought leadership material to assist risk/insurance managers to benchmark their role, internal risk function, salary and risk priorities with others in the profession.

It had five objectives. These were to:

(i) identify alternative career paths into corporate risk management and identify trends in terms of entry into the profession;

(ii) compare the level of experience and qualifications among corporate risk managers in the region to provide risk/insurance managers with a comparative benchmark;

(iii) identify the scope of the role and responsibilities of corporate risk/insurance managers;

(iv) measure the risk sentiment of risk managers and identify which risks the profession felt were most likely to affect their business in the next 12 months, and which would have the largest financial consequences were they to occur; and

(v) to create a salary benchmark for risk professionals across the Asia-Pacific region.

The fieldwork period ran from late September until mid-November 2014. During this time, a link to an online survey was emailed to the audience database of *StrategicRISK*. *StrategicRISK* also worked with PARIMA to encourage responses from its members.

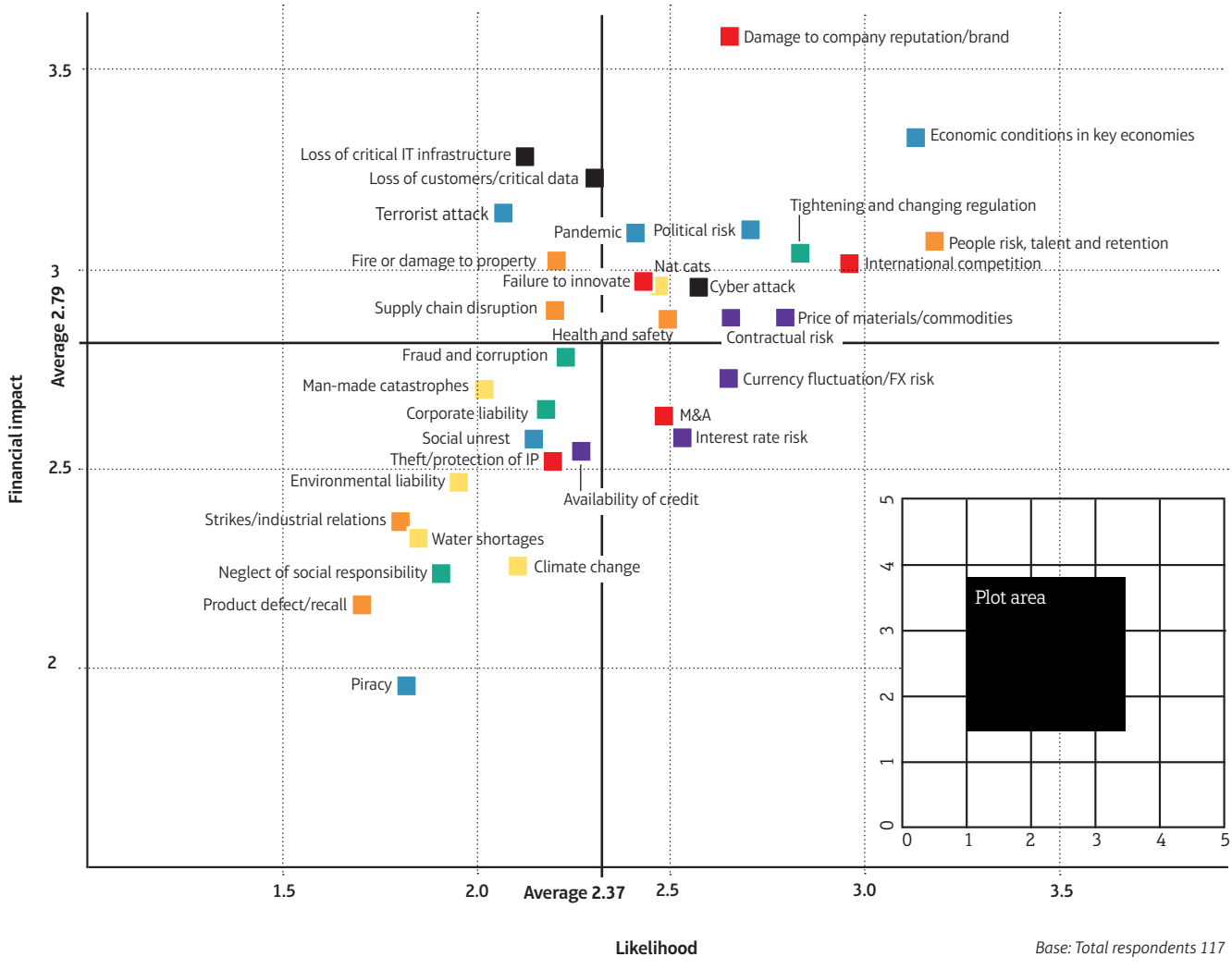
The *StrategicRISK* Asia Pacific Benchmark study captured feedback from 169 Asia-Pacific based corporate risk and insurance managers.

RISK PRIORITES

RISK BY LIKELIHOOD AND FINANCIAL IMPACT

Respondents were asked to rate 34 different risks by the likelihood of a risk event occurring in the next 12 months and the estimated financial impact this would have on their business. Respondents were asked to rate both likelihood and financial impact on a scale of 1-5 (1 being very low, 2 being low, 3 being medium, 4 being high and 5 being very high). Risks were grouped into seven categories: social-economic; business strategy; governance; financial; technology; operational; and environment.

To plot the scatter graph the average likelihood and financial impact score was calculated for each risk and plotted along the x-axis and y-axis respectively. The scatter graph also displays the average likelihood (2.37) and financial impact (2.79) scores across all risks. Those risks in the top right hand corner of the graph were rated by respondents as having above average likelihood of occurring in the next 12 months and were deemed to have an above average financial impact if they were to occur.



Base: Total respondents 117

***Question:** Rate the likelihood and financial impact of the following risks on your business in the next 12 months.*

RISKS OF HIGHEST CONCERN

To identify the risks of highest concern (that is, those most likely to occur with the highest financial impact) a combined average score was calculated for both likelihood and financial impact for each risk and ranked in order of size. The higher the score the more likely a risk is to occur and have a high financial impact. The top three risks are: economic conditions in key economies; people risk, talent and retention; and damage to company reputation/ brand. These are followed by: international competition; tightening and changing regulation; political risk; price of materials/commodities; loss of customer/critical data; cyber attack; and pandemic.

Risk ranking	Average combined likelihood and financial impact score (out of 5)
1. Economic conditions in key economies	3.23
2. People risk, talent and retention	3.14
3. Damage to company reputation/brand	3.12
4. International competition	3.00
5. Tightening and changing regulation	2.96
6. Political risk	2.89
7. Price of materials/commodities	2.82
8. Loss of customer/critical data	2.79
9. Cyber attack	2.77
10. Pandemic	2.74

KEY

Socio-economic
- Economic conditions in key economies
- Political risk
- Pandemic
- Terrorist attack
- Social unrest
- Piracy

Environmental
- Natural catastrophe
- Water shortages
- Environmental liability
- Man-made catastrophes
- Climate change

Technological
- Cyber attack
- Loss of critical IT infrastructure
- Loss of customer/critical data

Operational
- People risk, talent and retention
- Health and safety
- Fire or damage to property
- Supply chain disruption
- Product defect/recall
- Strikes/industrial relations

Governance
- Tightening and changing regulation
- Fraud and corruption
- Corporate liability
- Neglect of social reponsibility

Financial
- Price of materials/commodities
- Currency fluctuation/FX risk
- Contractual risk
- Interest rate risk
- Availability of credit

Business and strategic
- International competition
- Damage to company reputation/brand
- M&A
- Failure to innovate
- Theft/protection of IP

ANALYSIS

Head of risk management Greater China, business reputation and responsibility, at InterContinental Hotels Group (IHG) Keith Xia said he believed the risk ranking was "a very good reflection on the common concerns of risk managers".

"Many industries are suffering from the uncertain future of the global economy," Xia told *StrategicRISK*. "The other major risks are the natural results of technological and business environment changes, are mostly at a strategic level, and need to be addressed not only by the risk manager but also by company strategy."

Chief security officer for Microsoft Asia and PARIMA board member Pierre Noel said it was interesting to see impact and consequences being mixed in the top risks. "For example, cyber attack is often induced by people risk and will inevitably lead to damage to company reputation, leading to further people risk aggravation," he said. "This is a good example of the interconnection of risks – one should not look at a risk in isolation from others." Regional director of Aon Risk Solutions Nicholas Clarke also emphasised the interdependency among many of the identified top risks, as well as risks outside of the top 10 rankings. "For example, political risk can impair an organisation's ability to procure raw materials or energy from affected foreign nations, posing a threat to supply chain and leading to business interruption and damages to reputation," he said. "A company with a damaged reputation might find it hard to attract talent and the lack of talent would result in failure to innovate and meet customer needs." Clarke believes that a company's ability to monitor and quickly react to changes is of utmost importance, as is integration in terms of the interdependency of risks across all business operations. "For example, unethical behaviour would impact on brand reputation and, as a consequence, lead to international competitors gaining market share," he said.

Assistant director in ERM at a Singaporean institute of higher learning Jeffrey Yeo points out that this interconnectivity goes one step further. "First, the interconnectivity of the world's leading economies is such that the state of health of one will have ripple effects on the others and the rest of the world," he explained.

"Interconnectivity and interdependence are boon and bane to the world's economies. Risk management in the 21st century looks beyond just managing risks at the localised level. It is [concerned with]the notion of 'prosper together or perish together'. The failure of one brings about a deadly domino effect to others and the world. The real challenge here is how to manage this risk collectively among the members of these leading economies."

Many of the risks highlighted in the survey are largely beyond the control of any company and this has far-reaching implications on what risk managers can do to manage them, argues Singapore-based governance and risk manager Eric Lee. "Staying diligent and aware of the business environment is necessary, as what previously was well managed can change swiftly," he said. "Companies and risk managers should no longer take today's success for granted but proactively question potential emerging risks. Traditional sources of risk

transfers, such as insurance, might be insufficient and not able to keep pace with these new risks." However, executive director of Willis Singapore Alex Thoms believes insurance can be used to improve customer loyalty and overall customer experience, "for example, through extended warranty insurance or mobile phone insurance". "These areas may fall under the remit of a company's commercial team rather than the risk manager, but their relationships with brokers, insurers and the like give risk managers a unique position from which to drive greater knowledge sharing and product development."

Interestingly, Philippines-based principal insurance officer for Insurance Services Group Asia at the International Finance Corporation Jan P. Mumenthaler is of the opinion that the nature of most of the top risks "again evidences that insurance has limited value in management of top risks". "Risk managers are increasingly called upon to think more broadly about risk mitigation strategies beyond pure risk transfer," he said. This is why risk managers need to start "thinking like a chief executive", argues head of enterprise risk management and internal audit at Tigerair Gordon Song. "I venture to say that gone are the days of specialist risk managers with biased focus on very narrow subject matter," he told *SR*.

Song estimates that technology risks form about one-third of the top 10 risk profile, "which speaks of the heightened awareness of cyber threats in all its forms". "Looking at the grid, I would also say that the likelihood and impact of technology risks have been underestimated," he said. "Given the increased dependency of businesses on technology nowadays, I dare say that the likelihood and impact of technology risk should mirror that of reputation/ brand risk – for some companies, these two categories of risks are synonymous." Other than a concentration of technology risk, the rest of the risk profile "appears to be very diverse", Song added. "[The concept of] 'everyone is a risk manager' is the aspiration of every risk management advocate, and with this sort of risk profile, one can see why that is important," he said.

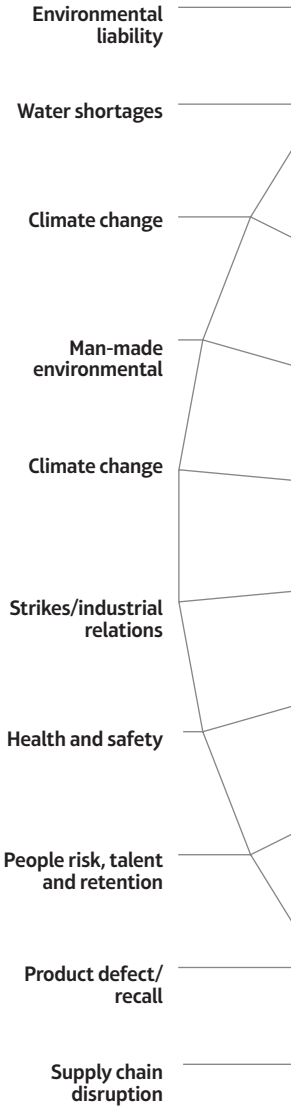
IHG head of risk management for Asia Australasia Shuh Lin Tan believes the risk ranking could reflect a "perception of risks in response to recent years' high-profile losses, highly debated risks and an increase in awareness of governance across the region, such as tightening of the Data Protection Act, banking industry watchdog implementation, inflation and social security issues, regional security and geopolitical issues". Furthermore, she said she was surprised risks relating to climate change, fraud and corruption and supply chain did not rate higher. "I see many dependencies on each risk," she said. "For example, longer-term climatic influences affect social security, affecting political risks. Fraud and corruption and supply chain risks could cause huge losses in businesses that affect the bottom line. Companies may be short-sighted in not being aware of longer-term risks that could affect the sustainability and resilience of the business."

For chief risk officer at Australian firm Scentre Group Eamonn Cunningham, failure to innovate "was a more significant risk in my mind". "To some extent it is connected with international competition risk," he said. "Put simply, your competitors will be more of a challenge if they innovate and you don't." Cunningham added that there are other risks should make the top 10. One of these is terrorism: "This risk has certainly become much more significant. The fact that some countries have increased their terrorism threat levels is relevant here. By any stretch of the imagination, likelihood has increased in recent times and, as a consequence, the overall rating should increase." Another is supply chain interconnectivity, which Cunningham said increased vulnerability to disruptions and therefore "the promptness with which greater consequence can come to pass".

FAILURE TO INNOVATE

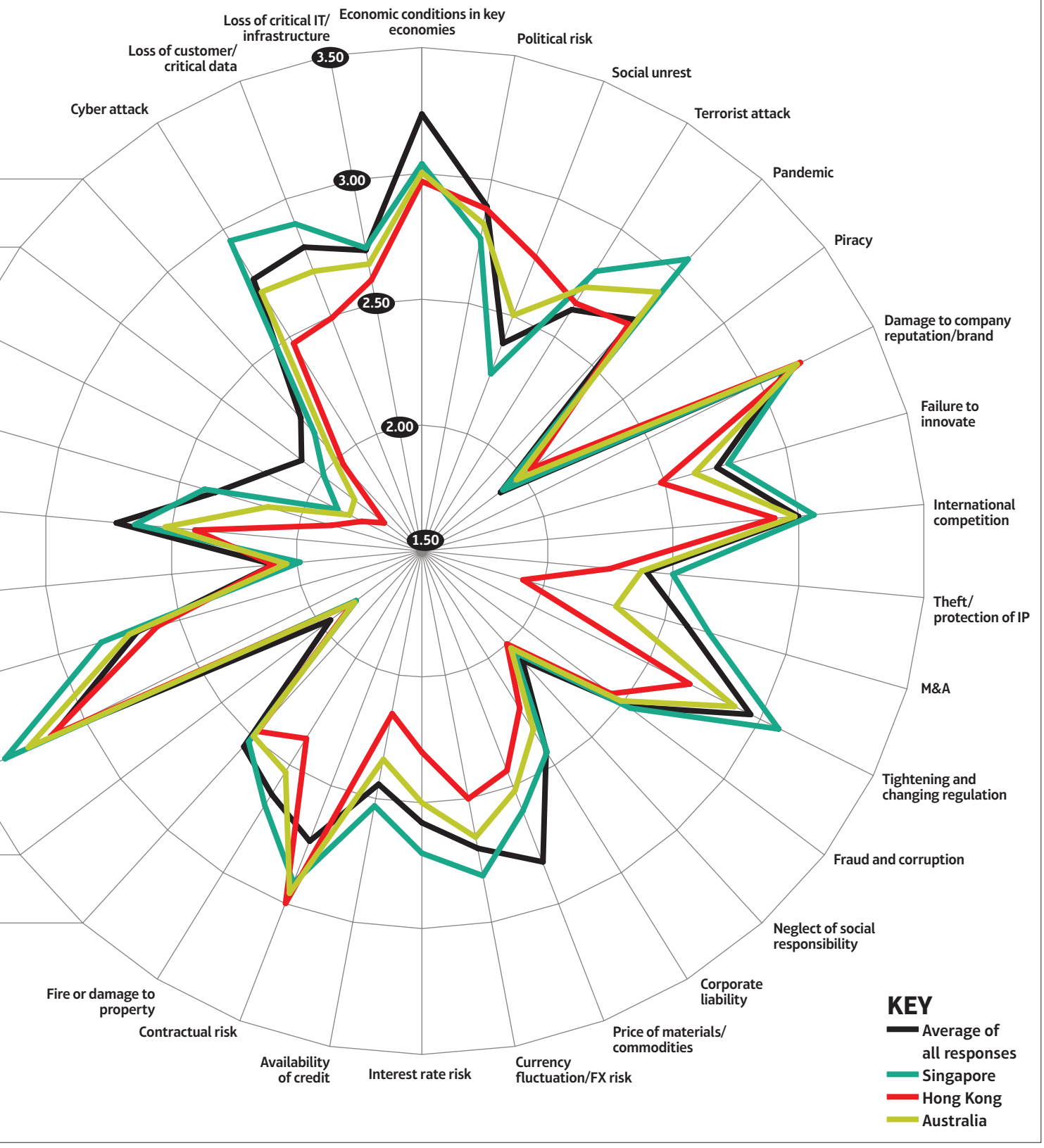
Similarly, Daniel Tan Kuan Wei, second vice-president of the Risk and Insurance Management Association of Singapore (RIMAS) and convenor of the National Risk Management Working Group, said he was surprised that 'failure to innovate' was not in the top 10 risks. "This should feature high on firms' risk radars," he said. "Businesses in Asia-Pacific, especially those in 'sunset' industries, need to continuously innovate – with new capabilities, product or service enhancements, new markets, new channels or forward/ backward integration – to stay relevant in today's realities. Even in 'blossoming' industries, a firm should never rest on its laurels and be complacent on its positioning." Tan said economic conditions might feature high on the risk radar of the region's risk managers because it was an external risk. "It is difficult for an organisation to control the likelihood of it happening," he explained, "thus signifying great uncertainty that invariably warrants a blip on a firm's risk radar."

Microsoft Asia's Pierre Noel said he did not think it was surprising to see economic conditions the top risk, "as most organisations with a chief risk officer role usually are in business or industries that are sensitive to the global economic landscape". "It is more surprising to see people risk as number two," he said. "It reflects a practice - risk management - that is currently changing fast thorough Asia; more organisations are faced with the necessity of bringing on board true risk management professionals, and with market scarcity this usually means poaching. This situation is unsustainable and needs to be addressed, by bringing risk expertise from overseas, and by ramping up academic priorities to churn out more risk managers, more rapidly."



TOP CONCERNS BY COUNTRY

The spidergraph plots the combined average likelihood and financial impact score for those countries that provided more than 20 responses – Singapore, Hong Kong and Australia – and compares this to the average of all respondents. To calculate the combined average, the average likelihood and financial impact score was taken for each risk and divided by two. The further to the edge of the graph the higher the perceived likelihood and financial impact of each risk.



ROLE

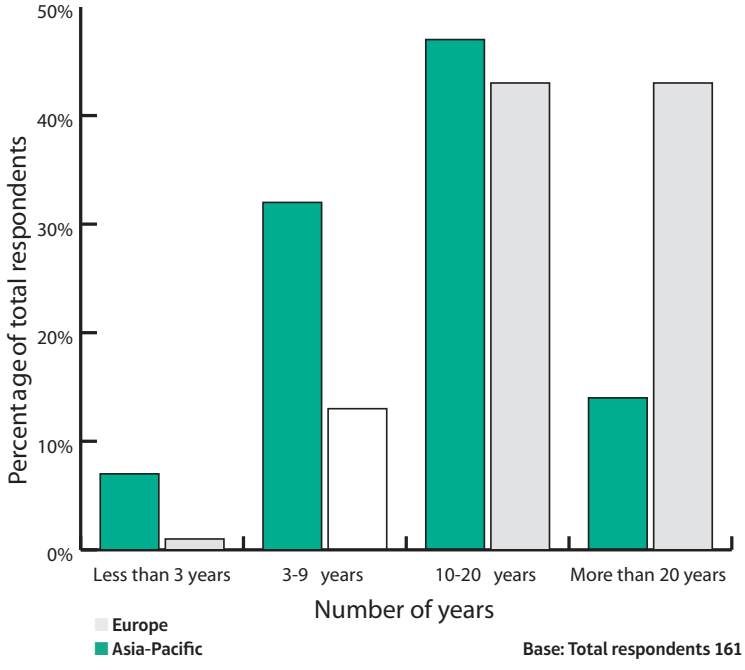
EXPERIENCE

Respondents were asked how long they had worked in corporate risk/insurance management and the findings were compared to the Federation of European Risk Management Associations (FERMA) *Risk Management Benchmark Survey* 2014. The FERMA Benchmark Survey was conducted between February and June 2014 and captures the views of more than 800 European corporate risk and insurance managers.

Measured in years, the level of experience in the Asia-Pacific corporate risk/insurance management sector is noticeably less than in Europe. Of those risk managers who responded to FERMA's benchmark survey only 13% have nine or less years of experience. This compares to more than 30% in the Asia-Pacific region.

