StrategicRISK

ASIA RISK REPORT

THE TOP CONCERNS OF ASIA-PACIFIC RISK MANAGERS

REPUTATION
NATURAL CATASTROPHE
REGULATION
HUMAN CAPITAL
CYBER
ECONOMIC
POLITICAL

IN ASSOCIATION WITH

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DIFFERENT RISKS, BUT SIMILAR CONCERNS

Welcome to the Asia Risk Report, *StrategicRISK*'s most extensive pan-Asia research project to date. It is the culmination of a series of country-specific events that focused on the risk-management challenges facing Australia, Hong Kong, Indonesia, Malaysia, Singapore and Thailand.

Indeed, the *StrategicRISK* team has been busy travelling to various locations across the Asia-Pacific region to host a series of roundtable discussions 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.

We identified the primary risks faced by organisations operating in each country, then we examined how risk managers are dealing with them … or not, as the case may be.

In the course of this project, we discussed natural catastrophe risk in Hong Kong as Typhoon Utor bore down on the city. And we landed in Singapore during a fierce thunderstorm that drenched the city and almost blew us off the runway.

We discussed the impact of the Thai government's first-car tax rebate scheme on pollution, traffic and other industries after negotiating Bangkok's grinding gridlock. Protests filled the streets of Bangkok soon after, reminding us of the country's current political instability. On that note, political posters in Indonesia pointed to the uncertainty surrounding the implications of 2014's presidential election, which means that most major investment is likely to remain on hold until the result of the poll is known.

After a sunrise drive from Kuala Lumpur to Melaka that took us past countless palm-oil plantations, we considered the impact of deforestation and forest fires on Malaysia's economy, people and the palm-oil industry itself. Then came the roundtables held in Australia, during which scores of bushfires burned out of control in the mountains west of Sydney.

We found that while each country has specific risks that are of particular interest, risk professionals across the region do share several concerns. Major risks faced by all include general economic conditions, failure to innovate and reputation damage, followed closely by regulatory change, natural catastrophe and cyber threats and vulnerabilities. People risk – specifically the retention and acquisition of talent – is a key area of concern, while contractual risk, supply chain disruption and political uncertainty are all well and truly on risk managers' radars.

We hope that this report will assist Asia's risk professionals to outline to senior executives the kind of threats that they should be anticipating (and hopefully side-stepping). In the end, it is about risk professionals asking appropriate and searching questions of their businesses and proposing innovative solutions to the challenges they face.

Sean Mooney,
Asia editor,
StrategicRISK

'WE ARE SEEING MORE AND MORE LOCAL FIRMS TAKE UP RISK ENGINEERING'

A CHANGING RISK LANDSCAPE

Asia can be a conundrum for multinationals. This hugely diverse region is full of growth potential; companies are embracing expansion here in ever growing numbers. Yet risks throughout the region are both increasing and becoming more complex, presenting corporates with unique challenges. It is a high stakes game of what one could call GDP against RRP (rising risk profile).

Urbanisation continues apace; people are flocking to cities. In the coming years up to 80% of the global population will be living in high-risk areas and this is particularly acute in Asia, where many fast-growing cities are in coastal areas and/or on fault lines.

'Up to 80% of the global population will be living in high-risk areas'

While the trend is for Asian populations to concentrate themselves in fewer and riskier conurbations, the number of natural catastrophes is rising and Asia accounts for almost one-third of global natural catastrophes. What is more, the impact of these disasters is becoming more costly.

Globalisation and the interconnectedness of markets also mean that a disaster hitting one Asian country can have a domino impact on a multinational's global operations. Thailand's floods in 2011 brought into sharp focus the vulnerability of global supply chains, particularly in the automotive sector. To counter this threat, more local firms are using mapping services to help them choose safer locations for their factories.

This backdrop of increasing exposure to risk requires a new approach to risk management. Gone are the days when liabilities could be purely segmented into areas such as marine, property and directors' and officers'. Today, corporates must understand that their best means of reducing exposure is to scan the full horizon of risks and find comprehensive solutions.

Risk engineering has played a major role in helping to achieve a greater level of understanding. At Zurich, we now have more than 900 risk engineers across the globe who support our customers in identifying and assessing the types of risk that threaten their business continuity, and assist them in defining tailored, appropriate improvement and mitigation actions.

A major priority for the insurance industry in the region is to educate corporates to adopt a thorough risk management mind-set. Businesses in Asia-Pacific (with the notable exception of Australia, Hong Kong, Singapore and Japan) are comparably less aware of the risks they are exposed to compared with their counterparts in more mature markets such as the US and Western Europe.

However, as the understanding of the impact of risk increases, we are seeing more and more local firms take up risk engineering, mapping tools and taking action to mitigate risk.

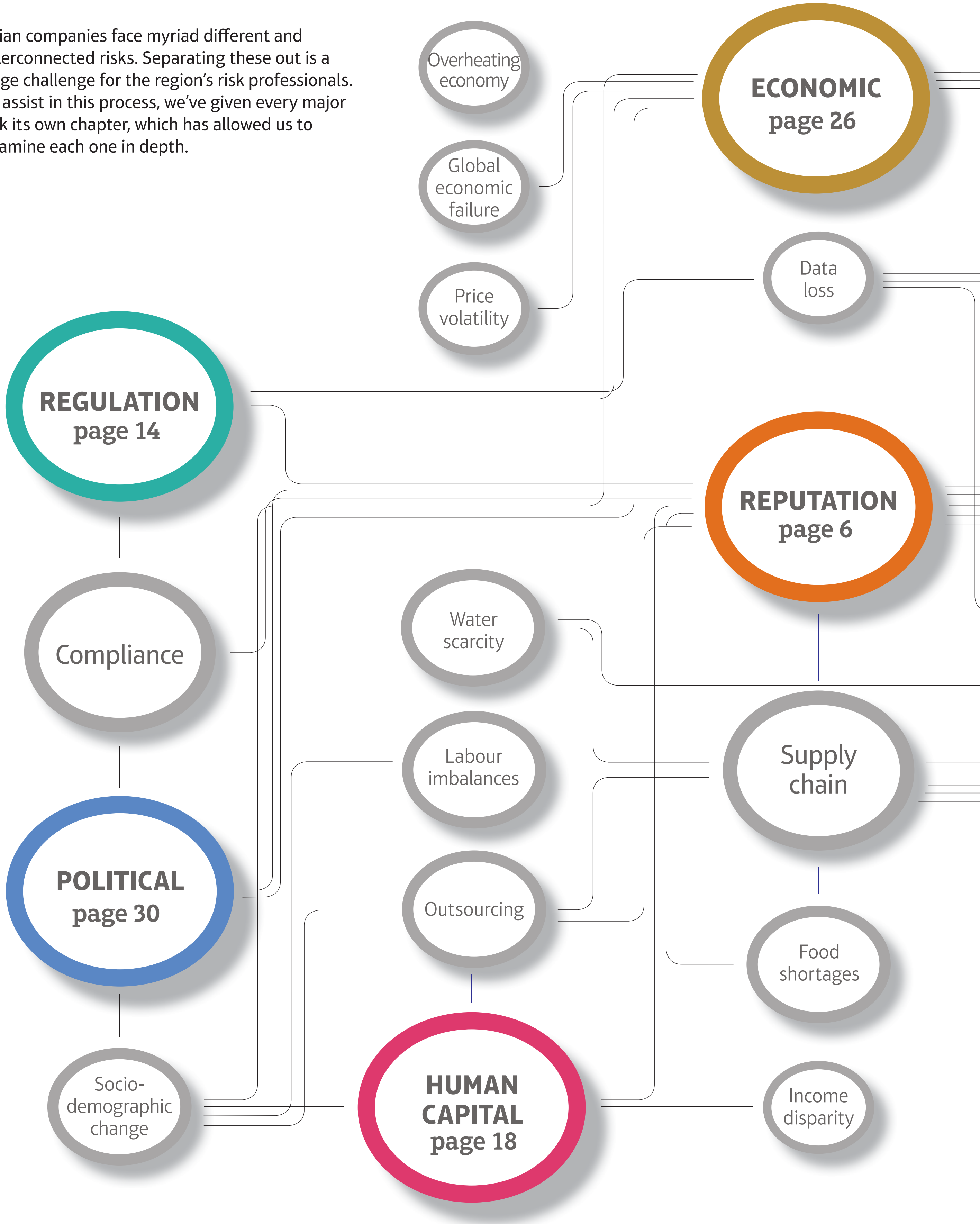
A changing and less predictable regulatory landscape also presents corporates with added complexity to managing their risks across multiple markets. It is now, more than ever, critical that risk managers and insurers are equipped with the necessary local knowledge of the countries in which they operate.

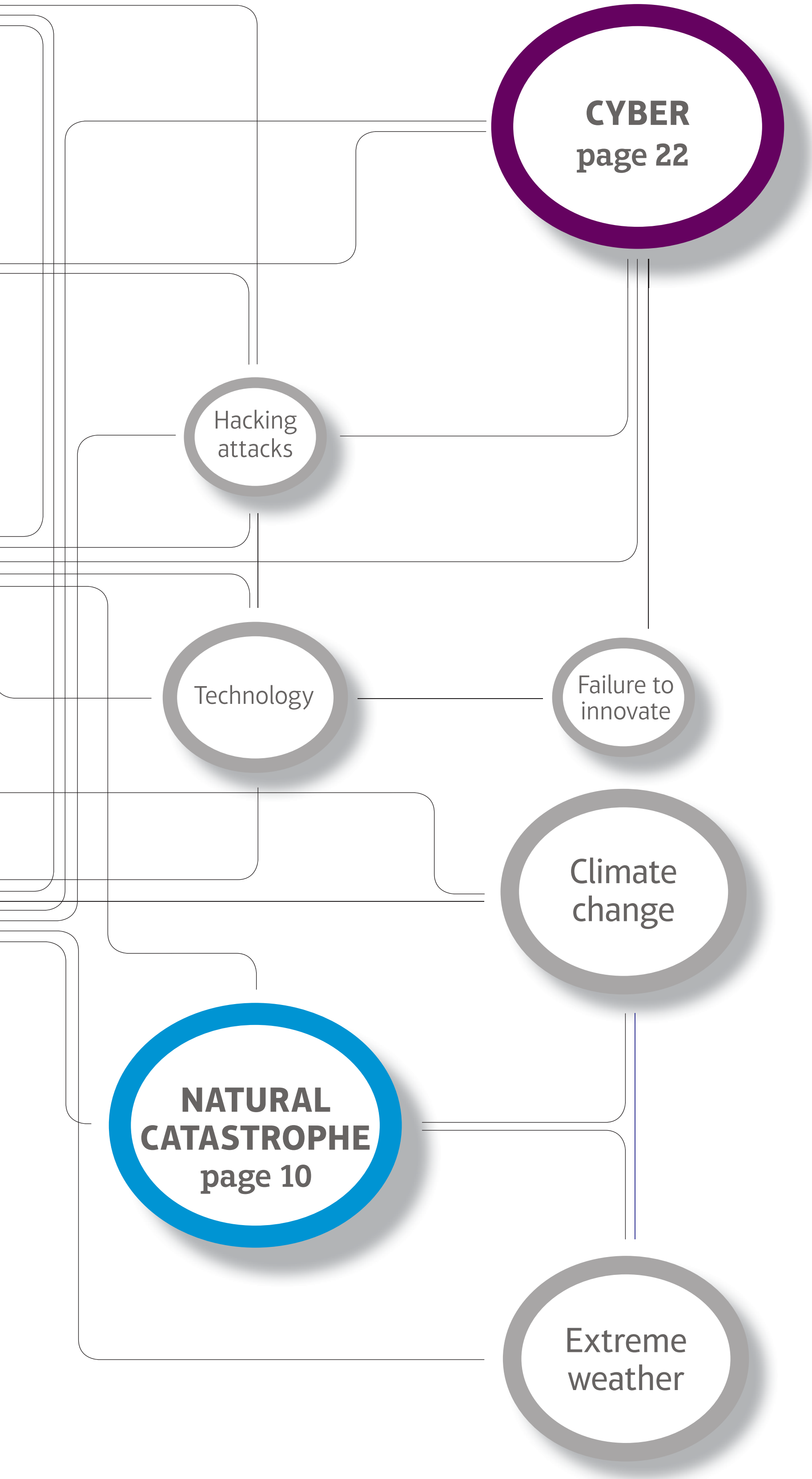
Additional factors such as ageing populations, especially in Japan and China, greater scrutiny and accountability of management teams and the prevalence of outsourcing to markets where IT systems may not always be robust, make Asia a uniquely fascinating challenge – and opportunity. To capture those 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.