At the other end of the spectrum, the percentage of risk managers with more than 20 years of experience is significantly higher in Europe, compared to the Asia-Pacific region. More than 40% of FERMA respondents indicated that they have more than 20 years of experience in a risk/insurance management-related role, compared to only 14% surveyed by *StrategicRISK*.

Number of years in a risk/insurance management-related role (Asia-Pacific v Europe)

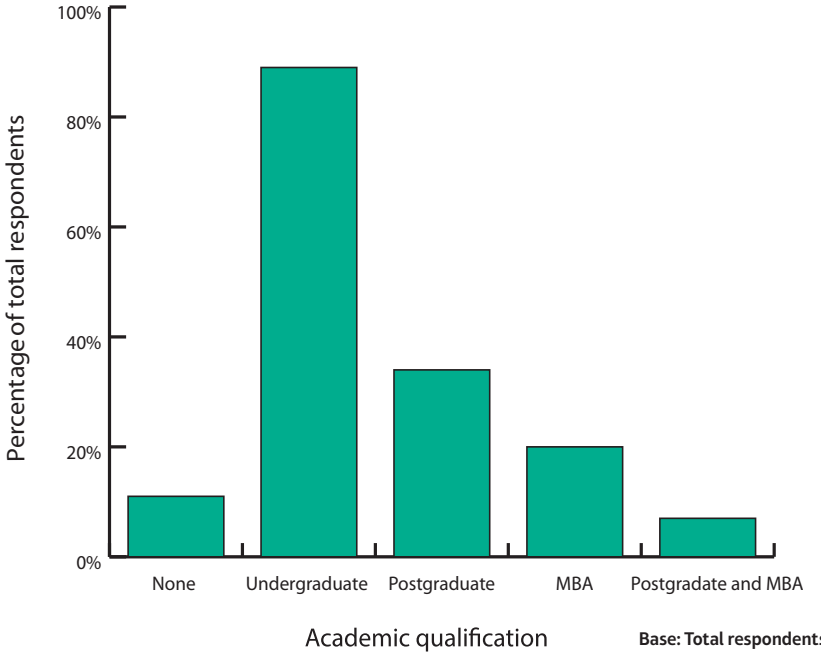


Base: Total respondents 161

EDUCATION

Respondents were asked to provide details of their tertiary education. Almost all respondents (89%) indicated that they had at least an undergraduate degree with more than half having an undergraduate degree and either a postgraduate, MBA or both. Only 11% of respondents do not have any form of degree-level qualification.

Percentage of respondents with one or more academic qualifications



Base: Total respondents 161

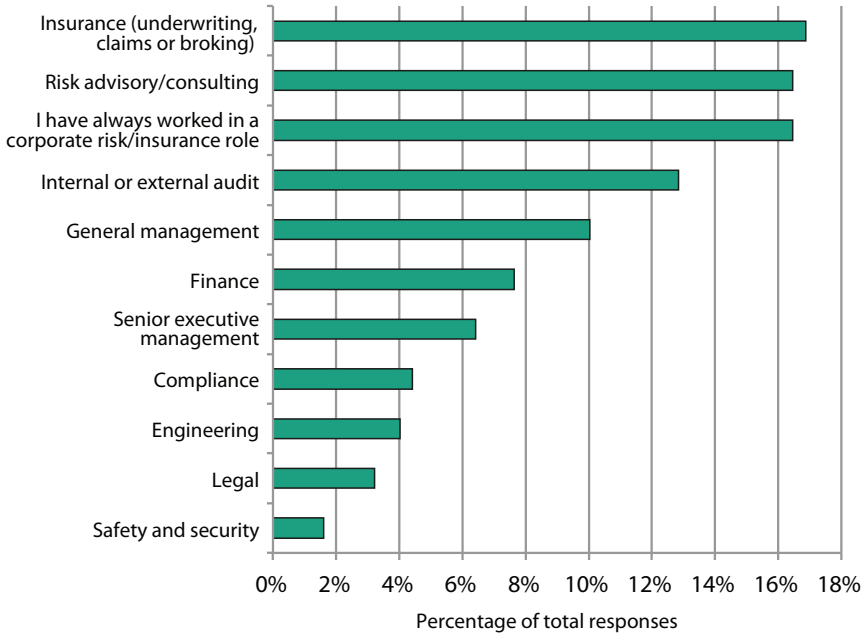
CAREER PATHS

To examine the alternative career paths into risk management respondents were asked where they had spent most of their career before taking a corporate risk or insurance related role.

Respondents could make multiple selections from a list of various professions. The graph shows the percentage of total responses (252).

Among respondents, the most likely route into a corporate risk/insurance management role was via the insurance industry (18%), closely followed by risk advisory/consulting (17%). Entry at a grass roots level was also strong, with 17% of respondents stating they have always worked in corporate risk or insurance management.

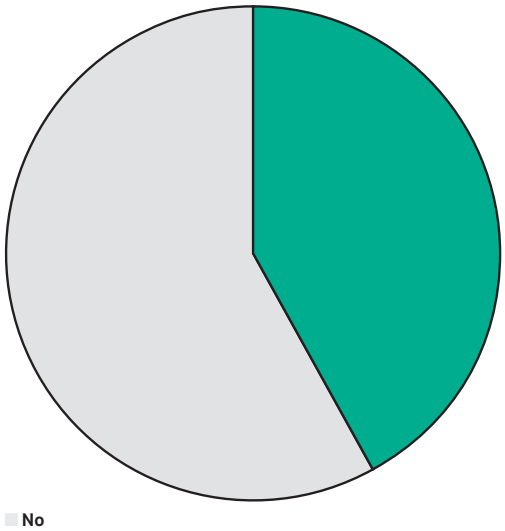
Profession(s) before moving into a corporate/insurance role



PROFESSIONAL QUALIFICATIONS

Less than half of respondents have a professional qualification. Of those respondents with a professional qualification just under half obtained it from the Asia Risk Management Institute or the CII.

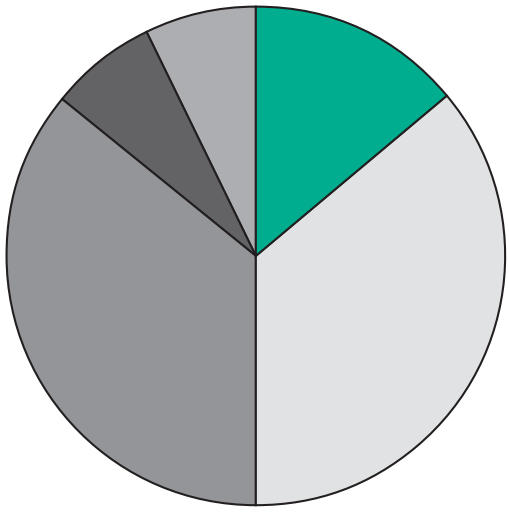
Percentage of respondents with risk/insurance-related professional qualifications



No
Yes

Base: Total respondents 161

Type of professional qualifications

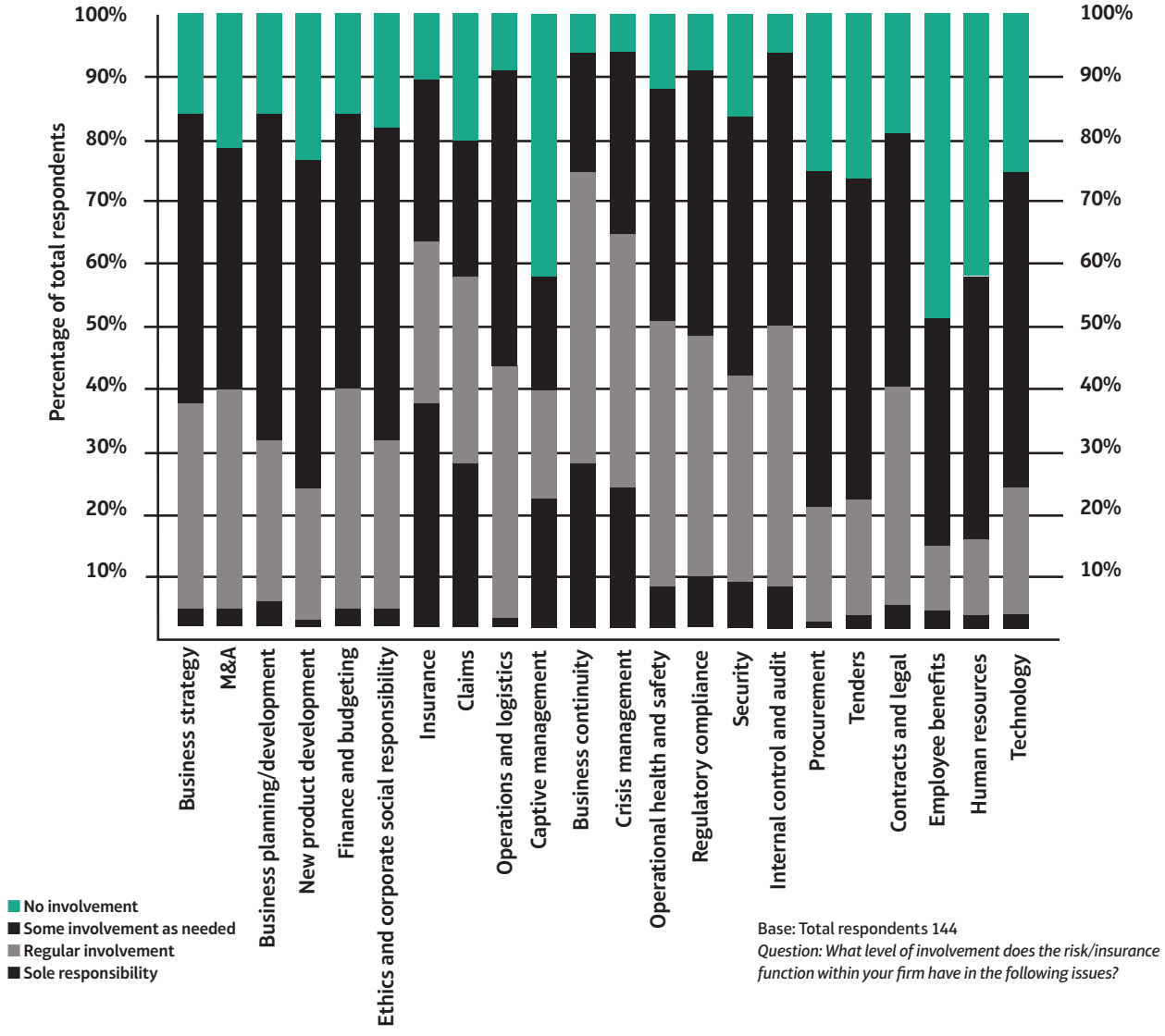


Project management related
Business continuity related
Insurance related
Risk management related
Audit related

Base: Total respondents 66

SCOPE OF THE RISK FUNCTION

The scope of a risk manager's role can vary greatly from sector to sector and company to company. To understand more about the scope of the risk function respondents were asked to rank the level of involvement the risk function has in their organisation in a range of related issues. Respondents were asked to choose from the following options: sole responsibility; regular involvement; some involvement as needed; and no involvement.



Base: Total respondents 144
Question: What level of involvement does the risk/insurance function within your firm have in the following issues?

PEOPLE RISK: AN OPPORTUNITY FOR RISK MANAGERS

Although respondents ranked people risk highly, coming in second overall in the top 10 highest concerns, the number of risk teams involved in issues relating to human resources and employee benefits remains low. Only 16% of respondents are regularly involved in HR-related issues, with just under half stating that they have no involvement in employee benefits.

Commenting on the results, Zurich Insurance global relationship leader Steve Robertson said: "This presents an opportunity for risk managers to work more closely with their HR colleagues to uncover possible pain points and identify where together they can add value."

Aon Hewitt's regional director, health and benefits, Terry Stephens said the results of the survey underscored "the growing importance for organisations to integrate their HR-related objectives and practices with their broader commercial goals".

"In any organisation, particularly those within the services sector, workforce talent and productivity are key drivers of innovation and sustainable competitive advantage that affect top and bottom line performance," Stephens said.

"Across many geographic markets and industry sectors in Asia a fierce battle for talent is taking place driven by robust economic growth across the region.

Head of Deloitte's South-East Asia human capital consulting practice Nicky Wakefield said that, undoubtedly, people risk, talent and retention were increasingly recognised as strategic business risks. "Driving a closer alignment and working relationships between the HR and risk functions within organisations is a necessity if these risks are to be better mitigated," she said.

"The value that the risk team can add is to bring a different lens to people and

FOCUS OF THE ROLE

Risk professionals face a range of competing priorities. To understand more about where risk managers focus their time they were asked: "What is the main focus of your role?" Respondents were provided with a list of activities and asked to pick and rank from 1-5 (1 being top) five activities that best reflected the main focus of their role. To create an overall ranking each ranking position was assigned a score from 1-5. Activities ranked 1 were given a score of 5, activities ranked 2 were given a score of 4 and so on. From this, the average ranking score was calculated for each activity. The higher the score the higher the level of focus. Activities with less than 50 responses in total were ignored. More than half of respondents ranked developing and embedding enterprise risk management as the main focus of their role, followed by risk strategy and insurance management. Further down the scale, conducting risk assessments, setting risk policy and procedures and managing claims were all closely ranked, with risk reporting appearing lowest on the list.

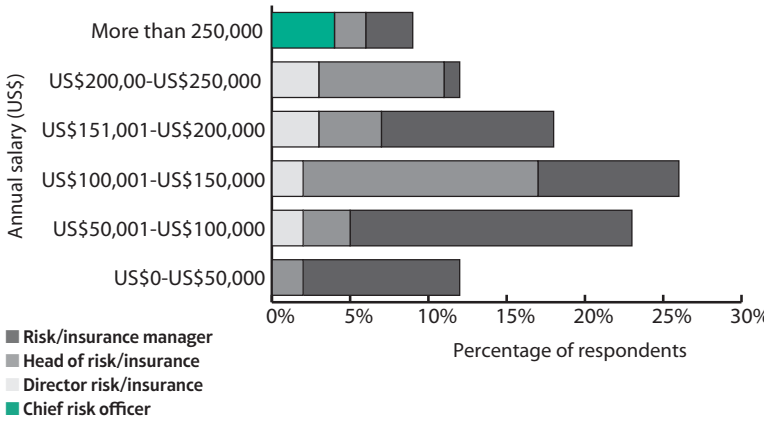
Business continuity, crisis management, contracts/legal, training, corporate governance, regulatory compliance, health and safety, captive management, self-funding arrangements, policy audit, corporate security, employee benefits, environmental-related issues and ethics all received less than 50 responses and were not included in the ranking.

MAIN FOCUS OF ROLE	AVERAGE SCORE (OUT OF 5)
1. Enterprise risk management	4.17
2. Risk strategy	3.36
3. Insurance management	3.56
4. Risk assessment	2.97
5. Risk policy and procedures	2.86
6. Claims	2.78
7. Maintaining a risk register	2.67
8. Risk reporting	2.45

SALARY

To assist risk managers benchmark their annual salary respondents were asked to indicate their total annual remuneration from six salary bands. This question was left optional and 55% of respondents provided information. The graph on the right displays the percentage of respondents per salary band. It also shows the composition of each salary band by job function. More than half (65%) respondents earned more than US$100,000 per year. Anecdotal evidence from *StrategicRISK*'s conversations with European and US-based risk managers revealed the results of the salary survey track closely with salary expectations in other parts of the world.

Percentage of respondents by annual salary (US$)



talent within the business from a risk mitigation perspective. This can help HR to consider different ways to adjust policy, process and systems across the entire employee value chain, from recruitment, through development to remuneration and retention."

EMPLOYEE BENEFITS

Franck Baron, group general manager, risk management and insurance at International SOS and chairman of the Pan-Asia Risk & Insurance Management Association believes that opportunities for risk managers extend to employee benefits.

"For risk managers involved in the risk financing aspects, there is a splendid opportunity to raise their profile and influence by providing the risk financing expertise that their compensation and benefits colleagues need," stated Baron. "Through poolings, insurance negotiations and captive involvement to name a few, risk managers can create a tangible added value to their organisation."

Executive director of Willis Singapore Alex Thoms told *StrategicRISK* that, for many companies, the lines were often blurred in terms of the definition of an employee benefit, and this could mean that people risk was not being looked at in the most effective way.

"As an example, an HR team may typically be responsible for life/medical/health insurance, but a risk manager may typically be responsible for personal accident and workers' compensation insurances," Thoms said.

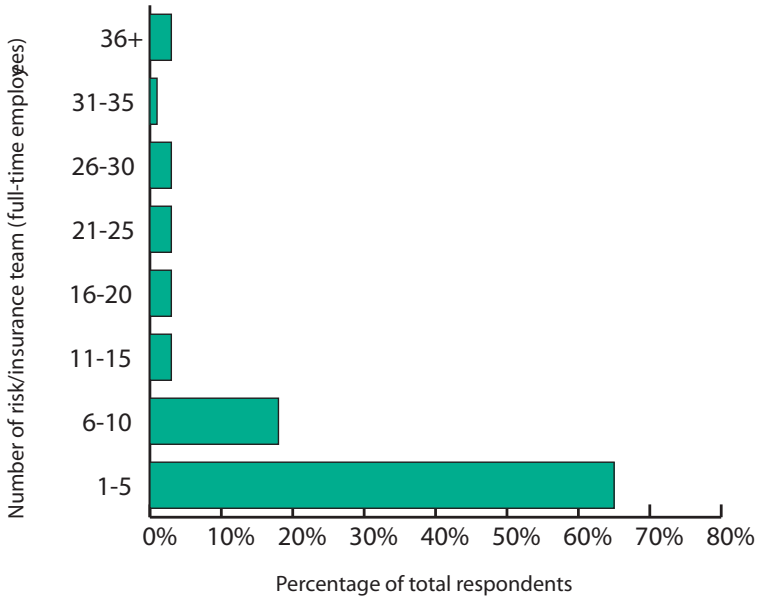
"With this in mind, it's definitely critical that risk managers and HR teams work closely together – not only will this ensure nothing 'falls through the cracks', but it may also facilitate significant efficiency gains, for example in the form of a more cohesive risk retention strategy."

RISK FUNCTION

SIZE OF THE TEAM

Respondents were asked about the number of full-time employees in their risk/insurance team. Sixty-five percent of respondents operate in a team of one to five people. This compares closely to the size of risk teams in other parts of the world. Sixty-two percent of those risk managers who participated in FERMA's 2014 *Risk Management Benchmark Survey* indicated that they work in a team comprising of one to five team members.

Size of risk/insurance team



Base: Total respondents 144

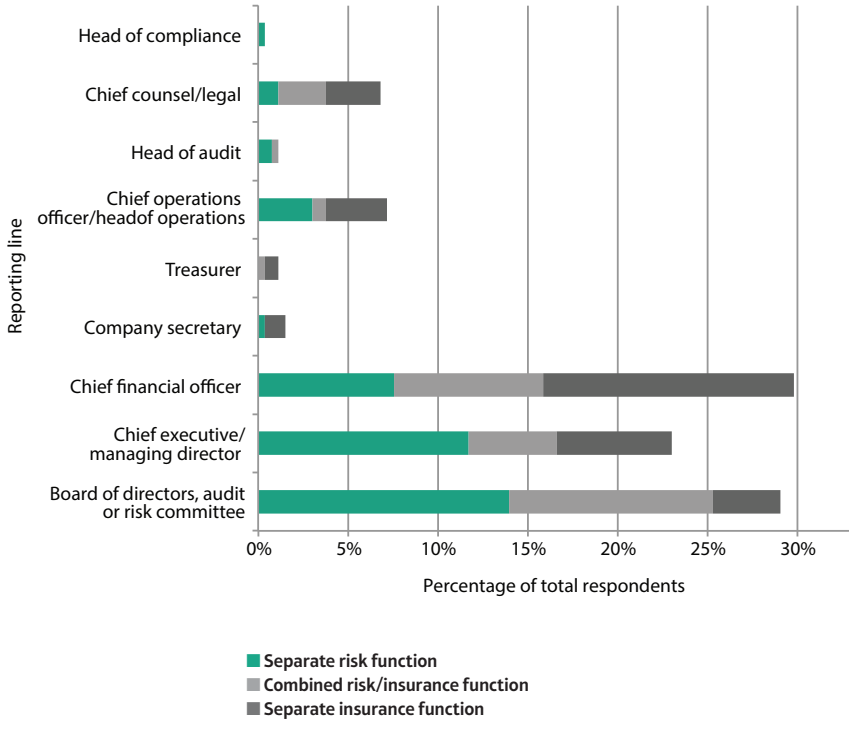
REPORTING LINES

To understand more about the reporting lines of senior risk professionals across the region, respondents were first asked to indicate whether the risk and insurance function in their organisation was separate or combined. Then, they were asked about who the most senior risk/insurance executive reported to in their organisation. Respondents could make multiple selections to reflect the fact that many risk managers have more than one direct report.

It is encouraging to see that, in more than 80% of cases, the most senior risk or insurance executive reports directly to one of the senior executive team.

The majority of respondents work in companies where the risk/insurance function reports to the chief financial officer (29%), closely followed by 28% of respondents who report to the board or board committee.

Who does the most senior risk/ insurance executive report to?