Keith Thomas,
chief executive, Zurich Global Corporate business in Asia-Pacific

THE RISK LANDSCAPE

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





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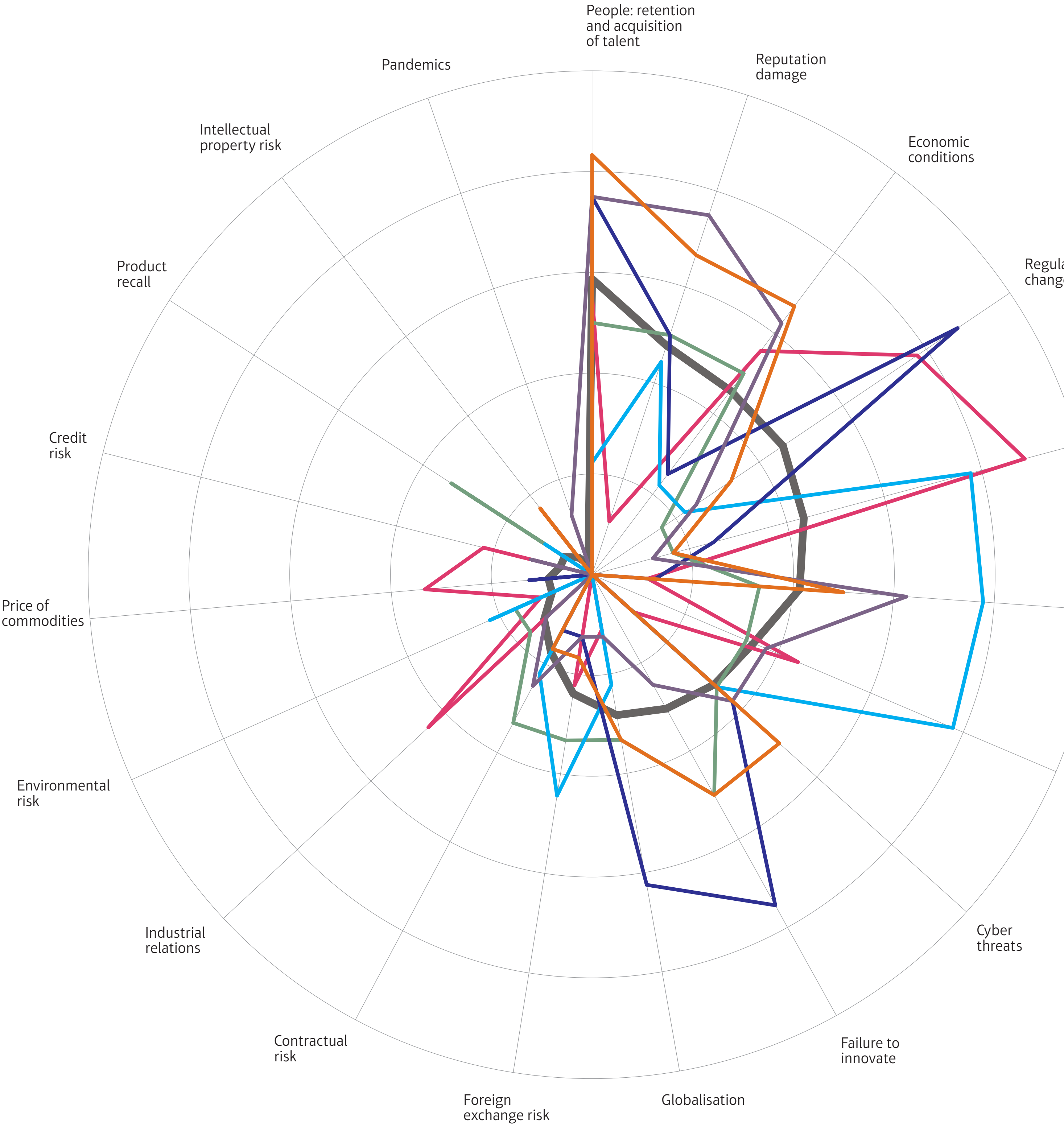
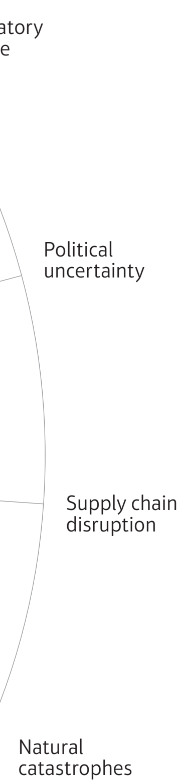


The perception of risk is proportionate to how far it is from the centre of the spidergraph. The nearer to the outside edge, the bigger the concern



TOP 5 RISKS BY COUNTRY

Indonesia
1 Political uncertainty
2 Regulatory change
3 People – retention and acquisition of talent
4 Economic conditions
5 Industrial relations

Australia
1 Economic conditions
2 People – retention and acquisition of talent
3 Failure to innovate
4 Reputation damage
5 Contractual risk

Hong Kong
1 People – retention and acquisition of talent
2 Reputation damage
3 Economic conditions
4 Supply chain disruption
5 Natural catastrophe

Malaysia
1 Regulatory change
2 People – retention and acquisition of talent
3 Failure to innovate
4 Globalisation
5 Reputation damage

Singapore
1 People – retention and acquisition of talent
2 Economic conditions
3 Reputational damage
4 Cyber threats and vulnerabilities
5 Failure to innovate

Thailand
1 Natural catastrophe
2 Supply chain disruption
3 Political uncertainty
4 Reputation damage
5 Foreign exchange risk

Asia-Pacific

TOP RISKS FACING BUSINESS IN ASIA-PACIFIC

StrategicRISK and Zurich hosted a series of events across Asia in 2013.

Roundtables were held in Singapore, Malaysia, Hong Kong, Thailand, Australia and Indonesia, attended by the region's leading risk managers and brokers.

Held between July and November, the focus of each event was to determine the key threats – and opportunities – that risk professionals operating in each country considered most important.

StrategicRISK conducted extensive research among the wider risk community in each nation – and the results of this can be seen in this spidergram (left) where the perception of risk is proportionate to how far it is from the centre of the graph. The nearer to the outside edge, the bigger the concern.

Taking each country in turn it is clear that human capital – specifically retention and acquisition of talent – ranks highly among the worries of risk professionals in Singapore.

Reputation issues are a big concern in Hong Kong, while regulation is a key talking point in Malaysia.

And with elections looming in 2014, it is hardly surprising that political risk ranked highest in Indonesia.

Had polling taken place a few weeks later, however, Thailand may well have challenged Indonesia on political uncertainty after the dissolution of parliament and a snap election was called. Instead, supply chain and natural catastrophe ranked highest, primarily as a result of reaction to the 2011 floods.

Risk professionals in Australia were more even in their risk assessment, with no single risk significantly outweighing the rest, although human capital, reputation and failure to innovate were all strong contenders.

The findings from our research are considered in more detail throughout the rest of this Risk Report and are backed up with a series of expert insights and thought leadership.

More country-specific information can also be found by going to our dedicated Risk Report website hub, where each of the six national risk reports can be read in full at **www.strategic-risk-global.com/AsiaReport**

StrategicRISK polled leading brokers and risk managers across the Asia-Pacific region. Here are their top 10 risks

BROKERS		RISK MANAGERS
People: acquisition and retention of talent	1	People: acquisition and retention of talent
Reputation damage	2	Regulatory change
Supply chain disruption	3	Economic conditions
Political uncertainty	4	Political uncertainty
Regulatory change	5	Failure to innovate
Natural catastrophe	6	Reputation damage
Economic conditions	7	Cyber threats and vulnerabilities
Cyber threats and vulnerabilities	8	Foreign exchange risks
Foreign exchange risk	9	Globalisation
Failure to innovate	10	Natural catastrophe

REPUTATION

Avoiding reputation damage is an area that is gaining serious traction among risk managers in Asia. One crucial difficulty companies face is staying ahead of situations that might cause problems. This is tough enough when dealing with the mainstream media and almost impossible in the age of instant, uneditable social media, when one word could ruin a brand

THE BEST CURE IS PREVENTION

Social media is the biggest threat to the reputations of firms operating in Asia. So say almost all risk managers, brokers and insurance professionals consulted for this report.

The head of Willis Asia, Adam Garrard, says reputation risk is made particularly complex and potentially catastrophic by "instant media and social networking".

"It is difficult to predict its source and difficult to remedy its impact," he says. "It can manifest itself from the smallest source in the remotest location. In short, it is the boardroom nemesis; silent, deadly and invisible. A formidable foe for even the best-governed corporations."

The sheer speed of communication is another reason why reputation is now such a prominent risk, says Schneider Electric's group insurance risk manager for the Asia-Pacific region Juliette Gelpi. "Things move very quickly … and you have to be very strong on reputation," she says. "We have to be better than our competitor in terms of the way in which we communicate with the markets."

Zurich's regional head of international customer, distribution and marketing Asia-Pacific Dylan Bryant agrees. "Previously, you could have an incident and it would take six months for everyone to find out, and by that point you've fixed it and you're moving on, and you've got a positive outcome to develop," he says. "Now the same problem could be on social media within minutes." As Hong Kong Aero Engine Services enterprise risk manager Kevin Rookes puts it: "Reputation takes a lifetime to build and seconds to lose."

Risk consultant at Indonesian firm Astra International Duma Irene Mitalevanie points out that Indonesians are "the biggest and the most active users of free social media accounts (such as Facebook, Twitter and Path) in the world, so that all kinds of information can be spread quickly and easily".

Head of treasury and risk management at Australian company Service Stream Mark Tomkinson feels that social media is well on its way to superseding traditional media forms across the region when it comes to impact on reputation risk. "Social media … will soon dominate the more traditional news agencies, which may have devoted at least some resources to checking the accuracy of stories before releasing [them]," he says. "Companies increasingly face the prospect of trial by social media over coming years where the motive of the story provider can be anything from a legitimate political agenda to simply bad service at a company's store or on their particular plane."

Lockton Wattana Insurance Brokers (Thailand) executive chairman Wattana Wongvisesnopakun says "the best cure is prevention".

"Business has to make sure it has a tight operation that would not allow any mistakes to happen in the first place," he says.

"A well-thought out and consistent corporate social responsibility strategy and activities have to be maintained to showcase the organisation's good image to the public. A sensible crisis-management plan should be put in place to control and mitigate any adverse reputation issues."

Reuters

Reputation takes a lifetime to build and seconds to lose

Kevin Rookes, Hong Kong Aero Engine Services enterprise risk manager

RISK: GUILT BY ASSOCIATION

Intercontinental Oils and Fats is a palm-oil company that manages and operates plantations, mills, refineries and oleochemical plants. When excessive smoke haze affected the Singapore/Malaysia region in June 2013, Indonesian agricultural companies including palm-oil entities immediately became the suspects. However, Intercontinental Oils and Fats was not one of the companies named as a possible culprit.

IMPACT

The company's head of insurance programmes and training, Gabriel Chew, says that the haze created a negative impression about his company among underwriters and companies, "even if they are not exposed to losses arising from plantation fires. While those negative impressions are probably not going to manifest themselves as anything materially damaging, they should not be disregarded".
He added: "If our insurance programmes remain profitable, or if markets do not suffer major losses from writing our business, the recent haze saga is not likely to cause us any more pain. But a poor loss record combined with the perception that we were partly responsible for the haze can create a long-lasting image of an incorrigible insured."

ACTION

"If we had been required to respond officially, we might have had the chance to publicise that we had RSPO [the Roundtable on Sustainable Palm Oil] certification measures in place to ensure we did not contribute to the haze," says Chew. "Finding a permanent solution to say that we're not responsible for the haze problem is challenging. I can't think of a permanent solution for dealing with the reputational fallout from such incidents because they come and go. For us, publicising the fact that we are RSPO certified should help, but getting that message out is the challenge. The only thing we can realistically do is to keep our house in order."