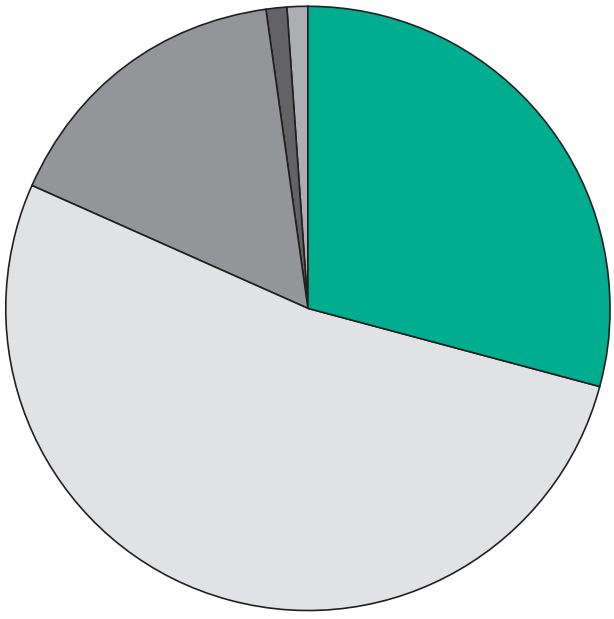
Base: Total responses 267

BOARD ENGAGEMENT

Getting visibility at board level is a critical issue for risk and insurance professionals. Respondents were asked about the level of interaction the risk/insurance function had with their board on a scale of 1-4 (1 being no or very limited interaction and 4 being fully integrated within every board meeting). Respondents who were unsure as to the level of interaction could chose a "Don't know" option.

It is encouraging to see that more than 80% of people surveyed have regular interaction with their board on at least an annual basis. However, only 29% of respondents work in an organisation where risk management is integrated into every board meeting.

Level of board engagement



- Don't know
- None or very limited limited interaction
- Some interaction on a as-needs basis
- Regular interaction at least annually
- Fully integrated within every board meeting

Base: Total respondents 144

ENGAGING THE BOARD

All risk managers know that without getting the board on board, it is hard to do their job properly – or even at all. Here are ways risk managers can get greater traction with those running their company.

1 Clearly articulate the value of risk

A risk manager first needs to convince their supervisor of the importance of their role, how they have contributed, and how they can contribute even more, DFS Group's vice-president risk management Bob Sweeney says. "If a risk manager struggles with expressing this, then they should enlist the aid of their broker," he argues. "They're often more experienced at making presentations. Hopefully, they know the business at least relatively well, so they can contribute from a position of experience."

2 Don't position yourself as a cost centre

Sweeney says risk managers can often be their own worst enemy. "Many are 'transactional', focusing – either willingly or by their manager's decree – on obtaining the lowest price for coverage," he explains. "By doing so, the only real measurement is financial – how much have you cost the company?" Sweeney adds that even if a risk manager has saved money compared to prior terms, "they're still presenting their roll as that of a cost centre".

3 Get noticed

Many risk managers are just seen as a negative and an overhead cost – people who are risk averse, people who hold things up, people who report problems and bring bad news. To get noticed risk managers need to ensure that what they are doing does not revolved around only processes and checklists; they need to understand what is happening in certain areas and the frontline.

4 Verbalise risk

Risk managers must be able to help board members verbalise their key concerns and worries in non-technical jargon and then help them relate that to their current protections. This usually includes insurance programmes, explains risk management expert and Pan-Asia Risk and Insurance Management Association board member Steve Tunstall. "When the risk manager is unable to identify these shortcomings clearly, the C-level executive struggles to understand and appreciate the value they bring to the organisation," he says.

5 Avoid being too technical

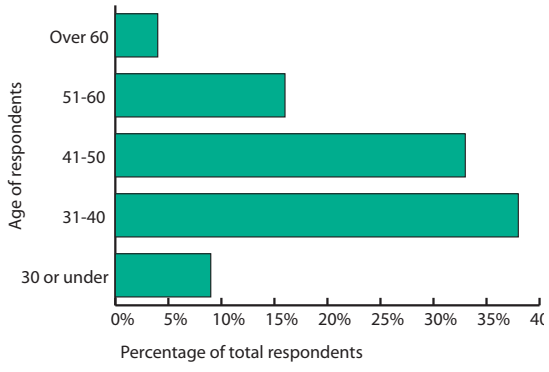
Corporate governance and board development consultant Professor Bob Garratt says many risk managers tend to try and make their reports more serious by using a lot of mathematics, "they are getting themselves into the unfortunate situation that many economists have got themselves in: an over reliance on maths at the expense of looking at the irrational, human aspects of their business."

6 Don't rely on one approach

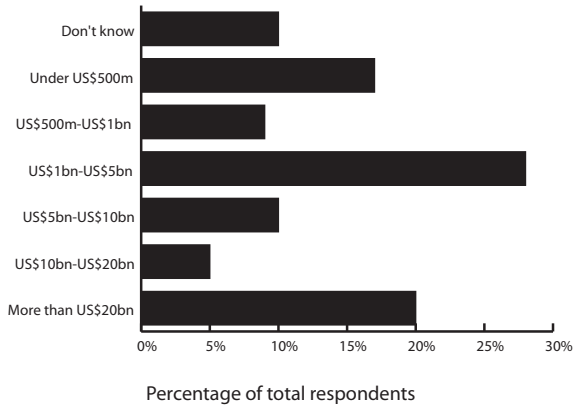
Tunstall explains that, ultimately, risk management is meant to be "winning the hearts and minds of those in the organisation". "Education, training, mentoring, and the clear and repeated use of relevant case studies, are all required to open the organisation's culture to becoming receptive to the language and behaviours of risk management," he says.

DEMOGRAPHICS

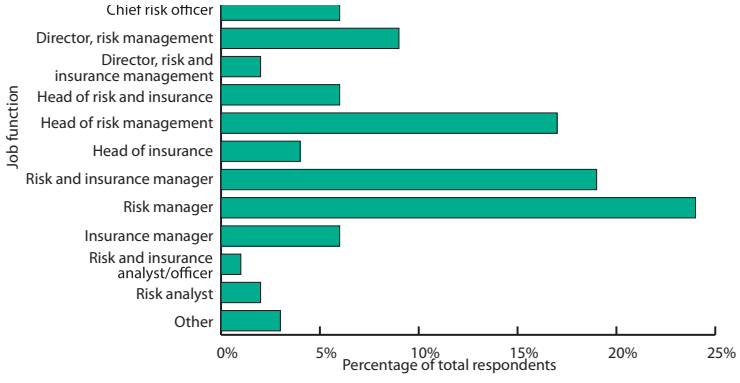
Percentage of respondents by age



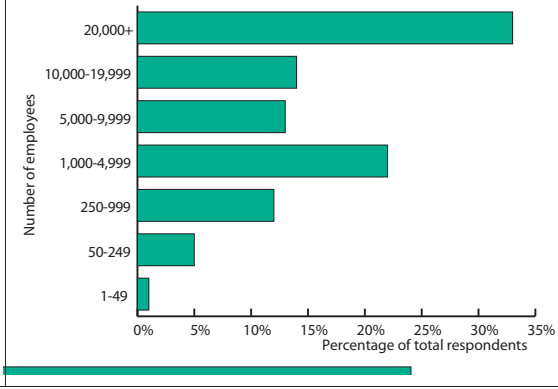
Percentage of respondents by company turnover (US$)



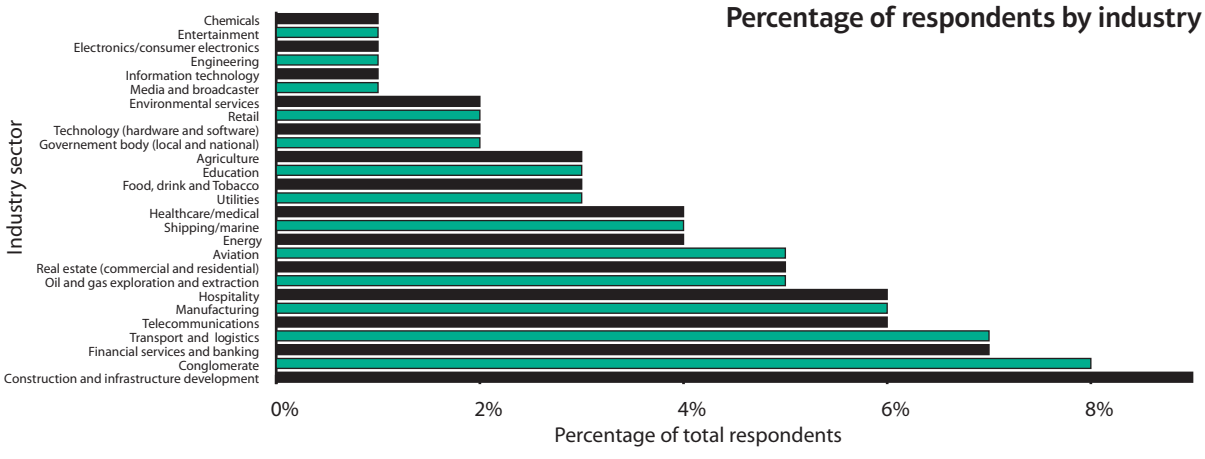
Percentage of respondents by job function



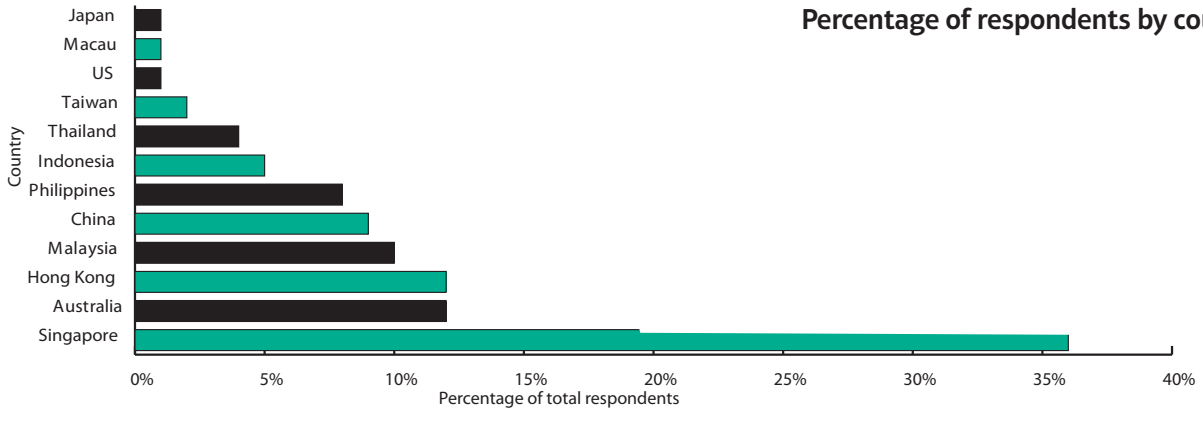
Percentage of respondents by company size (employees)



Percentage of respondents by industry sector



Percentage of respondents by country



TOP RISKS

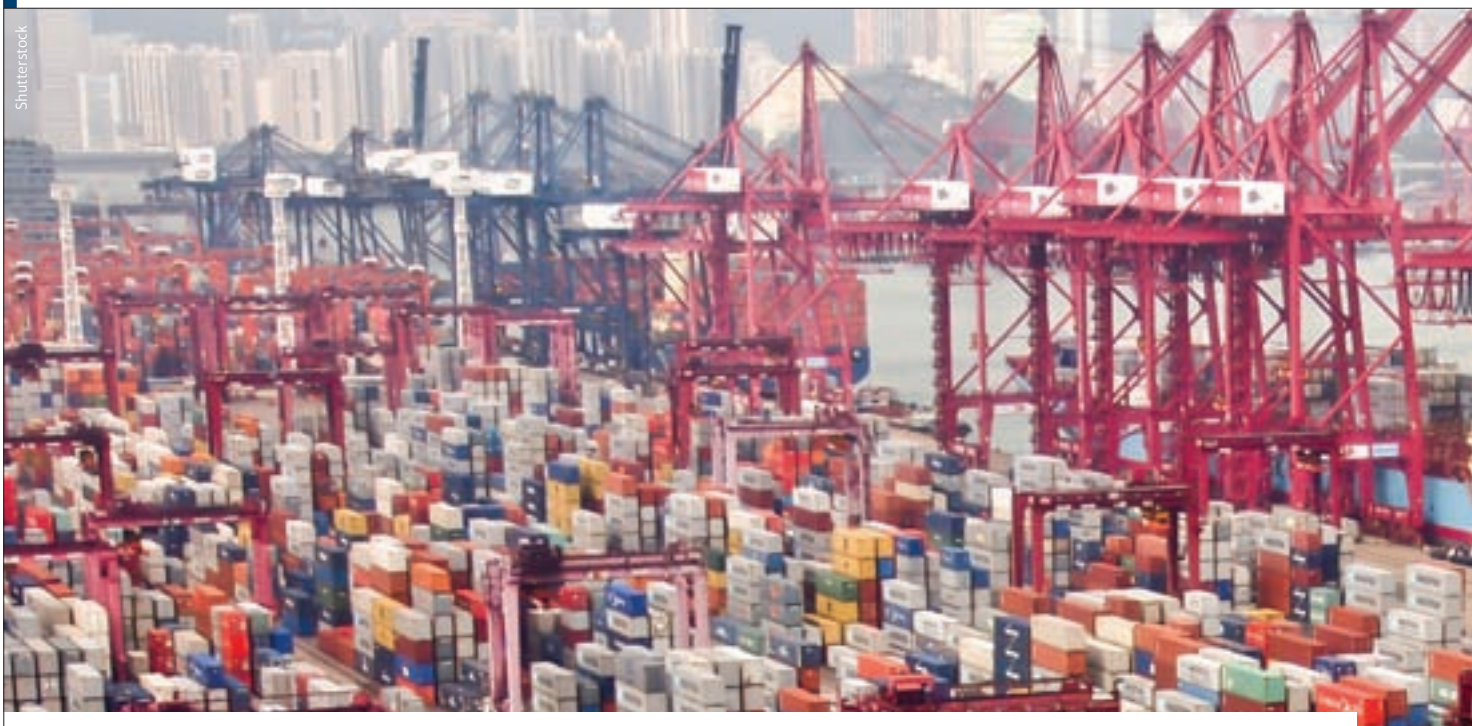
Asian companies face myriad different and interconnected risks. Separating these out is a major challenge for the region's risk professionals. To assist in this process, every major risk has been given its own chapter, which makes it possible to examine each one in depth

RISK GROUPS

The top risks fall into these general categories: socio-economics; business and strategy; governance; operational; environmental; and cyber. These are expanded on in the following pages.

SOCIO-ECONOMICS

This section examines some of the socio-economic challenges faced by countries in the Asia-Pacific region, not least of which are variable economic conditions in key economies such as China. Political risk, social unrest and terrorism are ever-present dangers in many countries, while pandemic and piracy risks lurk in the background



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TOP 10 CHALLENGES FOR ASIAN ECONOMIES

1 Many Hong-Kong based corporates now find themselves exposed to the shifting demands of Chinese consumers and the economic growth of mainland China.

2 Global economic slowdown has led to increased inflation in Indonesia, while the value of its exports to China and India are declining as a result of their policies to reduce imports.

3 Japanese companies are increasingly shifting their production bases from China and Thailand to countries such as Laos.

4 The Philippines' economic boom is being challenged by Vietnam and Indonesia, which potentially offer more flexibility and opportunity for business.

5 As Singapore-based and multinationals expand across Asia and invest into building critical assets, they are becoming increasingly vulnerable to political risks. Few countries in Asia are immune from political mood swings, which could cause damage or loss of business for Singaporean business.

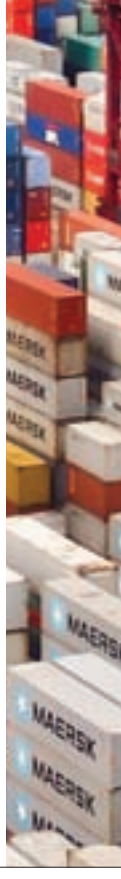
6 Malaysia aims to escape the second-world chasm and join the league of high-income nations by 2020, but the biggest deterrent to this is the lack of skilled human capital. Many industries face an acute shortage of the right talents as brain drain continues to flow to neighbouring countries, such as Singapore, Hong Kong and even China.

7 Political uncertainty is creating long-term problems for Thailand, which is already wrestling with slowing growth and outflows of global capital from its fragile financial markets. Even prior to the current political unrest it was vital for Thailand to take action to stay competitive in the Asian market, given the increasing emergence of other countries such as Myanmar, Indonesia and the Philippines as attractive alternative places to invest.

8 China's need for Vietnam's trade is far outweighed by Vietnam's dependence on China. After all, much of Vietnam's economic growth in the past two decades has been on the back of the 'China Plus One' strategy.

9 Many governments fret more about China's GDP growth potential than their own, reasoning that a Chinese slowdown, no matter how fractional, will erode demand for goods and services and damage their economies.

10 Many Australian businesses source from offshore and therefore foreign exchange depreciation increases local currency product costs and places pressure on margins.



'The Thai economy is increasingly reliant on private sector investment to drive the economy'

Yoottana Kingkawkantong, Aon

'Capacity utilisation rate of Thai manufacturers has slowed to below the 62% level'

Rocky Tung, Coface

TEFLON THAILAND?

Thailand is one of the strongest and most resilient economies in South-East Asia – one that is largely considered an investment-friendly jurisdiction. However, the country's current political turmoil has affected its regional competitiveness and ability to function as an efficient and effective place to do business. Although Thailand had one of the strongest and most efficient economies in the region, the current political instability means that investors are hesitating doing business in the country and consumer confidence is plunging rapidly.

Executive vice-president of Aon Thailand Yoottana Kingkawkantong points out that the Thai economy has been losing momentum for some time. "The Thai economy is increasingly reliant on private sector investment to drive the economy," he says. However, a delay in appointing a new board of investment in 2014 harmed Thailand's ability to attract new foreign direct investment, he adds. "This is especially troubling given that the global economy seems to be on the upswing, which typically yields more direct investment into Thailand."

Rocky Tung, who is Coface's economist for the Asia-Pacific region, believes that Thailand's prolonged political crisis is significantly affecting private consumption, investment and tourism. Instead of the same 20% year-on-year number of visitor growth seen in 2013, there was almost no growth in 2014. "At the same time, it is obvious that manufacturing activities are slowing. Capacity utilisation rate of Thai manufacturers has slowed to below the 62% level, Tung says. Thailand's economic growth could be heavily curtailed if unrest continues, Tung warns. Nevertheless, Tung believes that the effect of political unrest on domestic economic activities and investment sentiment "could be overstated". He points out that large-scale infrastructure projects in the country could maintain growth momentum despite adverse political conditions. "Investors' confidence can be hurt by the uncertain outlook," he says. "Nevertheless, Thailand's foreign reserves remain fairly healthy and its low foreign currency debt could help limit the country's exposure to currency risk."

Asia-Pacific analyst at European risk prevention and management provider GEOS Alexis Marez points out that Thailand has faced for more than a decade "a latent political crisis cyclically and alternately punctuated by demonstrations of power between government and opposition". "Beyond its security effect… political instability also raises concerns to the economic scale for a country that has stagnated for several years now but with a potential, in terms of internal market and regional level, [that is] still attractive," she says. Marez says that the stagnation of the political situation is causing many foreign companies operating in Thailand to reconsider their strategic positioning in the country. Many might decide to move some of their activities to more stable neighbouring countries, especially in the automobile sector, she cautions. "The bell sound is essentially the same in the Thai finance sector where voices are heard to ask as soon as possible for the restoration of a functional government to stabilise markets and prevent a real economic crisis," she adds.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A WATCHFUL EYE

Faced with challenges to grow and constant pressure to create shareholder value, multinationals are increasingly turning to the unique business opportunities found in emerging markets. Overall expansion in many developing economies is expected to double that of developed nations in the years ahead. Yet, although these markets are a company's best hope of unleashing substantial growth and value, they are also home to substantial risk and volatility.

Numerous political risks make emerging markets particularly precarious for multinationals. Recent events have underscored how swiftly a government or business climate can turn, leaving multinationals vulnerable to loss. Among the most significant exposures for multinationals operating in developing economies are acts of political violence, including terrorist attacks, acts of war, revolution, insurrection, riot, sabotage or civil disturbance; confiscation or expropriation of in-country assets by the local government; and actions by, or changes in, the host government that could render the company unable to convert local currency or transfer currency out of the country.

Chief risk officer at Scentre Group and a director of the Risk and Insurance Management Society's Australasia Chapter Eamonn Cunningham says that terrorism "remains a top of mind issue particularly for owners or operators of infrastructure or real estate". "The likelihood of attacks has grown and organisations need to have plans in place including pre-set responses to deal with movement in threat levels," he says.

Risk manager at Australian firm United Energy and Multinet Gas Lana Radley is alert to the possibility of supply chain failure through sabotage. "Terrorist attacks or deliberate sabotage on parts of our energy network would affect the entire energy supply chain," she says. "For example, if our generators were compromised by sabotage activities, this would prevent us from distributing energy to our customers, also, in turn, cutting off revenue for energy retailers."

EXPERT VIEW

Richard Abizaid, senior vice-president and regional manager, Asia-Pacific, credit and political risk, Zurich Insurance Company Ltd (Singapore Branch)

Until recently, Thailand's macroeconomic indicators were very good. The country's political problems and violent protests were not interfering with big business in a major way, but that situation seems to be changing. Lenders and investors in particular are becoming less comfortable with the political uncertainty that continues to afflict the nation.

Many corporations have historically been interested in terrorism cover only for high-risk assets in urban areas where protests are common. However, political risk coverage offers so much more. If a large amount of a company's revenue is sourced from a politically unstable emerging market, such insurance can treat that risk and protect the firm's balance sheet against catastrophic loss owing to a wider spectrum of political risks than only terrorism. What matters is coverage for low-probability, high-severity types of losses.

In addition, directors at publicly traded companies have a responsibility to their shareholders to mitigate various risks, including political risk.

This is one of the main drivers of demand for political risk insurance by, for example, a company making an equity investment in a politically unstable emerging market. Lenders use political risk insurance when bumping up against country limits or to allow them to offer longer loan tenors to clients.

Political risk insurance for infrastructure projects was common in Thailand in the 1990s. It is now more often used in countries such as Vietnam, Mongolia and Bangladesh for major water or power projects. There is a fair amount of risk involved in a bank lending to an investor that has a long-term offtake contract with a government entity in a highly regulated sector such as power or water. Arbitral award default coverage treats the risk of non-payment under these long-term offtake contracts with government counterparties following an arbitral award in its favour.

Some of the best business opportunities in the Asia-Pacific region require firms to venture into jurisdictions that have a higher likelihood of political instability, political violence and macroeconomic volatility. This is where political risk insurance can be an effective tool to protect banks and companies against the uncertainties of a changing world.

BUSINESS AND STRATEGY

This category encompasses some of the most difficult risks to mitigate, namely international competition, damage to company reputation, contractual and interest rate risks, and commodity price and currency fluctuations. In addition, failure to innovate is a problem that has brought down many previously successful concerns in recent times

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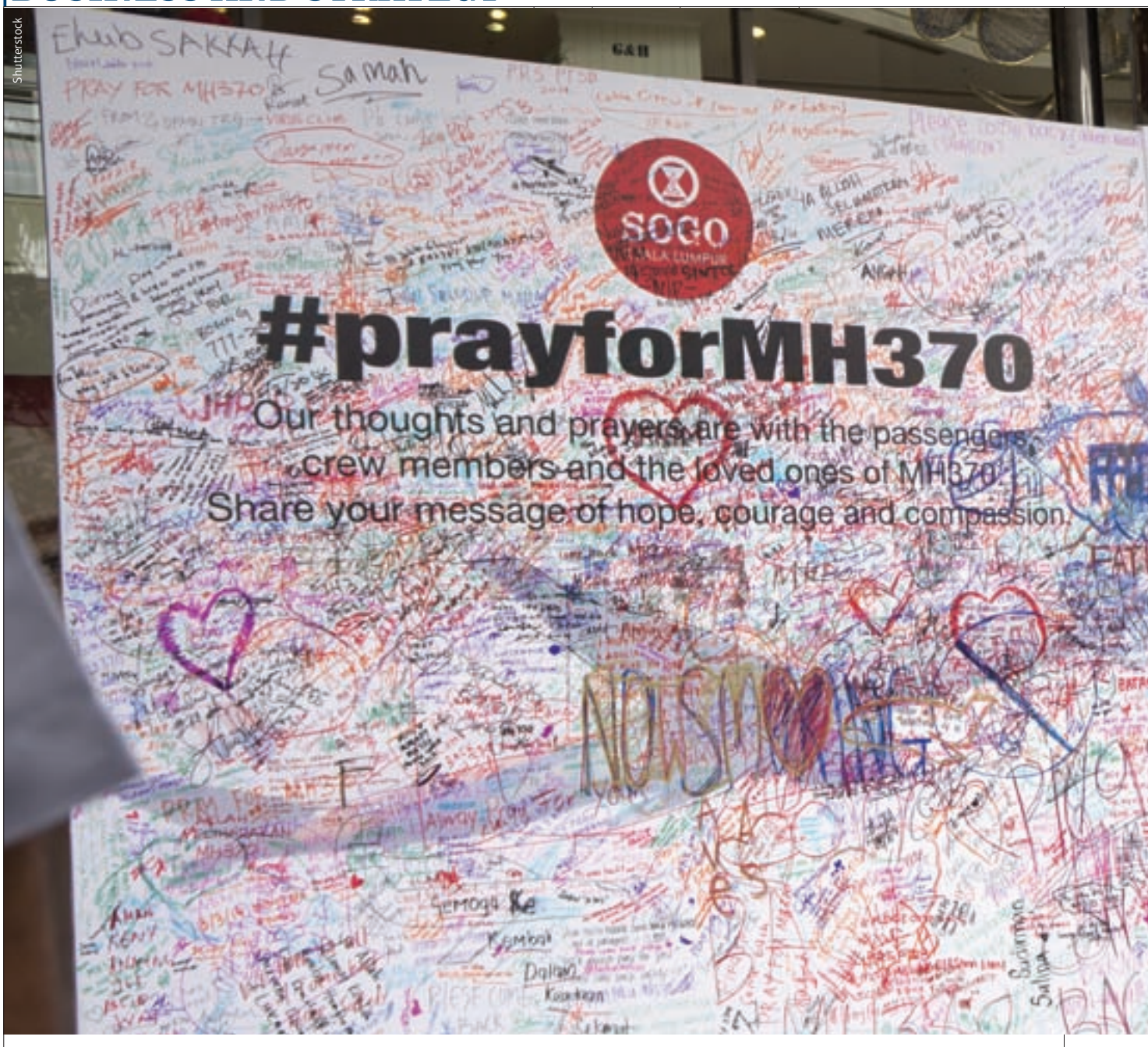
THE AEC SHARKS

Aon Risk Solutions' head of specialty in Indonesia Cameron Sheild sees people risk reducing with ASEAN Economic Community (AEC) integration. "I recently attended a seminar where the speaker used the example of a large fishing boat that keeps live fish in an interior tank within the boat," he says. "A shark was then put into the tank to keep the rest of the fish alert and alive. Effectively, Indonesia needs to compete with the other 360 million people in ASEAN and, with the AEC, one might think that the people risk will reduce."

JLT's, product and technical services, Fenni Sutanto says AEC integration will mean companies will need to review their employee benefits to retain key staff, "otherwise their important employees may relocate to other countries for better remuneration and benefits". Regional changes mean that the market opportunities for Indonesia-based companies will increase and production costs will decrease, especially for companies that need capital goods and raw materials from ASEAN countries.

'Indonesia needs to compete with the other 360 million people in ASEAN'

Cameron Sheild, Aon Risk Solutions

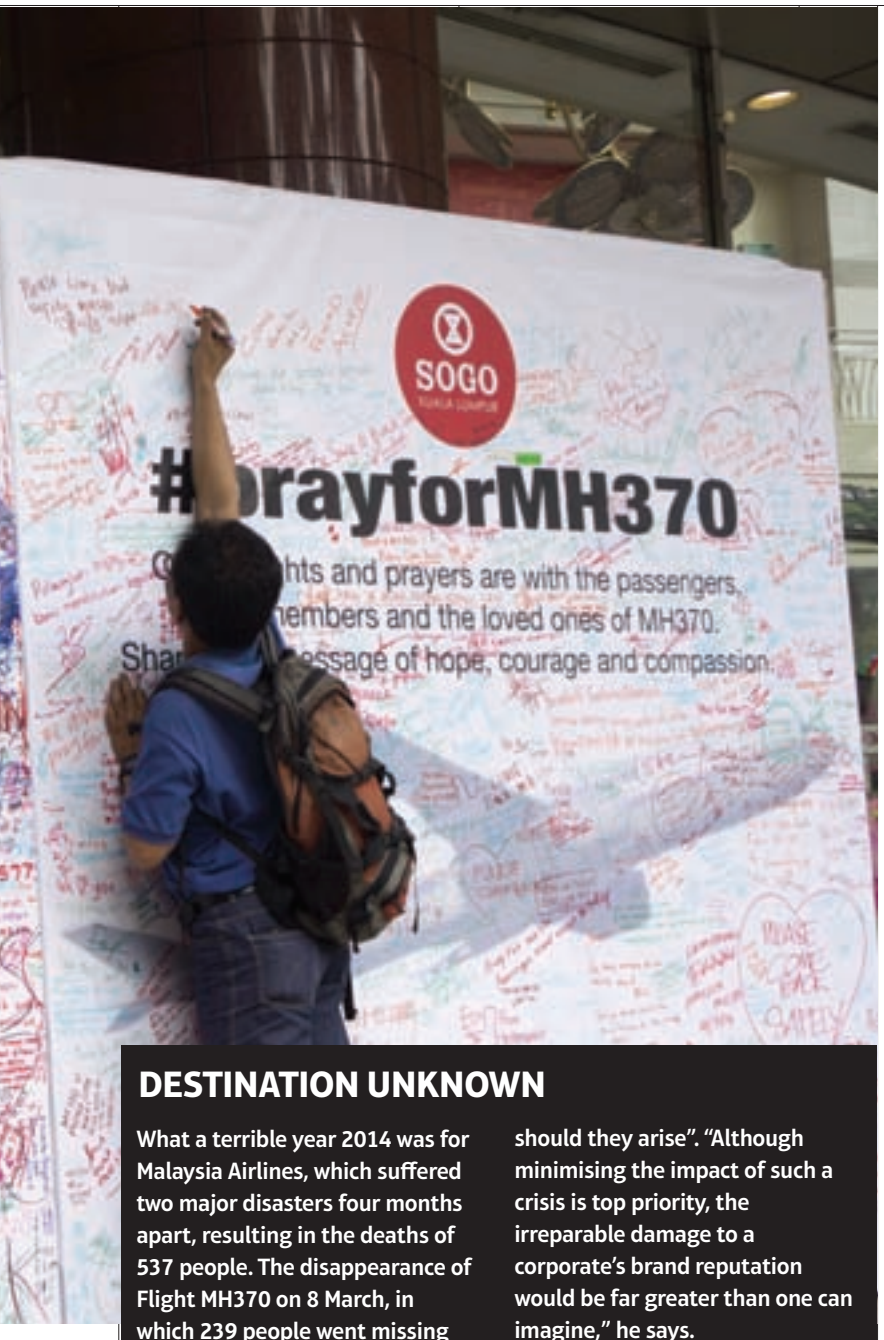


INNOVATION SHOULD BE RISKY BUSINESS

Risk managers are increasingly seen as key players in driving business innovation, but they face challenges in adopting an innovative approach However, risk management has historically been considered an obstacle to successful innovation, with business leaders arguing that managing risk stifled business growth and innovation. Many contended that risk management would make businesses so risk averse that it could hinder expansion. Nevertheless, insurers, risk consulting groups and think-tanks have, in recent years, explored the benefits of better linking the risk management and innovation/product development functions.

It is clear that although risk managers often want to take a more innovative approach, they face significant challenges. The two main hurdles are, first, that businesses are reacting to change rather than pioneering innovative solutions; and, second, that risk managers are not innovators. InterContinental Hotels Group head of risk management for Asia Australasia Shuh Lin Tan believes that the key to innovation is the continuous investment of resources. However, Tan wonders whether most businesses are really innovating or whether they are changing merely to keep up with the market. "In my opinion, it is the latter," she says. "Advancing or leading companies are perhaps much more adaptive than others in meeting the changing needs of the market and hence can respond quickly to emerging risks, or come up with innovative solutions from lessons learnt from the bad experiences of others."

Microsoft Asia's chief security officer Pierre Noel says that understanding the difference between change and innovation is "tremendously important". "Change usually implies that we are going to evolve from what we are doing, but not necessarily a strong departure," he says. "Innovation usually means that we are going to add something brand new to our existing environment."



DESTINATION UNKNOWN

What a terrible year 2014 was for Malaysia Airlines, which suffered two major disasters four months apart, resulting in the deaths of 537 people. The disappearance of Flight MH370 on 8 March, in which 239 people went missing and are presumed dead, was still lingering in public consciousness when a missile apparently shot down Flight MH17 over war-torn Eastern Ukraine on 17 July, killing 298 people.

Whether the airline can be held responsible for these tragedies is unclear, but the brand's public image has suffered considerably, compounding existing financial difficulties. Chief executive of JLT Malaysia Michael Leong believes that the twin tragedies have prompted Malaysia-based corporations to "think harder about their preparedness in responding to emergencies and managing crises should they arise". "Although minimising the impact of such a crisis is top priority, the irreparable damage to a corporate's brand reputation would be far greater than one can imagine," he says.

Beyond personal safety issues, many are widening their scope of analysis to take in the domestic political (and therefore business) implications of the Malaysia Airlines incidents. Malaysian culture can often be disapproving of negative comments made about senior corporate or government figures (often one in the same) or the weaknesses of a company's systems and procedures. Some Malaysia-based risk professionals have suggested the MH370 and MH17 tragedies have come on top of societal tensions and increasing anxiety about the strength of the Malaysian economy.

EXPERT VIEW

John Scott, chief risk officer of Zurich's Global Corporate business

People-related risks – unemployment, political instability, social unrest, and income disparity – rank highly among risks threatening global businesses today. In this environment, it is important for businesses to take a multifaceted approach towards employment and human-resource practices.

Focusing on employee wellbeing is one way in which companies can address people-related challenges. This can be in areas such as employee benefits, pensions, accident and health insurance and workers' compensation insurance. For example, Zurich recently finalised an innovative deal with a major corporate to provide employee benefits globally, which is already proving to be an enormously successful retention policy. That kind of approach can be very effective in helping companies to keep a mobile workforce loyal.

Mobility is not concerned only with geography; there is also an integral socioeconomic dimension, as described in *Now for the Long Term*, a report by the Oxford Martin Commission for Future Generations. The report predicts that in the next four decades, billions more people will join the global middle class. The vast majority will come from emerging markets, which are projected to double their share of global consumption from one- to two-thirds by 2050. It states: "This emerging middle class could provide a much-needed impetus for balanced global growth by boosting consumption, investing in health, education and renewable energy, and driving higher productivity, sustainable economic development, and more political stability via increased demand for accountability and good governance.

While this constitutes a significant opportunity, there is also the risk of an increasing divide between the growing middle class and those left behind."

As societies in Asia become more middle class, people will become more aspirational. As countries become more affluent, they have more people with more money to spend, leading to growth of their domestic economies. This applies to the Philippines, which has been driven by people working overseas and sending money back. When these people start returning in large numbers, with higher expectations and more money to spend, this will drive the economy forward and result in an uptake in insurance. This presents the insurance industry with a major opportunity, albeit accompanied by its own sizeable set of risks.

GOVERNANCE

Governance is often seen as a two-edged sword – necessary and burdensome at the same time. Tightening and changing regulation is making the risk landscape more complicated, as is the increased focus on corporate and social responsibility and corporate liability. Fraud and corruption are almost constant threats in almost all jurisdictions

TOP 10 IMPACTS OF REGULATORY CHANGE

1 In Australia, carbon tax has shaped and reshaped the financial position of many companies, not only those in electricity generation but also industries that are primary users of gas and electricity.

2 In China, regulatory issues are a primary worry for risk professionals. Although it is not so much a case that more legislation is being introduced, risk managers say that existing regulation is being enforced much more strictly. Businesses based outside China faced the toughest regulation, particularly in terms of anti-competition rules.

3 Increased regulation from the authorities is a pressing concern for risk professionals operating in Hong Kong. For example, the territory's new Companies Ordinance came into effect in March 2014, and it is a precursor to further change.

4 Investors are worried about heightened regulatory risk in Indonesia, with global investors choosing less uncertain propositions.

5 The government is cracking down on the type of corruption once endemic across the Philippines. A tougher regulatory stance has been central to this policy, which is focused on the enforcement of existing regulation rather than the introduction of new laws.

6 Recent changes of the Singapore Code of Corporate Governance mean that directors now have to mention risk management in their annual reports, which is driving more interest in the topic.

7 The volume of regulatory change in Malaysia can tie up management resources and curb productivity and growth. Constant regulatory changes may cause operational disruption as valuable resources are channelled to compliance issues.

8 In Thailand, many companies are just beginning to adopt corporate governance structures in an effort to improve decision-making and to ensure compliance. Companies that do not have a structure in place run the risk of poor decision-making and potential violation of regulations.

9 Vietnam is a member of the Association of Southeast Asian Nations and the World Trade Organization and the next step is to join the Trans-Pacific Partnership. Vietnam needs to look at the regulatory issues and adapt with the requirements of development as soon as possible, which is a challenge.

10 Although a move is undoubtedly taking place towards a stricter corporate governance regime in Hong Kong, particularly in relation to the territory's efforts to attract international investors, some analysts fear that the process is disjointed and lacks focus.

'Vietnam's infrastructure needs significant development, but it is much further down the track than Myanmar, Cambodia or Laos'

Rupert Evill, Control Risks

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PAYING THE PRICE

Corruption is a significant issue in many emerging economies, and Vietnam is no different. It is especially prevalent at the "low, everyday level", as a *StrategicRISK* roundtable participant put it. "Locals find ways to deal with corruption issues," it was suggested, "but it is much harder for foreigners; they need advisers to get these resolved at a low cost. Relationships [are key]; for example, every local business knows a good relationship is required with the local police officers".

Vice-president of finance at agri-business Olam Vietnam Rajiv Shah names corruption as one of the most pressing risks faced by corporates operating in Vietnam. Asia-Pacific director at specialist risk consultancy Control Risks Rupert Evill agrees that corruption is an issue that needs to be addressed, but adds "it is vital to understand the motivation of the person who is soliciting the payment – the person who is doing it to subsidise his income because he's underpaid and has a family to feed."

There is a more egregious tender space corruption in Vietnam. Evill adds: "After some of the excesses of the state-owned companies, the prime minister is attracting serious criticism and there is now a will to deal with those issues. We are hearing from clients partnering with the better-run state-owned enterprises (SOEs) that this is not the issue. What [firms] have to be careful of is the downstream, when, further into the project, the SOE insists its subsidiary company is used for catering or logistics, quoting a jacked-up fee, which is where the kickback is built in. It requires heavy investment of time, resources, creativity and choosing projects carefully to defend against predatory practices."

Evill shines an optimistic light on the issue, saying that infrastructure investors have "a better chance of batting away serious corruption and getting a handle on it than they do in some of the other markets in the region". "Vietnam's infrastructure needs significant development, but it is much further down the track than Myanmar, Cambodia or Laos, for example," he says. "[These countries] chip away at some of the investment that would otherwise go to Vietnam, certainly, but it's more nibbling than a big shark-sized bite."

Co-chairman of the Vietnam Business Forum Virginia Foote says that she worries that "corruption is a growing problem that trade agreements cannot fix but is an overall drag on the economy and reputation of Vietnam". "Too much of the economy is still dependent on cash," she says. "An economy where large transactions are done in cash, where fees and fines to the government are collected in cash, is a recipe for corruption or delays, and sometimes both. There are systems to implement legal fees structures, taxes and customs collection procedures – so that the amounts due and payments made are done in a transparent way and are uniformly assessed."


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STATUS QUO NO LONGER ACCEPTABLE

Corruption is "stealing the rights of Indonesian people to have a better life", according to Fadjar Proboseno, risk advisory department head at Astra International. "Corruption badly influences the economic growth and stability of Indonesia – the damage is significant," he says. "The quality and amount of infrastructure that currently available is far from sufficient. If only corruption could have been minimised in the first place, better infrastructure could have been built to support and boost all kinds of industries and local businesses."

President director of Howden Indonesia Willy Ignatius says that many politicians are trapped in a corrupt system, creating a negative sentiment towards government officials. "Indeed, corruption does not help the growth of the economy," he says. "KPK [Indonesia's Corruption Eradication Commission] has been doing an excellent job to create more awareness for appropriate dealings towards government officials. It is now also promoting clean business dealings with private corporations. However, there is still a long route to go."

Major strides have indeed been made in Indonesia in respect of corruption, agrees president director of Willis Indonesia Simon McCrum. "Ten-plus years ago, [corruption] was endemic," he says. "Nowadays, it is much less so. It still exists, of course, but the consumer class is rallying against it and won't accept it as a status quo any longer."

McCrum points out that foreign companies with strict regulatory and compliance governance have proven that a significant business can be built and grown in Indonesia without recourse to unacceptable practices. "In my experience, business here is being conducted in an increasingly transparent manner and I believe that ingrained corruption will continue to be chipped away at and eroded," he adds.

EXPERT VIEW

Marcel Van Peenen, manager for professional lines, Zurich Asia

Although larger companies may already have resources in place, businesses of all sizes can benefit from rapid access to a network of specialist service providers when a potentially damaging information security or privacy incident occurs. Forensics experts can identify what went wrong and report on how problems can be avoided in the future; public relations specialists can manage bad news. There is real value to businesses if their insurer provides access to these types of service providers at pre-negotiated rates.

An organisation's approach to risk management should focus on people, process and technology. Underwriters look for a commitment to:

- establish accountability at a senior executive level and promote a culture of information security awareness. Human behaviour can be underwritten only to a certain extent, but a firm's insurance policy should not be used as a back-up for poor security processes;
- implement processes and procedures, such as security for physical records, restrictions on using mobile media and personal devices in the workplace;
- ensure cross-functional, enterprise-level understanding of the risks so that technology, human resources and marketing departments collaborate, share and co-ordinate activities;
- ensure third-party providers, such as outsource partners that handle sensitive information, meet your data security protocols;
- ensure it is clear where data resides in cloud computing and how local and overseas legislation affects cross-border data transfers; and
- establish a function to ensure compliance with applicable privacy laws, regulations and directives that might affect the organisation.

Although all risks cannot be eliminated, it is possible to keep pace with changes in the severity of attacks and the implementation of new legislation. More claims are being made at a carrier level that are not necessarily for data breaches, but third-party claims for breach of privacy, such as websites that collect personal data and upload cookies to people's computers.

In the future, companies are likely to take an approach of 'privacy by design' when they release new products and services to ensure they comply with legal and regulatory requirements of specific jurisdictions around the personal data they can gather, store, disclose or share.

It is important to keep in mind that, as the legislative environment around privacy and cyber threats to businesses continues to evolve, so do insurance programmes offered by commercial carriers. Emphasis should first be placed on the organisation's proactive information security and privacy risk management practices, although risk transfer can also play a key role in that strategy.