A sensible crisis-management plan should be put in place to control and mitigate any adverse reputation issues

Wattana Wongvisesnopakun, executive chairman, Lockton Wattana Insurance Brokers (Thailand)

A haze envelops Singapore's skyline on 19 June. The smoke, from land clearing in Indonesia, was erroneously blamed on palm-oil companies

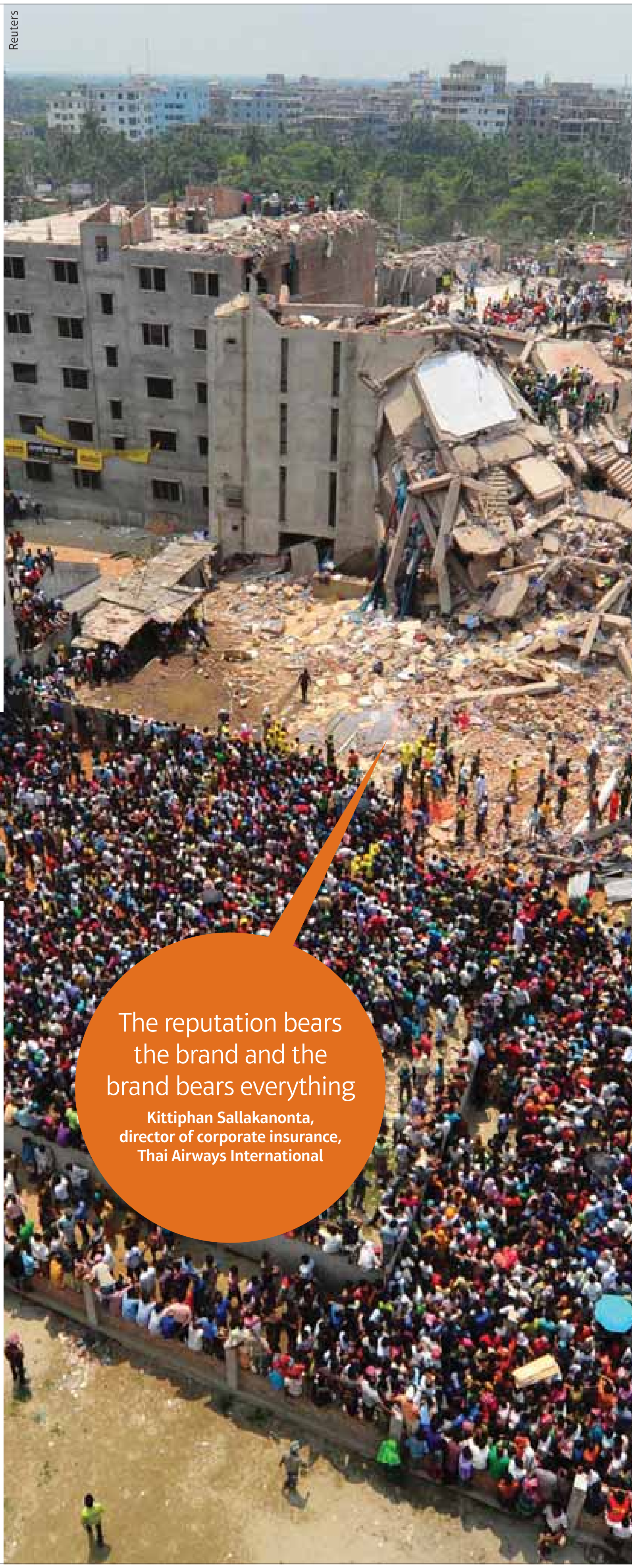
NO RECOGNITION, NO TRUST

Reputational damage is almost always the result of bad risk management, according to director of corporate insurance at Thai Airways International Kittiphan Sallakanonta. "The reputation bears the brand and the brand bears everything," he says. "Once your business has been affected by loss or damage or legal liability arising from your product, insurance can relieve you to some degree and bring you back to the position that you were in before the loss or damage occurred. However, it's just a physical change, not a mental one. Your reputation is intangible, and represented by the brand, which may be affected from the viewpoint of your clients. The trust in your brand may be diminished."

Sallakanonta says that reputation risk was not treated seriously in Thailand in the past. "When things happened, business people and entrepreneurs kept their mouths shut, as did the media," he says. "Nowadays, keeping silent is extremely difficult because of the advances in technology and social media. It just makes the situation worse. People become aware of the problem through social media and quit using your product."

To cope with this change in dynamics, Sallakanonta recommends judicious use of risk management "as well as an emergency response to protect your brand at any cost. If you have no brand, there will be no recognition, and when there's no recognition, there is no trust," he says.

"Of course, when there's no trust, no one will buy your product. Your business simply can't exist without trust from customers."



Reuters

The reputation bears the brand and the brand bears everything

Kittiphan Sallakanonta, director of corporate insurance, Thai Airways International

MITIGATING NEGATIVE PUBLICITY

For InterContinental Hotels Group's (IHG) head of risk management for Asia and Australasia Shuh Lin Tan, reputation is everything.

"In the hospitality industry, delivering a great guest experience is key for us, so confidence in our brands is important," says Tan.

"But this cuts across other industries, where a lapse in confidence in the brands could make them fail."

Tan cites as an example the experiences of car and mobile phones manufacturers. "People buy their products because it makes them feel good," Tan says.

"While this is clearly something positive, it also makes businesses extremely vulnerable if something happens that results in negative publicity."

Tan believes that social media is an area of communication that companies must handle carefully. "Vigilance is important, as is the way in which a business reacts to problems," says Tan. "We can't control what people say – and this is something that often keeps us awake at night. Having clarity of thought and purpose is crucial when tackling social media after something has gone wrong.

"Fundamentally, if you have done the right thing, if people are aware that you have taken proper steps to deal with something, this will help to mitigate some social media risks. At IHG we provide training to our managers and all our top leaders know how to respond in front of the media."

HIDDEN DANGERS

Sometimes the risks that threaten a company's reputation can be hard to see at first glance. Here are some recent examples of where previously hidden dangers have emerged with potentially damaging results:

* An American-owned Dunkin' Donuts franchise in Thailand was forced to remove planned advertising for its charcoal-coloured doughnut, which depicted a woman in racially offensive "blackface" makeup. While Dunkin' Donuts' Thai bosses defended the advertising, its US parent company said it would pull the franchise into line with the brand's key advertising strategies.

* Bloomberg uncovered a potentially illegal tungsten mine in Colombia that could have implications for everything from high-end sports cars to mobile phones. Organisations that use Colombian tungsten could face a consumer backlash.