OPERATIONAL

Operational risks range from the straightforward threats of fire or damage to property and health and safety issues, through to supply chain disruption, product recall and industrial relations. Also in this group is the acquisition and retention of talent, which is one of the top two or three concerns for almost all corporates operating in the region

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'The competition for clever people has made human talent a top-three risk in China and in emerging companies throughout Asia'

Gregory McCoy, Lockton

HUMAN INTEREST

People risk, specifically talent retention and acquisition, is a major concern for businesses and risk managers in Asia-Pacific. Many are battling to attract staff with good skill sets, language capabilities and local knowledge. *StrategicRISK*'s annual risk management benchmark survey found that people risk was rated the second most pressing threat by risk managers, after economic conditions. The results depict a risk landscape where a lack of talent is affecting business growth and where talent pinching is a growing threat.

The challenge in acquiring and retaining talent is significantly affecting businesses. Lockton's managing director for corporate and multinational clients in Asia-Pacific Gregory McCoy says the spiralling cost of human talent is affecting the profitability of firms, particularly new investors into the region. "The competition for clever people has made human talent a top-three risk in China and in emerging companies throughout Asia," he says. "Attracting and retaining human talent is a key risk."


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MAJOR PEOPLE PROBLEMS

- Australian companies are experiencing more change with their people; even senior executive staff turnover is high, making it harder to mitigate legacy risks owing to low corporate memory retention.
- Finding people with the right skills and then retaining them is a particular problem in China as a result of the country's recent rapid growth. With more young people educated better than ever before, they are eschewing less skilled working roles in favour of jobs more suited to their higher qualifications.
- Human resources management is a major headache for many Hong Kong-headquartered organisations seeking to decrease reliance on expatriate senior and middle management. They must develop appropriate training and retention strategies to ensure local, trilingual managers advance into senior management positions.
- Lack of qualified and experienced staff is one of the biggest hurdles to really developing a business in Indonesia. Government spending on education remains among the lowest in the world despite many pledges that this would be improved.
- Problematic labour shortages are affecting Japan – especially in the construction industry – but filling these with workers from overseas is proving hard to sell to the Japanese public.
- With 54% of the Philippines' population aged under 25, there are major pressures on the government and businesses to help generate jobs to support them. There are too many examples where highly skilled or educated people take jobs overseas for which they are overqualified merely because they pay more money.
- Singapore's ageing population and a shortage of workers with relevant qualifications is problematic for many risk managers. The working population in Singapore is fluid and transient, which only complicates matters.
- Malaysia aims to escape the second-world chasm and join the league of high-income nations by 2020, but the biggest deterrent to this is the lack of skilled human capital. Many industries face an acute shortage of the right talents as brain drain continues to flow to neighbouring countries, such as Singapore, Hong Kong and China.

WEAK LINKS

The concentration of supply chains of many Japanese companies – often seen as providing cost and operational benefits – was a major contributing factor to the consequences of the Thai floods. Japanese production, especially for the automotive industry on the eastern seaboard of Thailand, was particularly heavily affected.

The World Development Report 2014, *Risk and Opportunity: Managing Risk for Development*, offers the following example: "In November 2012, for instance, Japanese automaker Honda cut the factory hours of its US auto assembly workers in Ohio because it could not get parts from Thailand, [which was] affected at the time by large floods." This illustrates Japan's unique risk profile as a highly industrialised manufacturing country in which lengthy supply chains should be viewed as more of a concern than physical damage.

Typically, manufacturers in Japan, particularly automotive manufacturers, operate on a 'just-in-time' basis, meaning that all the key suppliers and the suppliers' suppliers are set up in a small and concentrated area, so when a major natural catastrophe event occurs, significant issues can arise with the supply chain. After the 2011 earthquake, production at major automotive manufacturers was halted for a month or six weeks. Once production could be resumed, however, it was significantly hampered by supply bottlenecks and the availability of critical parts, which not only affected production in Japan, but also in other countries.

EXPERT VIEW

Linda Conrad, director of strategic business risk of Zurich's Global Corporate business

The interconnectivity of today's global economy poses major financial and reputational risks to companies. Strategies such as outsourcing, offshoring and just-in-time sourcing can create corporate efficiencies, but they can also increase vulnerabilities to supply chain disruptions and expose companies to global risks irrespective of where they are operating.

Beyond the immediate loss of revenue, these disruptions can also result in long-term effects such as damage to reputation, shareholder concern and increased regulatory scrutiny. Both these short- and long-term effects underscore why it should be a high priority for risk managers to help develop a resilient programme to protect an organisation's supply chain from the impact of unpredictable events and potential coverage gaps. Protecting the supply chain is critical to business performance, as is knowing the location and other risks faced by key suppliers. Knowing how their failure would influence the performance of the risk manager's organisation is key. Risk professionals need to ask themselves if they have fully mapped their critical supply chains upstream to the raw material level and downstream to the customer level. Have they integrated risk management processes into their supply chain management approaches? Do they have routine, timely systems for measuring the financial stability of critical suppliers?

Supply chain risk management should be integrated into an organisation's enterprise risk management approach, while an understanding of tier 1 production facilities and logistic hub exposures to natural catastrophes is essential. How many tier 1 suppliers have business continuity plans that have been tested in terms of their viability? Such information is vital to protecting an organisation's supply chain. Some practical steps that can be taken include recording the details of supply chain incidents and the actions that have been put in place to avoid future incidents; providing risk training to the supply chain management team; putting risk on the agenda at performance meetings with strategic suppliers; and routinely using total cost of ownership when making sourcing decisions.

An insurer should offer innovative tools to help firms gather and report more specific risk information and supplier data so appropriate risk mitigation strategies can then be put in place. It should offer not only physical insurance coverage for supply chains but also non-physical coverage and the use of captives where appropriate.

Zurich has worked with a number of experts in the field to better understand supply chain risk. These risk insights can be found at www. supplychainriskinsights.com.

ENVIRONMENTAL

Environmental issues are rising up the risk ranks across the globe, especially in Asia. Extreme weather events and natural catastrophes seem to be occurring with increasing regularity and with heavier consequences, while man-made environmental catastrophes are also plentiful. Related issues include water shortages and environmental liability

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TOP 5 NAT CAT CONCERNS

1 Situated on the coast of Southern China and facing the South China Sea, Hong Kong is vulnerable to sea flooding owing to storm surges caused by tropical cyclones. A number of tropical cyclones passing over the western North Pacific to the south of Hong Kong have induced significant and sometimes deadly storm surges in the territory over the years, and the threat posed to public safety by future super typhoons should not be discounted. The densely populated island and its surrounds have a high natural catastrophe risk profile.

2 Indonesia is sometimes called a 'supermarket of disaster' because of its exposure to everything from storms, winds and floods to earthquakes, tsunamis and volcanic eruptions. Given the country's geographical position within the Pacific's 'Ring of Fire', it is inevitable that it will experience another significant natural catastrophe.

3 In Japan, the 2011 earthquake/tsunami proved that such an event can seriously damage life, property, infrastructure and the economy in Japan, especially when it involves a nuclear power plant. Heavy rain and wind, with or without typhoon, is also a significant risk in Japan and flood, mudflow and storm surge look to be sharply increasing, perhaps because of global climate change.

4 By virtue of its geographical location, the Philippines is one of the most vulnerable places on earth in terms of catastrophe risk. Seismologists expect a major event will hit the Philippines – a one in 350-year earthquake – soon, but predicting where and when it will strike is an inexact science. What can be forecast with greater certainty is the risk of a major storm. The Philippines lies in the centre of the so-called Typhoon Superhighway – a route that carries about 20 major storms of varying severity across the country each year.

5 It is common knowledge that extensive flooding floods wrecked the infrastructure of large parts of Thailand in 2011 – and it is now better appreciated that such devastation threatens to return every monsoon season.

'Viable risk financing options are available in the form of affordable insurance and other alternatives'

Randall Wada JLT

JUDGING JAPAN'S RISKS

Although Japan occupies only a small percentage of the earth's land mass, it is affected by a disproportionate amount of risk from volcanoes, tsunami, earthquake and other natural disasters. The 2011 Tohoku earthquake and subsequent tsunami and Fukushima Daiichi nuclear disaster spring to mind, but typhoons, snowstorms and landslides are also common. Torrential rain has led to an increase in landslides in recent years.

The "primary risk", though, is earthquakes. Some interesting approaches to natural catastrophe risk management were put forward at the *StrategicRISK* roundtable in Tokyo, including revision of communication procedures after fixed and mobile phone networks proved useless during the 2011 9.0 magnitude on the Richter scale earthquake. Sourcing better information from private firms, rather than government agencies, regarding the probability of disasters was also seen as vital.

Randall Wada, head of JLT's Japan office, says such catastrophes can and will always happen in Japan. "From a corporate governance point of view, management can no longer ignore these risks or believe that their other contemporary peers are also not doing something to more adequately protect the balance sheet of the companies they lead," he says. "Contrary to what many Japanese corporations have been led to believe, viable risk financing options are available in the form of affordable insurance and other alternatives."

Takayuki Tanaka, general manager of the insurance consulting department of Mitsui's business engineering division, says that now his company "analyses and watches natural catastrophic risk periodically with hazard maps for a few years". He adds: "To judge if we should invest money in new business, we review and analyse the natural disaster risks of that investment in detail." Dean Enomoto, head of Willis Japan, says that although many companies already had business continuity plans (BCP) in place, the events of 2011 highlighted the importance of developing and enhancing them. "Companies increasingly think about natural catastrophe risk in other countries as well as their domestic risks in Japan, because of the effect on supply chains," he says. "The great East Japan earthquake and the Thai floods were major events that affected Japanese companies hard. The events caused major losses on two fronts. First, companies with business facilities based in the disaster-affected areas took a direct hit, and second, those businesses based outside the physical scope of the disaster saw their supply chains disrupted or terminated. So, many companies realised that they should consider indirect losses and business interruption risk."

Takuji Urisaka, who works in the logistics and insurance department of a large Japanese general trading company, says many companies revised their BCPs to make them more practical. "In addition, we have learnt about natural catastrophe risk from a variety of sources, such as insurance companies, insurance brokers and consultant firms," he adds. "For example, we arranged comprehensive property insurance, including earthquake risk cover, last year."

JUST A MATTER OF TIME?

Vulnerability to typhoons is not a recent phenomenon in the Philippines, but their ferocity and impact appear to be changing. In November 2013, Haiyan became the strongest typhoon ever recorded to hit land as it blew across some of the islands comprising the Philippines. The damage and casualty rate was significant – 6,300 people died – but the toll would have been magnified many times had the strong side of Haiyan struck more densely populated areas.

With about one-third of the population of the country living in or around the capital Manila, there is a concentration of risk that could, if nature conspires against it, cause utter devastation not only to the city and the country's economy, but to millions of its people. At one stage, Haiyan was tracking towards Manila only to shift course as it bore down on the islands. It was a lucky escape that might not be repeated again.

Manufacturing facilities and infrastructure projects are at risk from floods, high winds and storm surges. Many buildings have been reinforced and elevated and the government's disaster planning is evolving continually, yet despite these improvements it is likely not enough protection is in place for a major catastrophic event.

With such extreme exposure, the likelihood of being affected by a major natural event is particularly high and, as such, catastrophe risk lies at the forefront of considerations not only for companies and government but, more importantly, also for the nation's inhabitants.

EXPERT VIEW

Wirahadi Suryana, director of Zurich's corporate/commercial business in Indonesia

Businesses are becoming increasingly aware of the need to adopt a proactive risk management approach to assess and mitigate risks associated with the increasing impact of natural catastrophes.

Two underlying developments are responsible for this increasing awareness. First, owing to increased density in property values and concentration within the value chain, property and business interruption losses have become a significant part of natural hazards losses. Second, recent events have demonstrated that in today's interconnected world, it is not sufficient to manage the exposure of a company's or community's own assets to severe weather. For example, the 2011 floods in Thailand revealed that businesses are exposed to such risk along their entire supply chain, including contractors and subcontractors.

Because of this interconnectedness, building resilience to natural hazards such as flooding requires the development of new forms of collaboration stretching from local to global. Challenges such as climate change cannot be solved by any one party. The private sector therefore has a significant role to play that goes beyond merely funding disaster relief.

It should actively share its skills and expertise to benefit communities, thereby helping to build resilience before an event. At Zurich, we believe that resilience to natural disaster needs to be built from the bottom up to truly protect individuals, households, communities and business from disaster risk. This is why we have entered into a long-term strategic alliance with the International Federation of Red Cross and Red Crescent societies, Practical Action (a UK-based non-governmental organisation) and two academic institutions, the International Institute for applied systems analysis (International Institute for Applied Systems Analysis, based in Austria) and the Wharton School, to strengthen the resilience of communities against floods. The alliance builds on the complementary strengths of these institutions. It brings an interdisciplinary approach to flood research, community-based programmes and risk expertise with the aim of creating a comprehensive approach that will help to promote community flood resilience.

Last year, Zurich Insurance Indonesia and the Indonesian Red Cross society (Palang Merah Indonesia, or PMI) signed a memorandum of co-operation in the field of community-based flood disaster risk reduction.

The agreement, covering a five-year commitment with a total budget of up to about US$5.5m, aims to enhance flood resilience by finding innovative ways to enhance the effectiveness of disaster risk reduction solutions. It also aims to develop and promote knowledge and expertise around floods, as well as influence policymakers and donors on disaster risk reduction policies.

Our early experience shows that much can be gained from enhancing community programming by adding in risk assessments and impact measurement, techniques borrowed from the insurance industry. This collaborative approach in river basins on the island of Java serves as a model not only to support resilience building on a community level, but also to provide guidance to support development of a national policy.

CYBER

The information security risk landscape is transforming before our eyes, and firms must adapt their strategies accordingly. Cyber attacks, hacks, unauthorised access to customer data, and loss of critical infrastructure are all major and growing concerns for governments and corporates across the region

AN OLYMPIC TASK

The Japanese government is scrambling to patch up the country's "notoriously leaky" cyber security as it gears up to host the Olympics in 2020, according to Stuart Poole-Robb, founder and chief executive of strategic intelligence, risk and security management firm KCS Group. "The country is understood to be drafting legislation that is set to reveal the true and terrifying scale of Japan's losses to cyber crime," he says. "Companies will be obliged by law to reveal the extent of their losses, reporting all incidents, irrespective of the resulting bad publicity. "The National Information Security Center (NICS) will be named as the country's primary cyber security co-ordinator. The NICS reports that only half of Japanese companies have any IT security in any shape or form. In common with their counterparts in many other developed countries, Japanese chief executives fail to grasp the level of cyber crime risk, with most believing cyber crime is something that happens to others."

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'Japanese chief executives fail to grasp the level of cyber crime risk'

Stuart Poole-Robb, KCS Group


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INFAMOUS FIVE

1 Data privacy ordinance is affecting how Hong Kong-based companies manage their customer data, making cyber risk an even more pressing issue. Further, cyber risk continues to rise in terms of prominence and awareness, as data breaches and hack attacks increase in frequency and severity.

2 Japanese companies are facing a mounting barrage of cyber attacks, which have doubled in frequency since 2010. Targets have included the lower house of parliament, defence contractor Mitsubishi Heavy Industries and a nuclear power research institution. According to industry sources, most of these targeted attacks are coming from China and are taking place on a similar scale to those that occurred in the US and prompted that country to accuse China of state-sponsored industrial espionage.

3 Holes in Singapore's cyber security defences are threatening its reputation as a safe place to do business. A lack of awareness of the high level of cyber security threat the country is now facing coupled with a chronic lack of cyber security professionals are leaving many organisations at risk from cyber crime and industrial espionage. Cyber risk is a complex and invasive peril that requires intervention by industry leaders and the government to support Singaporean companies.

4 Cyber security in Malaysia has been a pressing issue for several years, not only because a mass hack against 51 government websites in a protest over censorship occurred in 2011, but also because it is now on the rise. The chief executive of Cyber Security Malaysia, Amirudin Abdul Wahab, has stated that he expects instances to continue increasing – and that Malaysia was the sixth most vulnerable state in the world to cyber crime.

5 Australian risk professionals are worrying about threats such as phishing attacks, malware, ransomware, and loss of confidential data through holes in payment gateways. Information security surrounding customer data being transmitted or stored is also a major concern.

HACK ATTACKS

Sophisticated hackers are taking advantage of firms that have misdirected information security measures by copying, stealing or destroying critical and valuable documents, according to Microsoft Asia chief security officer and advisor Pierre Noel. Businesses focus too much on preventative measures, he says, and suggests that effective information security requires an 'assume breach' approach. "The best approach is to assume that someone will succeed in an attack," he says. "Therefore, a firm should look at its security programme from a different angle, and that means trying to be resilient as opposed to secure."

The internet is "a wide and dangerous place", Noel says, adding that organised criminal gangs, which can make substantial profits selling data on the black market, are using sophisticated methods to obtain information. For example, a current trend worldwide is the rise of 'dark hotel' attacks, which target corporate executives by bugging the networks of the high-end hotels where they are likely to stay. The malware can infiltrate an individual's device as soon as it connects to the hotel's network, allowing the criminals access to potentially valuable information.

Furthermore, critical infrastructure firms are more vulnerable to cyber breaches owing to politically motivated attacks, whereby state-sponsored hackers target foreign organisations. Although Noel says these types of attacks were a global issue, they are particularly visible in Asia.

EXPERT VIEW

Marcel Van Peenen, manager for professional lines, Zurich Asia

Suffering a data breach is now almost inevitable, whatever the size of organisation or industry sector. Rather than only focus on prevention, risk managers, regulators and organisations with system-wide responsibility need to focus more on resilience.

In an increasingly interconnected world, risks can come from anywhere and happen at anytime, so it is critical that those affected rapidly deal with the situation to minimise damage. Organisations can do this only with effective plans that are operationalised before, during and after a data breach.

Comprehensive pre-breach planning can help protect customers and corporate reputation. When developing a plan, it is important to address a number of questions such as: who should respond in the event of an incident; can a 24/7 incident response team handle the situation; how can a data breach be identified; are reviews and auditing of data collection in place; how securely sensitive information is stored; how prepared employees are for potential incidents; whether they require training; are necessary regulatory requirements understood; have you considered what data third parties may have access to and their security and privacy standards; are there pre-prepared communications for stakeholders in the event of an incident.

A rapid and proactive response is essential when a breach occurs to minimise damage/loss. A company under attack must quickly identify the number or records affected, whose data has been compromised as well as who needs to be made aware of the situation internally and externally to contain the damage. Victims of the breach must be notified according to local requirements. The same applies for regulators and other authorities. It will be necessary to determine who to notify and at what time. Good public relation will help to minimise damage to reputation. Setting up a call centre gives victims relevant information about the breach. In addition, it is vital to consider how a firm can restore its reputation as well how it will legally defend itself.

A focus on impeccable customer service is vital to rebuild trust, and organisations that have paid attention to this have a better chance of bouncing back. After a breach: all relevant stakeholders, including the victims, need to be notified appropriately and promptly. Public relations should be at hand to reduce damage to reputation. You need to speak with your insurer as soon as possible and be as transparent as possible so that you understand what you are protected against and what funds will be available for extra costs.

As the importance of data protection is becoming increasingly more important and even critical for the operation of most organisations, it is also becoming more important that organisations appoint officers who are fully responsible and accountable for the prevention of data breaches and implementing robust incident plans, which will need to be regularly tested and updated and improved and can be enforced in the event of a data breach.

Experts will say that the question is no longer "what to do *if* there is a breach", but "what to do *when* a breach occurs", so be prepared.

SERIOUS SCENARIOS

Company executives can be seriously disconnected from reality when it comes to cyber security, according to senior vice-president of risk management at PCCW David Ralph. This raises issues such as whether cyber security is a technical issue that system administrators will deal with or if there is a need for involvement by senior management. "Which decisions require special attention because they might have significant impact?" Ralph asks. "And how do you direct senior management's attention to cyber security?"

Risk managers need to determine how cyber attacks are being carried out as well as assessing their effect, Ralph advises. "Are the right strategy available to defend against such attacks – and what are the implications of weaknesses of insurance products offered and how can they be addressed?" he asks. "Furthermore, how can a thorough claims methodology be created?"

All these questions can be discussed and answered in an abstract manner, Ralph points out, but to actually feel the impact of an attack is a very powerful experience.

"Cyber has always been a difficult topic for risk managers, but crisis management simulation can bring the very real stresses of cyber security threats to the attention of chief executives," he says. "Participants are confronted with complex and realistic cyber attacks. They experience the impact of the attack as well as the consequences of their action and response, and they have the opportunity to discover if they are prepared and what the value proposition of holistic risk management can be."

Ralph points out that although most companies will have some form of IT systems scenario and/or disaster recovery plan, these are usually focused on system outage due to a physical event such as power failures and disk crashes, or poorly implemented software changes. "Very rarely are crisis response plans being developed around scenarios where information and communications systems, not to mention the company in totality, are under deliberate and focused attacks, unless perhaps [in the case of] a government," he says. "One reason for this is that, although we constantly hear about significant attacks, most stakeholders from executive management through to the IT systems support staff still believe it wouldn't or couldn't happen to them. It is unlikely that any of the stakeholders will have experienced a major cyber attack, or even had access to reliable accounts of an attack and how they were really dealt with."

Attacks are rarely restricted to a corporation's website; they can also bring down the office phone system, disable security cameras, activate fire suppression systems, send false stock exchange notices of major events, release customer details to the public, or even take control of robotic manufacturing systems. When considering a cyber attack, management and the crisis response team must be ready to deal with multiple crises occurring, simultaneously and in tandem, affecting multiple different aspects of the operations. "Add to this a high probability that the attackers already have plans for every counter-measure the crisis team may implement, and possibly even access to what the team is doing in close to real time," Ralph says.

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'Crisis management simulation can bring stresses of cyber security threats to the attention of chief executives'

David Ralph, PCCW

COUNTRY REPORTS

StrategicRISK Risk Management Roundtables were held across Asia throughout 2014, bringing together risk and insurance professionals from some of the region's biggest multinational corporations to discuss each country's risk landscape. The subsequent country-specific risk reports are summarised in the following pages

CONTRIBUTORS

All *StrategicRISK's* country-specific risk reports were produced with the support of Zurich, and with the assistance of the Pan-Asia Risk and Insurance Management Association. Thank you to all the risk professionals and brokers who took part in these events

AUSTRALIA

The cream of the Australian risk management community met with the *StrategicRISK* team, local brokers and insurance industry representatives in events held Melbourne and Sydney. Both roundtables began with participants discussing various events that had affected their organisations' business operations over the past year and how they managed and mitigated the associated risks. Many described how their companies were undergoing major changes in the form of restructures, M&As, demergers and the hiring of new executive teams. It was pointed out that such activities created many opportunities as well as risks. It was generally agreed that corporate risk managers had to keep a close eye on issues such as disclosure, compliance, the free flow of information to the board and good quality due diligence to ensure that change was managed effectively.

One major challenge was identified as bringing together key people in different teams. Although this was seen as a difficult exercise, it was nevertheless necessary to prevent overlaps of risk identification and to allow for a better understanding of the true material risks faced by an organisation. Talk then turned to specific risks, such as Australia's rapidly changing regulatory environment and ageing infrastructure, as well as product recall issues and the danger of procurement teams locking in prices for commodities, thereby creating future competitiveness challenges.

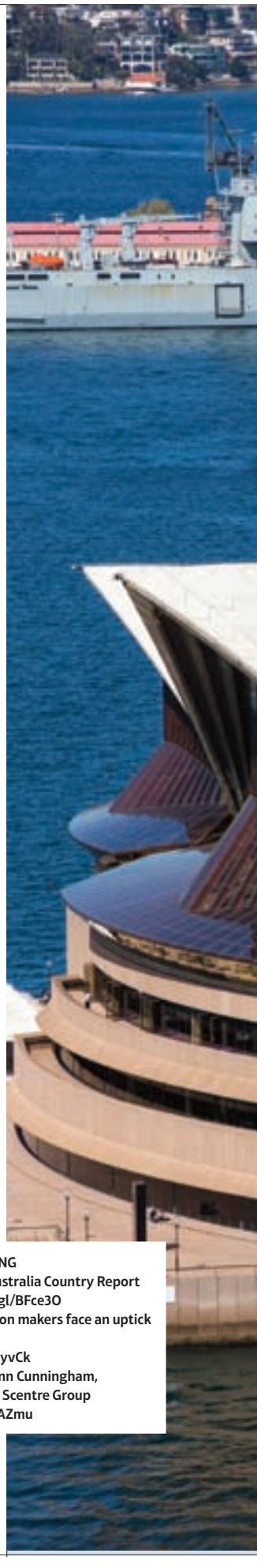
The importance of key risk indicators in monitoring operational processes was covered, together with their usefulness in identifying potential business, legal, financial or other risks. Concerns were also raised about a perceived increase in class actions from shareholders, in particular rogue behaviour backed by litigation partners and event-based class actions after events such as bushfires.

Several big infrastructure projects are happening in Australian currently , with many more planned for the near future. So, roundtable participants were asked where the necessary human capital is coming from. Unsustainably high labour costs are a major risk for large corporates in this area. Indeed, acquisition and retention of talent is one of the top two or three concerns for almost all corporates operating in Asia-Pacific, and Australia is no different. Companies are experiencing more change with their people; even senior executive staff turnover is high, making it harder to mitigate legacy risks owing to low corporate memory retention.

Recruitment issues

One theory was put forward that some HR departments were beginning to become homogenous in terms of their internal culture, and that this could lead to a lack of diversity in hires. This is what one participant called the "colour me grey" effect, in which a team made up of similar people is hired by an HR team made up of similar people. This could result in a possible loss of complexity in an organisation's mix of people, it was suggested. In the long run, this could mean fewer employees with "creative flair and effervescence, and the ability to think outside the box", creating future risks such as lack of innovation and organisational stagnation.

There is a belief that many young graduates want "to move up quickly or they'll move out", and therefore it is difficult for organisations to align their business needs with many young employees' appetite for length of stay. The need for some form of recognised qualification for risk managers was also discussed, although many at the events had no formal risk management qualification themselves. It was suggested that life experience was the key here. Nevertheless, relevant qualifications were seen as essential for young people entering the workforce to enable them to "knock on the boardroom door". Although accreditation is on the agenda, it was suggested that being able to mentor others to help them manage their department's risks was of utmost importance.



FURTHER READING
***StrategicRISK* Australia Country Report 2014 http://goo.gl/BFce3O**
Australian decision makers face an uptick in risks http://goo.gl/bQyvCk
Interview: Eamonn Cunningham, chief risk officer, Scentre Group http://goo.gl/gvAZmu

'It is vital to be nimble in the execution [of the ERM framework] to avoid paralysis by analysis'

FUTURE SHOCKS

Uncertainty about world affairs and the global slowdown has affected risk outlooks in Australia. Indeed, uncertainty about the future was a pervasive theme of the roundtables, with a general consensus that two- or three-year plans were almost always redundant after less than 12 months. In addition, there is rarely any time left after taking care of day-to-day business needs to actually undertake truly long-term planning.

The agility, speed and focus of the board were also seen as of great importance, and this point led into a discussion about the value of scenario planning and how risk managers were incorporating this into risk processes. It was suggested that there was increasing pressure coming from many boards for extensive scenario planning to provide more certainty on what is required when events occur.

One example provided concerned Ebola planning, with one organisation deploying its ERM framework to deal with the crisis as soon as possible, then customising the framework as the issue developed. As one risk manager put it: "It is vital to be nimble in the execution [of the framework] to avoid paralysis by analysis".

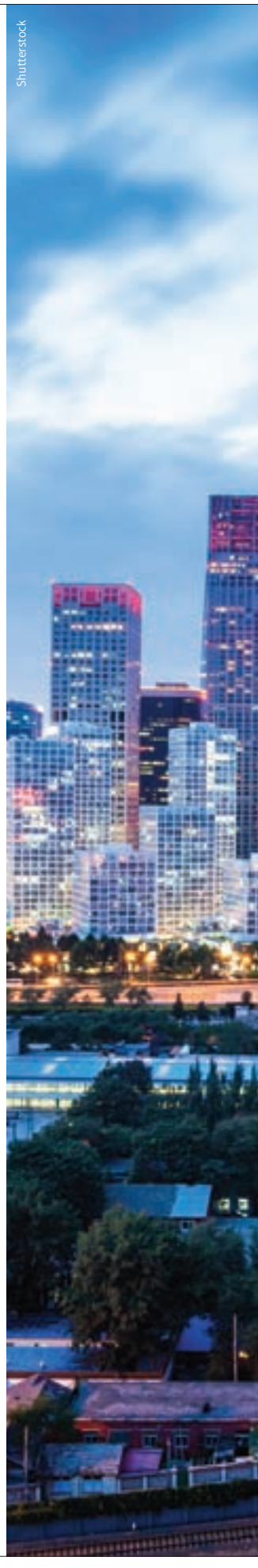
Privacy and technology-related risks are becoming major issues, with Australian risk professionals anticipating their continued growth in prominence into the future. Much discussion took place about how companies were structuring their risk programmes to deal with the exponential increase in cyber risks, and how board-level risk management strategies, such as incident response and continuity training, were being employed.

The value of specialist external providers to extend a firm's own internal technology risk management capabilities was hotly debated, with disclosure risks the sticking point. This led to talk of confidentiality breaches and the control of an organisation's sensitive information. It was pointed out that there are now so many opportunities to "connect the dots and have a single view of the customer" with increased consumer loyalty programmes and the like.

Furthermore, the amount of data that leaves any company is almost always vast, with some companies going so far as to restrict laptop use or render USB connections inoperable. The discussion about cyber risk prompted an observation that when rolling out a large piece of infrastructure, concerns about cyber attacks were now high on the risk list.

When asked to nominate future risks, risk professionals mentioned such diverse issues as national security, automation, sustainability of practices and ethical sourcing and bribery and corruption in emerging markets being targeted by Australian firms.

CHINA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The perception of risk within China is interesting. Despite the country's rapid economic and corporate growth, risk management is still at a fledgling stage. However, the number of risk professionals is growing steadily, as is their understanding of this increasingly complicated subject. These changes were evident at two roundtables *StrategicRISK* organised in Beijing and Shanghai. Attendees were dynamic in their outlook and their attitude to risk and it was clear that this small pioneering group of risk managers was engaged in promoting positive risk practice among their businesses and beyond.

These discussions would not have taken place five years ago as the risk profession was almost non-existent, but much has changed in that time and it was evident from conversations in both cities that China's risk professionals are knowledgeable and forward-looking. True enterprise risk management may be some way off yet for most businesses but it will, in time, become embedded within the majority of large Chinese companies. Together with the increasing support from the country's growing insurance and broking sectors, the current state of risk management in China stands companies in good stead to help them tackle problems and make the most of the advantages the country offers.

So, what are the main risks of doing business in China? The answer depends on one's perspective, the risk appetite of a company and whether it is China-based or connected to a foreign-owned entity. Potential pitfalls are certainly numerous: regulatory, cyber, natural catastrophe and reputation being among the biggest. Many risk managers considered human capital as the biggest worry – perhaps surprisingly, given that China has a population of 1.366 billion people. Recruiting people with the right skills and then retaining them is a concern that will resonate with risk professionals around the world, but China's recent growth has only compounded the problem domestically. The growth has generated economic benefits and driven business expansion, but it has also brought significant improvements to the country's education system. With more young people than ever leaving higher education, graduates are eschewing less skilled working roles in favour of jobs more suited to their qualifications.

China's one child policy has further exacerbated the situation by limiting the number of people of working age. Although restrictions on this were relaxed recently, the results of these changes will not be seen until those born under the new policy come of working age. Many risk professionals in the debates recognised that, in China, as in many other countries, supporting an ageing population with a limited and relatively inflexible group of working age is a challenge.

Regulatory enforcement

Regulatory issues are another worry cited by risk professionals. The issue is not that more legislation is being introduced, they say, but that existing regulation is being enforced more rigorously. Businesses based outside China face some of the toughest regulation, particularly in terms of anti-competition rules. Other legal issues are also raising concerns. One risk professional working for a non-China based business said that enforcing contracts in China was difficult, if not impossible, stating that contracts should be used only as a guide. In effect, foreign companies cannot take disputes to court, primarily because the opposing party may be connected to the state. Legal action can therefore potentially negatively affect the foreign company operating in China.

Nonetheless, most risk managers at the roundtables agreed that a strong regulatory system is key to bringing China in line with accepted international standards, especially in an area such as safety, for which the country has been criticised in the past.

Reputation is no less a risk in China as it is in the West. Indeed, many risk professionals told *StrategicRISK* about the significance of brand integrity. Two major food safety scandals (one involving out-of-date meat sold to fast food restaurants and the other connected to contaminated dairy products) have demonstrated the potentially damaging consequences surrounding reputational risk.

THE BIG PICTURE

In the past decade, China has shaped the global economy more than any other country. It may not technically be the number-one world superpower yet, but that time will come soon as the outlook for the West continues to flatten. Seven decades of US dominance could end within five years, according to analysis from Deutsche Bank. At that point, China is predicted to become the single largest contributor to global GDP.

For some Chinese people, overtaking the US to become the most powerful country on earth will mark a return to the natural order. By bringing the country back to the position it once held at the height of imperialist rule more than 1,000 years ago, the rightful balance of power will be, as they perceive it, restored.

China's economic growth has dwarfed that of other major nations since 2000. Its GDP figures, once in double digits, may have eased since 2010, but they remain healthy at 7%-plus. Even so, many governments fret more about China's GDP growth potential than their own, reasoning that a Chinese slowdown, no matter how fractional, will erode demand for goods and services and damage their economies. Proximity dictates that other nations in the Asia-Pacific region are most susceptible – but such is China's trading strength, nowhere is immune.

GDP figures reveal only part of the picture, however, and China's dominance is also unsurpassed on many other levels. Spending patterns generated by the spectacular growth of its burgeoning middle class have global implications on everything from property to poultry prices and almost all consumables in between.

Geopolitically, China might be deliberately isolationist, but that does not mean it lacks influence. Also, its detachment should not be confused with indifference; international policymakers therefore ignore China's reactions at their peril.

China is also a country of extremes and contradictions, mainly owing to its enormous and diverse population. For example, China is officially an atheist country, where religion was once banned and is now tolerated at best. Yet, Christianity is booming. By 2030, the country is expected to have the world's highest number of Christians, with more than 250 million churchgoers.

To those outside China, political risk might seem to be a pressing concern, particularly in light of September 2014's protests by pro-democracy activists in Hong Kong, the former British colony that is now a Special Administrative Region of China. However, the situation is viewed from a different perspective by risk professionals with whom *SR* spoke.

Political risk is not a major issue in China, it was suggested, and the type of protest seen in Hong Kong is unlikely to happen on mainland China in the foreseeable future. China is a huge country and if every community or province took to the streets to protest, chaos would ensue. Any change to the current political process has to be slow to protect the stable situation that exists at the moment in China, several risk managers agreed.

HONG KONG

The world's changing global economic dynamics are affecting Asia's economies in myriad different ways, and Hong Kong is no exception. The territory's unique position as a gateway to China and the fact that it has one of the world's most open economies mean that it feels these forces keenly, and in a unique way.

Take, for example, its property market, which is relatively easy to enter with its low transaction costs and lack of capital gains tax. As risk and safety manager at Hong Kong Aero Engine Services Kevin Rookes points out, that makes the Hong Kong housing market a popular target for 'hot money' when liquidity enters the global economy. "This may have a knock-on effect on commercial property with subsequent rental increases for operating premises and office space," he says. Furthermore, Rookes says, as the risks of the euro debt crisis calm down, "the chance of an overheating asset market and potential asset bubble in Hong Kong is escalating".

However, it could well be one of Hong Kong's hitherto major strengths that is being challenged like never before: namely, its competitive edge. To stay ahead in an increasingly competitive world is the driving force of any economy, and for decades, Hong Kong has stood out within the Asia-Pacific region in this regard, Rookes says. But for how long? JLT Asia chief executive Duncan Howorth says that the Hong Kong economy has done little diversifying in the past 15 years, instead focussing on financial services, shipping and import/export. "As China continues to develop and other Asian countries grow their own economies, the inability of Hong Kong to move up the value chain could leave it vulnerable," he warns. As Aon Asia's chief executive for greater China Owen Belman puts it: "Facing more competition from surrounding countries and cities such as Taiwan, Korea, Singapore and [the Chinese] mainland (Shenzhen), more Hong Kong companies realise they cannot rely on past success formulas anymore and need to innovate. However, few companies see the need to put in place systems, tools or processes for fostering innovation."

Many Hong-Kong based corporates now find themselves deeply exposed to the shifting demands of Chinese consumers and the economic growth of mainland China. Large corporates in Hong Kong need to rethink their business strategies to address the continuing slowdown of GDP growth and domestic demand in China. Executive director of Willis Hong Kong Lincoln Pan says that in the past 18 months, his company's clients have been experiencing greater volatility than ever before from their investments and relationships in China. "Manufacturing and export dynamics are shifting, and once prosperous industries in China have turned challenging and difficult," he explains. "Rather than accepting China's growth as a given, our clients need to more carefully monitor their investments, partnerships and growth expectations in China."

A major threat

Head of Marsh Hong Kong and the broker's Greater China chairman Paul Wilkins raises an issue that worries risk managers, brokers and insurers alike: cyber risk. Wilkins says that the data privacy ordinance is affecting how Hong Kong-based companies manage their customer data, making cyber risk even more pressing. Furthermore, "cyber risk continues to rise in terms of prominence and awareness, as data breaches and hack attacks increase in frequency and severity," he says. "Reputation damage, more than anything else, is driving companies to look at cyber risk response protocols and insurance solutions."

EY Asia-Pacific fraud investigation and dispute services leader Chris Fordham says that as new technologies drive marketing and customer-oriented initiatives in Hong Kong, "information security chases associated cyber threats from behind". "Mergers and acquisitions, structural changes within the organisation and entrance into new markets all place additional stress on the information security function to provide adequate protection," he says. "These pressures will only increase as the pace of emerging technologies continues to accelerate – as will the cyber risks. Not considering these risks until they arise gives cyber attackers an advantage that can be disastrous for the organisation."

FURTHER READING
***StrategicRISK's* 2014 Hong Kong Country Report http://goo.gl/rte2Ga**
***StrategicRISK's* 2013 Hong Kong Country Report http://goo.gl/dzjCxX**
Risk manager profile: Bob Sweeney, vice-president, risk management, DFS http://goo.gl/KwFtyp
Lenny B Conil, risk and business continuity manager, Veolia http://goo.gl/4EdV0o

HONG KONG'S INSURANCE LANDSCAPE

The effect on insurance placements in Hong Kong of increasing integration and alignment between mainland Chinese and international insurers could be significant in coming years, according to executive director of Willis Hong Kong Lincoln Pan. Loosening regulations and large Chinese insurers acquiring international carriers will irrevocably change Hong Kong's insurance landscape, Pan says. "All these developments should prove only positive for clients," he says, "and those who adopt a committed integrated approach to risk management and risk reporting will be the ultimate beneficiaries of fair pricing and long-term sustainable support from carriers in Hong Kong.

Pan believes that Hong Kong is a "fabulous buyers' market" at present, with decreasing rates in all lines of insurance except for group medical and employee compensation. "Our smartest clients are exploring and pricing out long-term deals," he reports. "Further, those committed to risk engineering and a structured, well-managed risk management programme are seeing rate decrease or rate containment at fabulous pricing." Indeed, with more insurance capacity entering the region, it seems that Hong Kong-based buyers will continue to enjoy strong pricing from the markets.

The greater China insurance markets continue to grow, says the head of Marsh Hong Kong and the broker's Greater China chairman Paul Wilkins, as does the number of insurers offering products to the casualty market in Hong Kong. Wilkins says that underwriters are taking a closer look at companies' risk management and loss prevention programmes. "When they see a good risk, insurers can be very aggressive in terms of pricing," he says. "However, for industries with high loss ratios and poor risk management, rates have increased."

According to Aon's proprietary data, the Hong Kong insurance market is stable, reports Aon Asia's chief executive for greater China Owen Belman. "[There are] flat rates for casualty/liability and property, and softer rates for financial lines and marine," Belman says. "[In addition, there is] slightly increased exposure for casualty/liability and financial lines and slightly decreased exposure for property and marine." Belman argues that insurer profitability is not as good as it was a few years ago as "the combined ratio is edging up".

Cross-border insurance placement between Hong Kong and China is now common and increasing, although currency issues remain a hindrance. The broader acceptance of the yuan as a global currency would significantly accelerate this side of the equation. Belman says that separate programmes are often required in order to comply with Chinese Insurance Regulatory Commission regulations. "If a global master policy is issued in Hong Kong, it is necessary to issue a local admitted policy (under the global programme) for China locations by the global insurer's local branch or its local fronting insurer," he says. "Concerns also arise in respect of foreign exchange risk, taxation and claims payment capability. "Indeed, China has imposed more restrictive regulatory requirements in recent years compared to Hong Kong, such as admitted insurance. "We have to market the appropriate insurers that are flexible enough to offer policies across both countries," Belman says.

Head of Marsh Hong Kong and the broker's Greater China chairman Paul Wilkins says that, whatever the case, Hong Kong is still a gateway to mainland China, especially the Pearl River Delta area. "The changes in China's market will always have an impact, but more from a cross-border risk management and insurance placement perspective," he says.

INDONESIA


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Education and training, skills shortages and retention of talent feature heavily on the risk radars of Indonesia's risk professionals, together with regulatory change and challenging economic conditions. Project manager at the Indonesia Port Corporation Rachmadi Gustrian sees economic threats to Indonesian businesses taking the form of higher bank interest rates, increasing electricity and gas prices and decreasing commodity prices. "Those three risks lead to lower buying power (domestic), thus heading to lower trading activities (export/import)," he says. Risk consultant at Astra International Duma Irene Mitalevanie says that the global economic slowdown has also led to increased inflation in Indonesia, while the value of Indonesia's exports to China and India are declining because of local policies to reduce imports that are being enforced in these countries.

President director of Willis Indonesia Simon McCrum sees foreign exchange risk as an ongoing challenge, with rupiah exchange rates fluctuating considerably in the past two years. "Weakening rates have seen significant price increases locally, strengthening rates have not seen corresponding price reductions," he says. "This is a major business risk and one for which is difficult to plan and budget." Risk advisory department head at Astra International and vice-president of the Indonesian Risk Management Professional Association Fadjar Proboseno agrees, adding that the rupiah is likely to weaken further against the major currencies. "This will also weaken buying power, which may lead to slower economic growth," he cautions.