* On 8 September 2013, a Thai Airways flight suffered a relatively minor incident when it skidded off a Bangkok runway. There were no serious injuries, but the company's officials, on the apparent advice of German Star Alliance partner Lufthansa, painted over the logo on the plane in a move they called a "crisis communication rule". But far from sheltering the brand from damage, the painted cover-up was ridiculed across mainstream and social media – causing damage to the Thai Airways brand.

* Hong Kong clothing companies are no longer manufacturing domestically, but are exposed through their supply chains. The 2013 building collapse in Bangladesh (pictured left) highlighted to them how quickly consumers can move away from a brand.

Having clarity of thought and purpose is crucial when tackling social media after something has gone wrong

Shuh Lin Tan, head of risk management for Asia and Australasia, InterContinental Hotels Group (IHG)

The eight-floor Rana Plaza garment factory in Bangladesh collapsed on April 24, killing at least 1,000 people and injuring another 2,500

EXPERT VIEW

Dylan Bryant, Zurich regional head of international customer, distribution and marketing, Asia-Pacific, and president of the Insurance Institute of Hong Kong (IIHK).

Reputation risk is the one risk that brings all corporations, countries and individuals together. In Asia, perhaps even more so than in Europe and the US, reputation really is everything. But reputations can be fragile.

Historically, organisations have understood the risks relating to their assets, people, liabilities and finances, as they were easily measured. But reputation is the risk that can be the business breaker. The risk has always been there, but the interconnectivity of our world has increased its potential impact on an organisation.

LinkedIn, Facebook, Twitter and the 24/7 news cycle allow the dissemination of bad news, rumours, misinformation and libel to spread across the globe in an instant. Activists, disgruntled customers and angry former employees can launch damaging attacks through blogs, message boards and websites.

Reputation risk can arise from failure to comply with regulatory obligations, to deliver expected products or services, or to hit financial performance targets. Then there's everything from unethical practices, labour unrest and environmental damage, to product liability, bullying and poorly worded advertisements.

Bad things happen to even good organisations, but it isn't necessarily the bad things themselves that destroy reputations. Often the deciding factor is how an organisation responds when something goes wrong. Early detection of a reputation risk or event is vital. If an organisation addresses an issue early, the results of its response can be monitored and an appropriate strategy set. If the crisis is handled well, the organisation may even enhance its reputation. If it is managed badly, it might never recover.

NATURAL CATAST

Asia is known for its vulnerability to natural catastrophes such as earthquakes and tropical storms, but their increasing frequency and severity is forcing businesses to reconsider their strategies. More insurers are ceding additional risk to reinsurers. The enormity of some events shows the severe impacts they can have, particularly regarding business interruption

Reuters

The accuracy of forecasts can have a lot to do with proper evacuation and risk mitigation

Rade Musulin, chief operating officer, Aon Benfield Analytics Asia-Pacific

We need to better understand what makes cities more resilient and what decisions about investments and infrastructure are needed to minimise the loss of life, property and economic production

Matthias Weber, group chief underwriting officer, Swiss Re

A coastal town in Samar province in central Philippines devastated by Super Typhoon Haiyan

TROPHES

A LOOK BACK AT 2013 DISASTERS

Business continuity is a key issue for almost every risk manager, but it took the 2011 floods in Thailand to make some firms really sit up and take notice.

In the same way that 2011 will be associated with these floods and the earthquake and tsunami in Japan, 2013 will be defined by a natural catastrophe in the Philippines. On 8 November Super Typhoon Haiyan blew into the islands with phenomenal destructive force, coming ashore in the Philippines as the strongest recorded tropical cyclone.

Haiyan was the fourth typhoon and the fifth named storm to hit the Philippines in 2013 – and it was by far the most damaging, creating a humanitarian disaster as it swept away small villages, left more than 3,000 people dead and displaced about 650,000 residents.

Even before Haiyan, 2013 had been a busy typhoon season in the west Pacific, with 28 tropical storms since June. Sixteen of these reached typhoon status and seven reached super typhoon status. The Philippines had sustained three Category 5 landfalls since 2010, which is more than any other country during that timeframe.

Residents of Hong Kong need little reminder of the threat posed by typhoons. This tiny land mass situated off China's southern coast is a magnet for windstorm events such as the tropical cyclones that regularly batter this part of Asia every summer. In August, Typhoon Utor swept past the territory, lashing it with torrential rain and high winds just as *StrategicRISK* sat down with Hong Kong's leading risk professionals for a roundtable event.

Utor had already brought widespread destruction to the Philippines and went on to do the same to parts of mainland China, but Hong Kong's relatively strict building codes meant it escaped with little damage.

Aon Benfield Analytics Asia-Pacific chief operating officer Rade Musulin says that it is fortunate that most tropical cyclones do not make landfall in densely populated areas. "[But] given the rapid population and exposure growth of many countries in this region, it might happen more often," he says.

Musulin argues for increased investment in better forecasting tools in the Asia-Pacific. "We saw [it] with Cyclone Yasi in Australia where, based on satellite measurements, they thought it was going to be worse than Katrina," he said.

"While it did cause a lot of damage, the subsequent data shows that the storm was far weaker than the Bureau of Meteorology thought.

"That's an example of where the only thing you have is satellite views on storms with no sampling of them, which makes forecasting much more difficult. The accuracy of forecasts can have a lot to do with proper evacuation and risk mitigation."

RISK: POLLUTION	Air pollution is becoming an extremely concerning issue in Asia. Regardless of the causes – dry weather, lightning, industrial output, land clearing or power generation – the problem is clearly visible.
IMPACT	This year, smoke from fires in Indonesia affected Singapore and Malaysia particularly badly with record levels of pollution, while the city of Harbin, in north-east China, ground to a halt as air pollution contaminants reached levels more than 50 times the concentration recommended by the World Health Organisation. Both individual and corporate health costs will increase unless pollution levels decrease. The costs to business, in terms of lost days and orders, are potentially huge. Certain sectors will bear the brunt of the blame for either the cause of pollution-related events, or the inability to respond to a crisis of this nature effectively. For these companies, the risks associated with air pollution involve issues of liability, increased regulation, brand damage, legal action and, in the worst case scenario, being completely shut down.
ACTION	The Singapore government recently announced the creation of an Association of Southeast Asian Nations haze-monitoring system, which, Lockton's Peter Jackson says, demonstrates beautifully how regional governments can address the seasonal issue of air pollution. "These types of proactive measures are a significant step in the right direction," he says. "However, regional businesses must now also come to the table – both in terms of prevention of the root causes, and in how they prepare for future pollution-related disruptions to their operations."