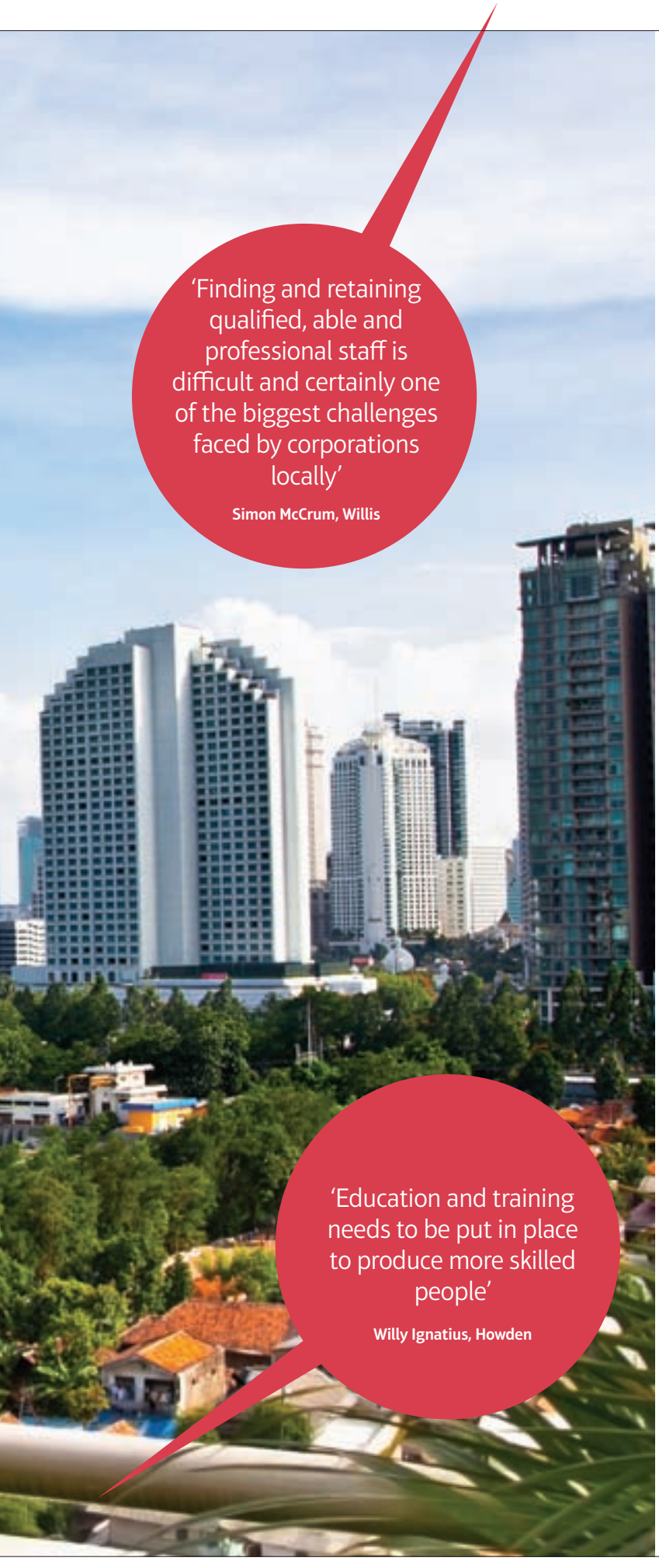
President director of Howden Indonesia Willy Ignatius calls the current economic climate "static". "We are yet to see significant improvement after the election," he says. Ignatius sees increasing wages as a major issue for employers. "This will continue as inflation goes up, not to mentioned the implementation of regulations that require deductions from employees' wages." Human capital risks in Indonesia go beyond this, with the lack of qualified and experienced staff identified by McCrum as "one of the biggest hurdles and barriers to really growing and developing a business in Indonesia". "Government spending on education remains among the lowest in the world despite many pledges that this would be improved," he says. "Finding and retaining qualified, able and professional staff is difficult and certainly one of the biggest challenges faced by corporations locally. I feel strongly that the legacy of the foreign companies operating in Indonesia must be to help improve and develop the human capital in each of our fields of industry."

Staff issues

Ignatius says Howden employs many graduates but "most of them are unskilled". "Education and training needs to be put in place to produce more skilled people according to their occupation," he says. "As a corporate, we are required to set 5% of our staff cost for training, so it is up to the corporate to spend this for improving its staff talent." Retention of key staff is the biggest challenge in Indonesia, according to president director of JLT Indonesia Arman Juffry. "At the same time, obtaining an increase in employee productivity to offset the rising minimum wage is another problem that needs creative solutions from companies," he says.

Aon Risk Solutions head of specialty in Indonesia Cameron Sheild sees Indonesia's infrastructure status as a major obstacle to economic growth, making it is a top risk for corporations operating in the country. "For example, Indonesia is one of the most populous countries in the world made up of entirely of islands, yet the World Economic Forum ranks its port infrastructure 104th out 139 countries," he says. "Indonesia scored similarly in terms of roads, air transport and electricity. A study of more than 12,000 businesses found that in eastern Indonesia, companies coped with an average of four power outrages a week, and water service dried up twice a week."

FURTHER READING
***StrategicRISK* Indonesia Country Report 2014 http://goo.gl/oAYnVC**



'Finding and retaining qualified, able and professional staff is difficult and certainly one of the biggest challenges faced by corporations locally'

Simon McCrum, Willis

'Education and training needs to be put in place to produce more skilled people'

Willy Ignatius, Howden

DAMAGE FROM WITHIN

Corruption is "stealing the rights of Indonesian people to have a better life", according to risk advisory department head at Astra International Fadjar Proboseno. "Corruption badly influences the economic growth and stability of Indonesia – the damage is huge," he says. "The quality and amount of infrastructure available currently is far from sufficient. If only corruption could have been minimised in the first place, better infrastructure could have been built to support and boost all kinds of industries and local businesses to be more competitive in world market. Lower transportation cost, lower production cost, better services from the government and other supporting activities could have been funded from the money that was lost into the personal accounts of some corruptors."

President director of Howden Indonesia Willy Ignatius says that many politicians are trapped in a corrupt system, creating a negative sentiment towards government officials. "Indeed, corruption does not help the growth of economy," he says. KPK [Indonesia's Corruption Eradication Commission] has been doing an excellent job to create more awareness for appropriate dealings towards government officials. It is now also promoting clean business dealings with private corporations. However, there is still a long route to go." President director of JLT Indonesia Arman Juffry agrees that the KPK is making an "extensive effort to battle against corruption". "[There has been] an improvement in this area and [it is expected to] get better with the newly elected president," he says. "Many companies now require their business partners to sign non-bribery and anti-corruption statements before starting a business contract."

Significant strides have indeed been made in Indonesia in respect of corruption, agrees president director of Willis Indonesia Simon McCrum. "Ten-plus years ago, [corruption] was endemic," he says. "Nowadays, it is much less so. It still exists of course, but the consumer class is rallying against it and won't accept it as a 'status quo' any longer." McCrum points out that foreign companies with strict regulatory and compliance governance have proven that a significant business can be built and grown in Indonesia without recourse to unacceptable practices. "In my experience, business here is being conducted in an increasingly transparent manner and I believe that ingrained corruption will continue to be chipped away at and eroded," he adds.

Risk consultant at Astra International Duma Irene Mitalevanie says that there is still a long reform road ahead for Indonesia. "Corruption hinders the country from realising its economic potential and causes significant injustice in Indonesia's society as some people are disproportionally benefiting from a corrupt society," she says. "However, credit has to be given to Indonesia's free media and the KPK as both play a vital role in the reduction of corruption." Sheild sees Indonesia as a "young, vibrant, growing democracy with huge potential that is negatively influenced by corruption". "No society can claim to be corruption-free, but for Indonesia the risk is the endemic nature of corruption," he says. "The new president will have his work cut out in tackling this, seemingly massive, task. In the interim, corporations will have to face it and decide how to deal with it in line with their values and their risk identification, rating and mitigation mechanisms."

JAPAN

When risk and insurance professionals from a select group of Japan-based organisations gathered in Tokyo for *StrategicRISK*'s risk management roundtable, first on the agenda was a poll of the top challenges faced by Japanese corporations. Responses ranged from money laundering and fraud, through cyber risk, economic uncertainty and threats to supply chains, to product recall, reputation risk and human capital issues. However, the undoubted top threat to corporations and Japanese society in general was named as natural catastrophe risk. This comes as no surprise, given the massive effect of the 2011 Tohoku earthquake and subsequent tsunami and Fukushima Daiichi nuclear disaster.

As president of catastrophe modelling company RMS Japan Yasunori Arage points out, the 2011 earthquake/tsunami proved that such an event can "seriously damage life, property, infrastructure and the economy in Japan, especially when it involves a nuclear power plant". "Heavy rain and wind with or without typhoon is also a significant risk in Japan, and flood, mudflow and [storm] surge look to be sharply increasing, perhaps because of global climate change," he adds. Interestingly, although the havoc wreaked by the earthquake was enormous, the Thai floods in the same year had a much greater effect on the operations of many corporations and, certainly, on the Japanese insurance industry.

Another major challenge that was highlighted at the roundtable is people risk. Japan is a country with "some extreme features", according to the global head of customer management corporate life and pensions at Zurich Paolo Marini. "If taking the demographic shifts, Japan is the country with the highest longevity in the world, where people who are born today are expected to live at least until 80 if they are men, and at least to 86 if they are women," he says. "Also, if taking the median age of the entire population, which stands today at 44 years, it is also probably the oldest country in the world." Head of Willis Japan Dean Enomoto says that Japanese companies face risks with ageing staff and their retirement costs. "This isn't only an HR [issue]," he points out. "Many businesses will face strategic, financial and operational ramifications. They need to think more strategically about employee demographics, their interests and needs and align the personnel strategy with the business strategy."

Many risks

Regional tensions and disputes, and political risk involving riots and strikes, have the potential to negatively affect the international expansion of Japanese corporations. The Asian Development Bank's Asian Economic Integration Monitor, a semi-annual review of Asia's regional economic co-operation and integration, points out that Japan is the biggest foreign investor in South-East Asia, and that its companies are increasingly shifting their production chains to the region. The increase in Japanese access to new emerging markets does not come without risk, of course, but head of sales at Zurich Global Corporate Japan Kazuhisa Otani worries that too many Japanese firms "expand their business outside Japan, but don't pay enough care to risks". Head of JLT's Japan office Randall Wada says one such risk is financially catastrophic supply chain disruption. "Japanese manufacturers appear to still be struggling with their development of adequate risk financing solutions for this risk," he adds.

Wada said that another area of risk that troubles him is the general exposure to cyber risks. "The financing solutions available in the Japanese insurance market for this risk are far from adequate, especially for large corporations," he says. Insurance manager at Japan's largest oil and gas exploration and production company Inpex, Yusuke Tanaka, agrees: "Computer network-related risks are looming as potentially catastrophic," he says.

FURTHER READING
StrategicRISK Japan Country Report 2014
http://goo.gl/hvKCcO
Corporates operating in Japan face a disproportionate amount of risks
http://goo.gl/2k1Oo6
New Japan Risk Report highlights country's nat cat exposures
http://goo.gl/7J7jEp

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JLT

ARE BOARDS ON BOARD?

In respect of ERM, the *StrategicRISK* roundtable heard that Japanese companies are generally "behind the curve" compared to Western companies. It was suggested that wisely run Japanese concerns need to put risk firmly on the board agenda, even those risks that board members are least likely to appreciate hearing about. Furthermore, acknowledging that every board member understands things in a different way is a vital step for an effective risk professional, so they can go on to employ a variety of methods to educate and change perceptions of risk in the C-suite.

Director of Aon Japan Bharat Kannan says that the boards of publicly traded Japanese companies were these days "under pressure from various stakeholders and/or required by law to maintain effective oversight of risk management discipline and results within their organisations." President of RMS Japan Yasunori Arage adds that many organisations are addressing board engagement to avoid fatal damage arising from misconduct or scandal, "but it seems unclear if strengthening of risk management has been successfully achieved in most of organisations and is working efficiently".

Head of JLT's Japan office Randall Wada agrees that corporate governance is high on most executives' priority lists. "As the Japanese corporate boards are made to include more external independent board members, this should provide additional impetus on corporate governance," he says. However, Wada adds, known catastrophic risks are often "left unfinanced and basically ignored", and even directors' and officers' insurance coverage can be "woefully narrow and inadequate compared to their global competitors' coverage". "Part of the problem is likely to be structural," Wada explains. "There is generally an absence of a HQ-based risk management function with the authority and mandate to manage and control risk. The vast majority of the largest companies in Japan manage their insurance and their insurer relationships through a wholly owned subsidiary in-house agent. Finally, rarely does the responsibility of insurance purchase fall on the corporate treasury, finance or accounting divisions. Instead, it typically falls under general affairs and is often a part of its management of important shareholder relations."

So is there a strengthening of risk management on the back of stronger engagement from the boards of Japanese organisations? General manager of the insurance consulting department of Mitsui's business engineering division, Takayuki Tanaka, thinks there has been a measurable improvement, as "most listed companies have started to focus on ERM and compliance in recent years, including risk management". "However, from the standpoint of pure risk management, managerial members or boards are also sometimes inclined/keen to just tighten the rules and guidelines in order to stand on the safe side as an organisation," he qualifies.

MALAYSIA


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Malaysia is in an interesting case study for those interested in the development of Asian economies. With a relatively small population, regionally speaking, of almost 30 million, Malaysia has grown to become the third largest economy in South-East Asia. It is now firmly a 'middle-income' country with a record of strong economic performance and poverty reduction. Although rising inflation and fiscal tightening are slightly dampening domestic demand at present, GDP growth is still accelerating. Furthermore, Malaysia's ranking in the IMD *World Competitiveness Yearbook* rose to 12 this year, up from 15 in 2013; Singapore (3) and Hong Kong (4) are the only Asian countries ranked higher than Malaysia.

So, the country is on the road to major growth but, as JLT Malaysia chief executive Michael Leong cautions, it still faces serious obstacles. "Malaysia aims to escape the second-world chasm and join the league of high-income nations by 2020, but the biggest deterrent to this is the lack of skilled human capital," Leong says. "Many industries face an acute shortage of the right talents as brain-drain continues to flow to neighbouring countries, such as Singapore, Hong Kong and even China. A lack of opportunities, talent and skill development and non-competitive remuneration packages are some of the reasons contributing to the shortage." Leong adds the demand is growing for individuals with the required knowledge, skills and capabilities to succeed in globalised sectors. "Malaysia is one of the countries that is most affected by brain drain, a major problem in terms of delivering quality and specialised work through the utilisation of the appropriate talent, but also in terms of being unable to retain current local talent or attract foreign talent," he says.

Vice-president of enterprise risk management at Malaysian media company Astro Overseas Ltd Patrick Abdullah sees the attraction and retention of skilled labour as major challenges facing Malaysia-based corporates. "Being able to bring on board people with the right competency and skill sets with appropriate communication skills are important drivers to ensure that organisations can grow effectively and meet mid-to-long-term objectives," he says. "Organisations that are not able to assess and bring in the right calibre of personnel will eventually compromise their competitive edge."

Of course, companies that lack adequate talent face difficulties in innovating and the threat of stagnation. Lee says this threat is compounded by the fact that Malaysia's education system "is not churning out critical thinkers". Hafsah Zainudin, senior manager, group risk management, Chemical Company of Malaysia, broadens the discussion highlighting a corporation's need to act quickly and innovatively within a fast changing regional business terrain to seize opportunities from risks. "As we adapt to technological changes, we assure ourselves of being relevant in a dynamic environment," she says. "Although adapting and playing catch-up may mean taking the same risks as the rest of the market, disruptive technologies are changing the paradigm of social and technical innovations. [What is key is] our tolerance for taking risks that address real problems."

Future risks?

The chairman of the Malaysian Association of Risk and Insurance Management (MARIM) and vice-president of group business assurance at Telekom Malaysia Mohamad Bin Mohd Zain says it is vital to be mindful of such issues as erratic climatic change risk, the erosion of racial harmony across Malaysian society and even cross-border pandemic. Leong lists some of the new risks that he believes are likely to emerge as: mismanaged urbanisation (leading to environmental damage and pollution, resource scarcity and price volatility, and utility failure and water supply disruption); corruption (incorporating governance failure, policy distortion and lack of competition); increasing competition and competitor innovation; adverse movement in foreign exchange rate; and product contamination in supply chains. He predicts that the growth pressures that the region is currently experiencing will affect the risk landscape as they create large-scale changes over the coming years. "These can be seen as either an opportunity or a threat," he adds.

FURTHER READING
StrategicRISK **Malaysia Country Report 2014 http://goo.gl/fflriz**
StrategicRISK **Malaysia Country Report 2013 http://goo.gl/Qmkl6A**
Regulation: a risk manager's friend http://goo.gl/CGqts7
Future shock in Malaysia http://goo.gl/9c09lH

'Organisations that are not able to assess and bring in the right calibre of personnel will eventually compromise their competitive edge'

Patrick Abdullah, Astro Overseas Ltd

MEASURING THE MARKET

Zalina Jaflus, Malaysia Airports' senior risk manager, says the Malaysian insurance market is becoming "more open, with the regulators being more relaxed and sensitive to clients' or insurance buyers' needs". She adds: "The approvals granted for forming captives are evidence of a maturing market."

With the opening of insurance markets and increased capitalisation requirements, tendencies towards mergers and acquisitions in Malaysia are becoming increasingly apparent, according to Maarof Omar, head of Willis Malaysia. "More and more local insurers are being sold to foreign players, which see this as a growing market," he says. "The insurance brokers may also be heading in this direction." There is still a significant reliance on reinsurance for major risks such as oil and gas, aviation and hull, adds Omar, as well as specialised risk such as financial lines. The current regulatory framework is designed to capitalise on the local capacity to limit reliance on overseas reinsurance, bearing in mind the difficulty in recovering when overseas markets fail, as has been the experience in the past, he explains.

Omar says: "The regulators have introduced risk management frameworks such as risk-bearing capacity to minimise reliance on overseas markets. This is with a view to having a more standardised approach, as well as to having a stronger risk awareness culture among local insurers when placing reinsurance." This, in turn, will lead to a more stable local insurance industry, or so the theory goes. He adds: "There is a need to reposition insurance as a career of choice. In Malaysia currently, it remains a poor cousin of financial institutions such as banking and consultancy. Retention strategies should also be created to attract the right talent into the industry."

Principal officer and chief executive of JLT Malaysia Michael Leong predicts further rate erosions and stiffer competition in Malaysia's insurance marketplace "The market continues to soften, and there are no signs of rates hardening even in specialised risks," he says. "It is a great time for consumers who are looking for rock-bottom prices. Notwithstanding that, rates should increase in the aviation market with the recent air disasters and large claims arising therefrom."

Questions remain about the market's ability to deal with intangible risks such as cyber security. Bernard Lee, head of business continuity and insurance at telecoms company Maxis Communication, says: "Concerns arise about intellectual property – certainly in terms of new technology and manufacturing. We are looking at intellectual property protection from insurers; if more were providing this type of cover, it would be easier for us to get."

MARIM chairman Mohamad Bin Mohd Zain says the Malaysia insurance market is still heavy on pure risk rather than speculative risk, but "most innovation is on the speculative side". He adds: "Insurance is only one solution to the many facets of risk and we cannot see insurance as the only tool with which to manage risk."

PHILIPPINES


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The Philippines has one of the fastest-growing economies in the world, but income inequalities, a growing population and the fact that it lies in the centre of the so-called Typhoon Superhighway – a route that carries about 20 major storms of varying severity across the country each year – make it vulnerable. Vulnerability to typhoons is not a recent phenomenon, but their ferocity and impact appear to be changing. In November 2013, Haiyan became the strongest typhoon ever recorded to hit land as it blew across some of the islands comprising the Philippines. The damage and casualty rate was significant – 6,300 people died – but the toll would have been magnified many times had the strong side of Haiyan struck more densely populated areas.

With about one-third of the population of the country living in or around the capital Manila, there is a concentration of risk that could, if nature conspires against it, cause utter devastation not only to the city and the country's economy, but to millions of its people. At one stage, Haiyan was tracking towards Manila only to shift course as it bore down on the islands. It was a lucky escape that might not be repeated again.

Manufacturing facilities and infrastructure projects are at risk from floods, high winds and storm surges. Many buildings have been reinforced and elevated and the government's disaster planning is evolving continually, yet despite these improvements it is likely not enough protection is in place for a major catastrophic event. "People often talk about climate change as being in the future – in the Philippines, climate change is today," says Jan Mumenthaler, principal insurance officer, International Finance Corporation in the Philippines. "There is an urgent need for businesses and the government to become more resilient, so that communities and businesses can sustain their future. Some areas might become deserted because the risk of living or doing business there becomes too great."

Many economic analysts consider the Philippines to be the "most promising" of the emerging Asian nations, particularly since its debt rating was raised to investment grade in 2013. Some of this financial boom has been fuelled by the rapid growth of service industries. Although the potential for mining and manufacturing is significant, with mineral reserves valued at an estimated US$300bn as yet untapped, business process outsourcing (BPO) is the engine driving much of this economic juggernaut. The BPO sector is currently expanding by about 30% year on year, however, the views about its real impact on the country are mixed. Certainly, it has helped grow the economy, but some question whether it is beneficial for the Philippines in the long term because it attracts highly educated people away from jobs for which they are better qualified but that pay less, if they exist at all. Wider concerns arise that this apparent economic success story might not be all it seems as the country's new wealth is failing to filter through to the majority of its population, who remain desperately poor.

Expanding population

The Philippines is the fourth most populous nation in the Asia-Pacific region but not, perhaps, for long. With Japan's population set to decline while the number of Filipinos increases, it is likely that soon only China and Indonesia will have larger numbers. The population is expanding so rapidly that it is predicted to rise another 20% within eight years and reach 150 million by 2050.

Managing these numbers in a meaningful and effective way will not be easy, as Chris Dale, chief executive of Aon in the Philippines points out. "The government has major issues to address around population growth and access to jobs," he says. "The population growth and economic growth are significant. However, none of this growth is inclusive. I am not talking about inclusive growth in terms of wealth distribution, but in relation to access to education and healthcare."

FURTHER READING
***StrategicRISK*'s 2014 Philippines Country Report http://goo.gl/8oep1w**

'The government has major issues to address around population growth and access to jobs'

Chris Dale, Aon

TOP RISKS

NATURAL CATASTROPHE

Located in the centre of the Typhoon Superhighway, the Philippines is hit by about 20 typhoons of varying severity each year, bringing rain, wind and storm surges. Earthquakes and volcanic activity also provide significant threats.

CLIMATE CHANGE

Linked to an increase in the ferocity and intensity of storms in the region. Typhoon Haiyan, which hit the Philippines in 2013, was the largest of its type ever recorded to hit land. Some 6,300 people died and the overall damage was estimated at US$3bn.

REGULATION

The government of Benigno 'Noynoy' S Aquino, elected in 2010, has sought to crack down on the type of corruption once endemic across the Philippines. A tougher regulatory stance has been central to this policy, which is focused on the enforcement of existing regulation rather than the introduction of new laws. Progress has been slow as the problem was so deeply rooted, but it is starting to have a positive effect.

HUMAN CAPITAL

Up to 10 million Filipinos work outside the country, which raises concerns of a brain drain removing the best minds from the country. Attracting and retaining the right talent is a serious issue for companies as the Philippines seeks to sustain development.

EDUCATION

Greater investment in education is needed to benefit the general population, particularly those in poor or remote communities. More technical skills are required to support the country's economic growth.

SUSTAINABILITY

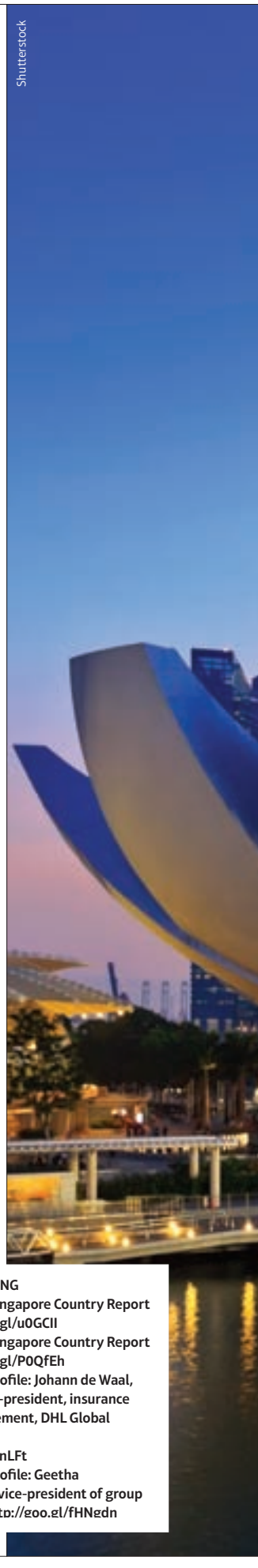
GDP growth has been about 7% since 2012, but maintaining this rate will be difficult owing to an uneven economy that concentrates on services – particularly business process outsourcing. State investment is needed or provisions should be made to allow new private-sector investors to develop manufacturing and other industries. Also, the wealth created by the current boom is still concentrated among a small number of groups and has not filtered through to ordinary Filipinos.

Competing with other countries in the region the Philippines might be enjoying an economic boom, but it is not the only country within the Asia-Pacific region to do so. Competitor nations such as Vietnam and Indonesia potentially offer more flexibility and opportunity for business.

REPUTATION

The importance of a strong brand has been recognised in the Philippines for many years. Now businesses are starting to realise the significance of reputational issues in terms of enhancing their status and also the associated risk of damage.

SINGAPORE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Singapore is a country with a keen focus on service industries, a fact that has an enormous impact on its risk landscape. Although some of the primary risks faced by businesses based in or operating from Singapore are not defined by geographical boundaries, several issues are of particular concern to risk professionals in Singapore. One of the most pressing is cyber risk. Singapore's success as a global financial centre and international business hub has long been underpinned by its reputation as a politically stable, low-risk location. However, gaping holes in the country's cyber security defences are now threatening Singapore's reputation as a safe place to do business, according to founder and chief executive of the strategic intelligence, risk and security management firm KCS Group Stuart Poole-Robb. "A lack of awareness of the high level of cyber security threat the country is now facing, coupled with a chronic lack of cyber security professionals, is leaving many organisations at risk from cyber crime and industrial espionage," he says.

Many of the risk and insurance professionals *StrategicRISK* consulted list cyber risk as their top concern for Singapore, including Microsoft Asia's chief security officer Pierre Noel, who says it is "increasingly becoming top of mind discussion at board level". Noel sees a dangerous shortage of talent in related disciplines. "Singapore is short of more than 30,000 IT and IT security practitioners, inducing… poaching," he warns. Head of Marsh Singapore Iris Teo highlights data privacy risk: "With the implementation of the Personal Data Protection Act 2012 in Singapore, firms now have a regulatory reason to take this risk seriously," she says. "It has become a boardroom issue, and we expect this to continue and escalate into the future."

Fellow broker Peter Jackson, who heads up of Lockton Companies Singapore, flags political risk as a pressing concern. "As Singapore-based and multinational companies expand across Asia and invest into building critical assets, they are vulnerable to political risks… not only confiscation or expropriation, but changes to legislation, forced abandonment, embargo, non-payment and so forth. Few countries in Asia are immune from political mood swings that could cause damage or loss of business for Singaporean business."

Director of Tunstall and Associates, Steve Tunstall believes there is "massive understatement" about geopolitical risk in the region. "Singapore is one little red dot in a sea of green, as is calls itself, so issues arise in terms of managing relationships," he says. "However, it is fair to say that all the players in that game understand the rules and they tend to get along well. So comparative stability going forward is the main issue."

Reputational risk

Another risk area highlighted by almost all risk and insurance professionals *SR* spoke to is reputation. Indeed, vice-president of group risk at Barclays Bank Geetha Kanagasingam sees reputation as a company's most valuable and fundamental asset, which takes the company years to build. "It must be effectively managed as [reputational damage] can be significantly detrimental to the organisation," she says. Looking forward, Kanagasingam predicts that the primary focus of Singapore-based corporates in coming years will "probably be geared towards cyber risks, fraud risks, catastrophe risks and regulations risks". Singapore-based governance and risk manager Eric Lee says change will continue to be the only constant. "Given the dependency of Singapore on the much bigger economical environment, global uncertainties such as the opening up of Myanmar, the slower growth of China, political changes in Thailand and EU recovery, will all affect how companies operate here, bringing new risks," he says.

FURTHER READING
StrategicRISK **Singapore Country Report 2014 http://goo.gl/u0GCII**
StrategicRISK **Singapore Country Report 2013 http://goo.gl/P0QfEh**
Risk manager profile: Johann de Waal, Asia-Pacific vice-president, insurance and risk management, DHL Global Business http://goo.gl/46nLFt
Risk manager profile: Geetha Kanagasingam, vice-president of group risk, Barclays http://goo.gl/fHNgdn

'As Singapore-based and multinational companies expand across Asia and invest into building critical assets, they are vulnerable to political risks'

Peter Jackson, Lockton Companies

NO NAT CATS?

Although Asia in general is known for its vulnerability to natural catastrophes, such as earthquakes and tropical storms, Singapore is fortunate to lie outside the most serious danger zones. However, risk managers should guard against complacency.

Daniel Tan Kuan Wei, second vice-president of the Risk and Insurance Management Association of Singapore and convenor of the National Risk Management Working Group, raises the issue of air pollution, pointing out the 2013 haze that reached hazardous levels in Singapore was unprecedented and unexpected. "Most companies were relatively 'blind-sided' by the haze crisis, and were reactive in formulating appropriate action plans to manage continuity of outdoor work processes," he says. "However, companies have since weathered the crisis and come out more resilient than before." Following the incident, he says, most firms increased their preparedness, stocking up on key supplies and strengthening policies regarding staff protection and outdoor work instructions corresponding to the pollutant standards index.

Singapore-based governance and risk manager Eric Lee says that companies with operations purely in Singapore have been naturally insulated from natural catastrophe risks. "However, with increasing ventures into overseas markets, there will be greater emphasis on ensuring that this is managed," he says. "The sudden exposure from a relatively safe environment to one with greater volatility might be unnerving and some companies might not be able to adapt to this change. This is further complicated by the integration of global supply chains."

Vice-president of group risk at Barclays Bank Geetha Kanagasingam says it is dangerous for Singapore-based corporates to underestimate natural catastrophe risk. "Many corporates in Singapore have business interests in many other countries within Asia, by way of business partners, affiliates or even suppliers, so inevitably this has taught the corporates in Singapore to be more vigilant and increase their preparedness, including resilience to natural catastrophes," she says. "It has also ensured that during the renewals of the insurances, corporate risk managers negotiate for better insurance coverage for property damage, especially business interruptions to adequately protect their businesses and meet the corporates' needs in the event of a natural disaster."

As head of Marsh Singapore Iris Teo understands Singapore is not a natural catastrophe market, but since it is a favoured location for regional headquarters and is an (re) insurance hub, catastrophe risk is always front of mind. "One area that is critical is underinsurance," she says. "Marsh is undertaking an initiative to ensure companies undertake proper, independent asset valuations so they can determine sufficient sum insured values."

However, Lee says insurance should be viewed only as a safety net against worst-case scenarios. "Additional measures such as greater business continuity planning (BCP) should also be enforced and not neglected," he says. "One practical element of BCP is to tap into the knowledge of the locals as they will likely have encountered similar nat cat situations in the past and can draw lessons from these experiences."

Indeed, head of Lockton Companies Singapore Peter Jackson says he has seen a change in attitudes to business interruption within the business and with suppliers and customers. "What would help is a better understanding of the effects of natural catastrophe on businesses and availability of data," he adds.

THAILAND


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The 2011 floods are still present in Thailand's collective memory and, as such, the possibility of a new natural catastrophe striking the country lurks on the edge of national consciousness. However, the real and present danger that is impossible to ignore is the country's current political instability.

When asked to name the major risks faced by Thailand in 2014, the director of governance, risk management and compliance at grocery and general merchandising retailer Big C Supercenter Phatchada Muenthong listed three issues directly related to his country's political problems. "External environment, which includes political instability, change in government policies and economic instability," he told *StrategicRISK*.

The managing director of JLT Thailand Andrew Minnitt said that ongoing political instability in the country was making it incredibly difficult for risk managers and business owners to accurately forecast performance and the risk of physical damage from protests. "This weighs heavily on their minds when it comes to considering production volumes and feedback to customers and their markets," Minnitt said. "It also means that the finance teams need to closely watch exposures to foreign currencies and the effect such gains and losses might have on the company's performance."

The managing director of Howden Broking Group's retail businesses in Asia, V Harikes, also put political uncertainty at the top of his risk list, pointing out that Thailand has suffered from recurrent political instability since 2006. "The Red Shirt riots in 2010 are still fresh in everyone's minds following the large losses caused to business and tourism," Harikes said.

Beyond political risk, other factors influencing decisions of major corporates operating in Thailand include supply chain risk, according to Minnitt. "Ensuring the various members of the supply chain have their own matters in order with regard to quality, volumes, labour, insurance, liabilities, warranties and so on, remains a key concern for risk managers," he said. "Balancing local and foreign suppliers and customers, and varying these accordingly, is taking up a lot of time nowadays. Price is no longer the only consideration."

Minnitt also pinpoints reputation/brand damage risk as of great concern. "The ever-expanding world of social media and the ease of its access means that with potential for positive and negative consequences, managing events to protect the reputation of an organisation and ultimately its brand, is a key concern," he said. "There are insurance products to help with this now and it is receiving more and more attention from clients."

Currency fluctuation

Harikes warns that the Thai baht has fluctuated in the past couple of decades, and foreign exchange risk is ever present. "A recent cut in interest rates and a slight downturn in the Thai market has seen the Thai baht devalue by 15% in the past 12 months against the US dollar," he said. "Although the recent devaluation is beneficial to exporters and helps stimulate the economy, it is putting increased stress on businesses that rely on imports."

Natural catastrophe risk is also on Harikes' mind, and he points out that Thailand experiences high rainfall year after year, resulting in numerous localised flooding losses. "In 2011, heavy rainfall saw widespread flooding in 65 provinces with 21,000km^2 of farmland damaged, resulting in estimated losses totalling [about] US$50bn," he said. Another example was the impact of the 2004 tsunami, Harikes said. "The effect on tourism…was greatly felt, with tourists only starting to revisit the area in significant numbers in the past couple of years," he added.

Executive vice-president of Aon Thailand Yoottana Kingkawkantong adds an additional issue to natural catastrophe risk, pointing out that drought not only affects the agricultural sector but can also "create a shortfall of water supply to meet industrial needs".

FURTHER READING
StrategicRISK **Thailand Country Report 2014 http://goo.gl/0TaHND**
StrategicRISK **Thailand Country Report 2013 http://goo.gl/QEZ1Xq**
Lessons from a past master of disaster http://goo.gl/eWTqPp
A view of the risk landscape in Thailand – according to its risk professionals http://goo.gl/XtZSdO

SUPPLY CHAIN DISRUPTION

It is common knowledge that extensive flooding floods wrecked the infrastructure of large parts of Thailand in 2011, and it is now better appreciated that such devastation threatens to return every monsoon season. Of course, monsoons are nothing new in this part of South-East Asia, but so serious were the events of 2011 and their consequences that they have become synonymous with the concept of supply chain interruption.

Before the floods, insurance was "the last thing people thought of", says executive vice-president Aon Thailand Yoottana Kingkawtantong. "After the flood many people found they were not insured, particularly in terms of business interruption exposure," he says "The landscape has also changed from the perspective of insurers. In the past, nobody realised a flood could affect so many places in the Thailand at the same time. Now, insurers have had to change their views on catastrophic loss events in Thailand."

Nevertheless, Kingkawkantong cautions that Thailand is in danger of becoming complacent in respect of natural catastrophes. "It seems that the focus is now on political problems rather than the natural catastrophe risk," he observes. "The government's efforts to implement water management seem to be plagued with the concerns of transparency on the project implementation. Owing to that, [there is] more weight on this] than concern for the natural damage that may be encountered in the near future."

Managing director of Howden Broking Group's retail businesses in Asia, V Harikes observes that, prior to the 2011 floods, the Thai market was almost always able to offer full value limits for natural catastrophe. "Reinsurers viewed the natural catastrophe risk in Thailand as minimal, so full limits were offered at cheap rates," he says. "Following the 2011 floods, sublimits were imposed on all natural catastrophe risks, with flood cover attracting multiple increases in premium. Although, in the following years, premiums fell back to pre-flood pricing, flood and other natural catastrophe sublimits still remain in force."

Managing director of JLT Thailand Andrew Minnitt has observed that the key post-2011 change made by many of JLT's clients has been in the level of physical flood protection that is now in place at their sites. "Although these physical site protection measures are aimed primarily at flood risk, they have also served to heighten the attention all forms of physical risk are attracting, and that's an obvious benefit for all parties to the insurance contract," he says.

Head of Marsh PB Co Ltd, a unit of Marsh in Thailand, Duncan Buchanan says that the 2011 floods raised awareness of "the need to be adequately insured, to focus on risk mitigation, and to use the professional services of brokers to assist in insurance program design and risk management".

Wattana Wongvisesnopakun, executive chairman Lockton Wattana Insurance Brokers puts it another way: "[The floods were] a wake-up call to the market that the idea that looking at risk from a certain factor, area or concentration of property is no longer valid. [This was] a county-wide disaster, looking at something that would be far bigger than what the insurance industry would consider to be its maximum loss."

VIETNAM

When *StrategicRISK* held its Vietnam risk management roundtable in Ho Chi Minh City, the country's risk managers and insurance professionals in attendance had plenty to discuss. Challenging economic conditions, supply chain disruptions, regulatory changes and natural catastrophes are all major challenges to corporates operating in Vietnam.

Roundtable contributors generally agreed that Vietnam's top risks were primarily economic, with inflation, interest rates and integration into regional and global economic development all of concern. An overheating economy, global economic failure and price volatility are viewed as threats to the country's economic wellbeing.

Many expressed the opinion that only a few corporations were actively managing market risks, with interest rate and foreign exchange risks causing large swings in firms' profit and loss statements. "We're in a relatively low interest rate environment, which is good from a corporate perspective but [it is unclear] how many are thinking in the medium- to long-term if those interests rates increase," one participant said. Chief risk officer at leading dairy producer Vinamilk Nguyen Trung said that risk was "a new concept" in Vietnam. "Major shareholders perceive risk in a way that is different from the board of management and short-term investors," he added.

Supply chain disruption was another major point of discussion at the roundtable, with water and electricity scarcity, labour imbalances, outsourcing and natural disasters all seen as threats. The head of Ho Chi Minh City-based insurance brokers Gras Savoye Willis Vietnam Philippe Robineau said that as major natural catastrophes such as landslides, typhoons and monsoonal floods were concentrated in the centre of the country, "capacity becomes a problem and risk management the solution".

Although "storms come and go and their frequency can be predicted", as one participant put it, it is often the unexpected threat that is the most damaging. The 2014 Chinese oil-rig incident and resulting riots are a case in point, causing US$300m in insured losses out of a market of about US$1bn in premium. The head of Asia analysis and forecasting at IHS Country Risk Omar Hamid points out that the riots were the largest and most violent since the 1979 Sino-Vietnamese border war, resulting in the deaths of three Chinese nationals, hundreds of factories being wrecked or looted and thousands of Chinese nationals evacuated by the government.

Regulatory concerns

Regulatory change is another risk of concern to Vietnam's risk professionals. One roundtable participant called the volume and frequency of legal change in the country "relentless", while the perception appeared to be that regulatory change was not servicing and supporting business. "The [government] can always find a grey area with which to squeeze [firms]," was one comment. A good example is the new bidding law that came into effect on 1 July 2014, aimed at, among other things, consolidating bidding-related regulations scattered among various laws, streamlining the bidding process and improving the competitiveness of Vietnamese contractors. Foreign contractors must now partner with domestic contractors or employ domestic sub-contractors in their bidding projects in Vietnam, unless domestic contractors do not have capacity to participate in any part of the bidding package. Previously, this requirement applied only to foreign contractors in the construction sector.

Human capital risk also worries Vietnam's risk professionals. The retention of skilled and talented people is a particularly major problem. "Once they are trained, employees will be poached," as one participant put it. "People with some experience will generally move quickly if a higher offer is provided," said another. Keith Pogson, the global assurance leader for banking and capital markets at EY, sees the main challenge as sourcing and keeping skilled talent who "fits into the way in which the market operates". "Not only is [the challenge to] bring the knowledge and the know-how, but it's also getting people with the experience and the knowledge of how it works in Vietnam," he said.


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FURTHER READING
***StrategicRISK* Vietnam Country Report 2014 http://goo.gl/BQv290**
Natural catastrophe is the big issue http://goo.gl/cKNxWM

'Major shareholders perceive risk in a way that is different from the board of management and short-term investors'

Nguyen Trung, Vinamilk

TOP RISKS FACING LARGE CORPORATES IN VIETNAM

According to VinaCapital's head of risk and compliance Ly Xuan Thu:

1. **Economic conditions (overheating economy, global economic failure and price volatility)**
   Currently, many factors contribute to this concern, for example, the government setting up a company to buy back non-performing loans from local banks and the balance between inflation risk and reasonable economic growth. Besides that, the government restructuring state-owned enterprises to accelerate the equitisation process.
2. **Supply chain disruption (water and electricity scarcity, labour imbalances, outsourcing, natural disasters)**
   There is a threat of natural catastrophe every year in Vietnam, particularly in central Vietnam.
3. **Regulatory changes (compliance)**
   Vietnam is a member of the Association of Southeast Asian Nations and the World Trade Organization and the next step is to join the Trans-Pacific Partnership (TPP). Vietnam needs to look at the regulatory issues and adapt with the requirements of development as soon as possible, which is a major challenge.
4. **Human capital (retention and acquisition of talent, succession plan, income disparity)**
   Vietnam is making an effort to integrate with the international and regional environment but still encounters labour imbalances and human capital scarcity, particularly with skilled labourers. For example, it is difficult for international companies to fill top management positions with local Vietnamese, so they have to hire expatriates to fill top management positions. Vietnam needs to consider how to fill this gap in the future.
5. **Natural catastrophe (extreme weather, climate change)**
   Some big companies in Vietnam ask for complete insurance policies for supply chain systems from manufacturing until delivery covering high-risk areas that are often affected by natural disaster. However, this does not mean that companies do not have any mitigation risk strategies to reduce their loss.
6. **Market risk (foreign exchange, interest rate, investment development)**
   Mainly linked to capital markets, like the stock index that is up and down every day, always in an unstable condition.
7. **Failure to innovate (technology)**
   Particularly for the local companies when they need to compete with multinationals. For example, most Vietnamese consumers still prefer foreign products rather than local brands.
8. **Reputational damage**
   In my view, reputational risk is very important with foreign companies because they know the value of goodwill assets, and reputation is a big goodwill asset for a company. Currently, local companies do not consider it a key risk for them, because they are not multinationals at this stage.
9. **Cyber threats and vulnerabilities (hacking attacks, data loss)**
   The government is beginning to become aware of this with more attacks on online trading, so it will pass a new law on this.
10. **Globalisation (TPP)**
    The strategy is to open the markets to multinational markets, but as well as benefits this will bring challenges for the country, particularly for small- and medium-sized companies that might be hurt by this programme because of the lack of competitive advantage to compete with multinationals. Vietnam needs to think about how to build a framework to protect the small- and medium-sized companies.