NATURAL CATASTROPHES

CITIES' EXPOSURE TO RISK

A recent study examining the human and economic risks faced by urban communities around the globe is disturbing reading for the residents of two of South-East Asia's biggest cities.

The Swiss Re report, *Mind the Risk: A global ranking of cities under threat from natural disasters*, benchmarks the natural catastrophe risks faced by 1.7 billion city-dwellers in 616 metropolitan centres around the world.

Manila has the dubious honour of being the world's worst exposed urban area in terms of working days lost relative to national impact of catastrophic floods, storms, storm surges, earthquakes and tsunamis.

The Philippine capital is second on the list of urban areas with the most people potentially affected by these five perils (after the Tokyo-Yokohama region), while Jakarta comes fifth, after the Pearl River Delta in China and Osaka-Kobe in Japan. Willis Indonesia president director Simon McCrum says that flooding "is and remains a very major risk in Jakarta, the financial impact of which local insurers are only starting to take notice of".

Swiss Re group chief underwriting officer Matthias Weber says that major river floods alone have the potential to affect 380 million people living in cities. "We need to better understand what makes cities more resilient and what decisions about investments and infrastructure are needed to minimise the loss of life, property and economic production," he says.

The study shows that floods endanger more city residents than any other natural peril, followed by earthquakes and storms.

CLIMATE CHANGE CONCERN

In late October 2013, scores of bushfires burned for days in the mountains west of Sydney, Australia, and in many other areas across the state of New South Wales. As the wildfires raged, there was general agreement among risk professionals consulted by *StrategicRISK* that climate change was at least partly responsible for the increasing regularity and ferocity not only of fires, but also of floods, storms and other extreme weather events.

Treasury Wine Estates risk and assurance director and entrepreneur Colin Knox is quite clear about his views. "Climate change threatens the long-term productivity of our vineyards and this is something we are addressing in our long-term planning," he says.

A white paper released recently by the Australian Business Roundtable for Disaster Resilience and Safer Communities forecasts that the cost of natural disasters in Australia will rise from AU$6.3bn (US$5.6bn) a year to $23bn a year in 2050, as population density increases and the severity and frequency of storms, floods, cyclones and bushfires grow. The *Building our Nation's Resilience to Natural Disasters* report estimates that the Australian government spends $560m a year on post-disaster relief and recovery, compared with $50m on pre-disaster resilience.

A RETHINK ON FLOOD INSURANCE

Flooding in Thailand did not start or stop in 2011. Bangkok has always been prone to flooding and extremely heavy rainfall regularly affects the north and north-eastern provinces. However, after 2011 the risk landscape changed, as did the attitude of insurers, according to Aon Thailand executive vice-president Yoottana Kingkawtantong. "Insurance used to be the last thing people thought of – they would buy insurance based on cost and not quality of coverage," he says. "Cheapest was always best. After the flood a lot of people found they were not insured, particularly in terms of business interruption exposure. In the past, nobody realised a flood could affect so many places in Thailand at the same time. Now insurers have had to change their views on catastrophic loss events in Thailand."

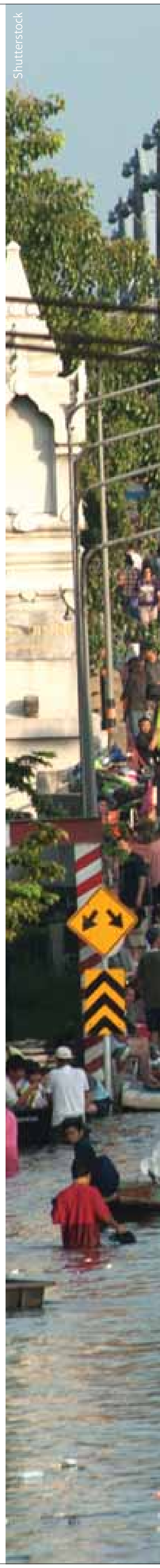
With so many parts of the country affected, businesses based in Thailand have been forced to rethink their entire operational strategies to ensure that if the worst does indeed happen again, the effects will be more limited. Phatchada Muenthong from Thai-based supermarket chain Big C explains how this has manifested itself in her business: "The company is now thinking more about geography and location, and also our logistical relationship with certain key suppliers and the impact it might have on us if things go wrong. So we are looking to mitigate our risks by undertaking a strategic review of suppliers," she says.

A more regional approach has also been taken by global conglomerate Charoen Pokphand (CP), which manufactures and distributes everything from pet food to fertilisers to motorcycles. CP's vice-president of insurance and head of risk engineering Komsun Intarasatakul says: "We learned a good lesson from our operations. We thought having a large central warehouse would be cost effective, but after what happened with the floods we have now moved to smaller centres scattered around the country to limit exposure."

The Thai floods certainly brought the role of risk management closer to the heart of many businesses. Intarasatakul says: "Before the floods no one in the business knew our name – afterwards we became more popular. We needed two years to settle our claims and we still have not finished. Now, instead of waiting until we have had an accident they understand more about the protection."

Not only did the events highlight the importance of risk management, they also made more Thai companies increase their perception and understanding of risk, Lockton Wattana Insurance Brokers executive chairman Wattana Wongvisesnopakun says. "Awareness has been heightened to an unprecedented level," he says. "Before the big flood in 2011, people took insurance as something they *had* to do. Now people are taking insurance much more seriously."

Wongvisesnopakun says it also focused minds on a hitherto misunderstood notion about Thailand's geographical vulnerability. "The flooding destroyed the myth that Thailand is a natural disaster-free area," he says. "It has been a wake-up call to the market that the idea that you are looking at risk from a certain factor, area or concentration of property is no longer valid. We are talking about a country-wide disaster, looking at something that would be far bigger than what the insurance industry would consider to be its maximum loss."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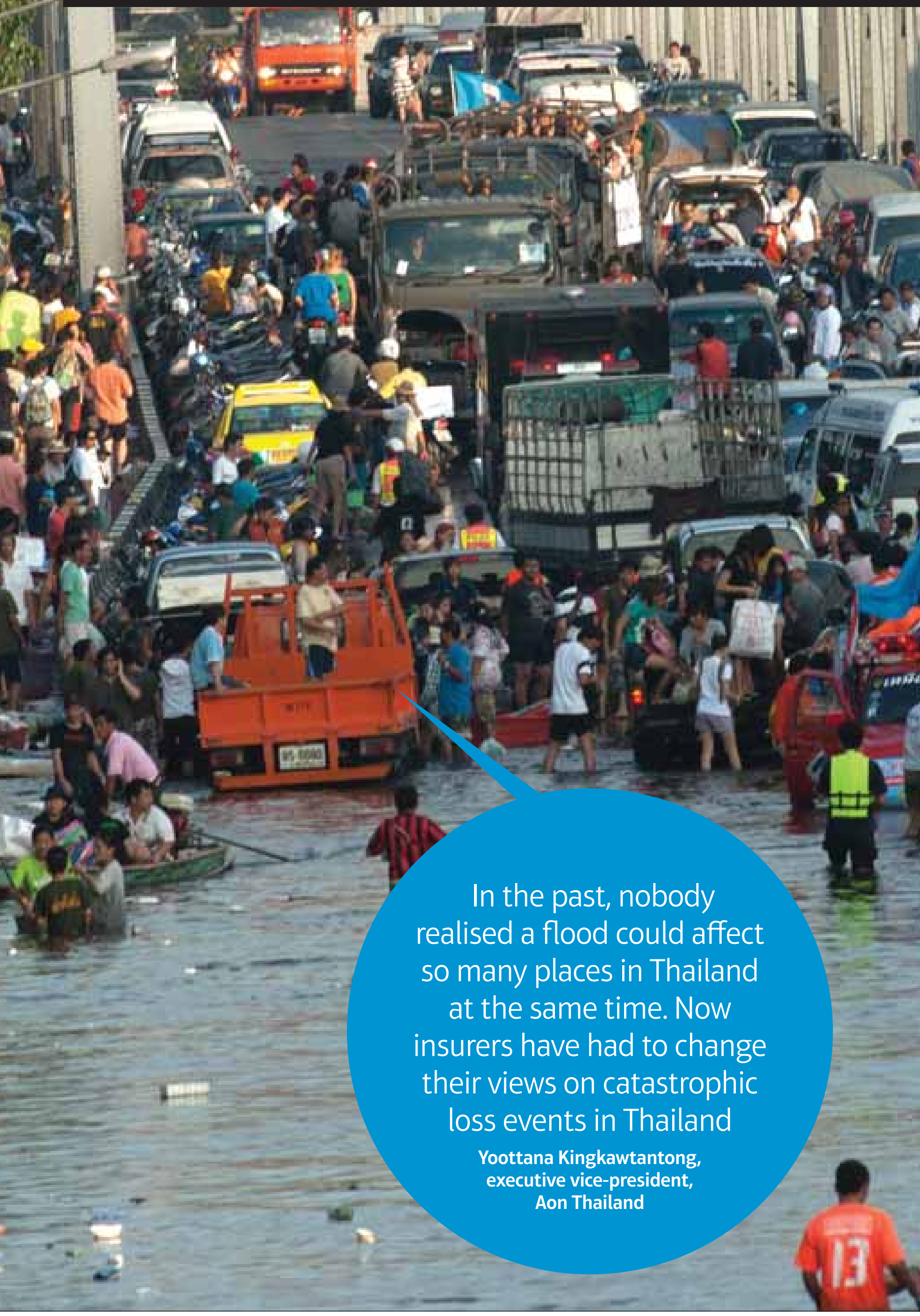
INTO THE UNKNOWN

Catastrophe model expert Dr Will Gardner believes that good models should be based on science and engineering as well as actual loss experience, and that they need components to represent the 'unknowns'. Furthermore, a realistic quantification of the error surrounding these unknowns is central to the real-world efficacy of models, he says.

"Everyone underestimates the uncertainty because, with cat modelling, we are often setting assumptions that are based on limited data but can have a significant impact on the model results, especially for extreme events," Gardner says. "So much so that with PML [probable maximum loss] curves, the range of error is much bigger than people think. It's a worry that the whole industry doesn't appreciate the level of error in the models."

Dr Gardner suggests that blending models with actual historical data is generally a good way for the insurance industry to approach cat modelling, whether it be for ascertaining individual location risk, PML estimation for regulation or reinsurance purposes, or simply for portfolio optimisation.

And it should all be kept relatively simple. One reason for this is "Models need to be easily understood by non-technical board members. Boards are usually really smart people, but they can't get their heads around PMLs."



In the past, nobody realised a flood could affect so many places in Thailand at the same time. Now insurers have had to change their views on catastrophic loss events in Thailand

Yoottana Kingkawtantong, executive vice-president, Aon Thailand

EXPERT VIEW

Steve Robertson, global relationship leader, Zurich Global Corporate Asia-Pacific

Indonesia has experienced more than 60 flood disasters over the past 10 years, which makes it one of the most flood-prone countries in South-East Asia. Almost every province in Indonesia is exposed to flooding and floods have become a major risk in the country's big cities.

Besides high rainfall, which can reach up to 3,000mm a year, other challenges contributing to urban flooding in Indonesia include inadequate drainage systems, urban migration and lower water absorption areas from housing and industrial expansion. Almost all of Indonesia's major cities are located in low-lying coastal areas, where rivers flow down from the mountainous centre of the islands bringing vast quantities of water straight into the cities.

We need to make Indonesia's cities more resilient to minimise loss of life, damage to infrastructure and the impact on local communities and national economies of urban flooding. To this end, Zurich Insurance Group and the Indonesian Red Cross Society (Palang Merah Indonesia, or PMI) have 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 approximately $5.5m, aims to improve 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 about floods, as well as influence policymakers and donors on disaster risk reduction policies.

Indonesia is the second country after Mexico to be part of Zurich's flood resilience programme. Zurich's risk experts will be working together with PMI and other relevant institutions to find innovative ways to improve flood risk prevention and mitigation. It is about using Zurich's talent, time and resources to have a meaningful impact on enhancing community resilience to the risks and challenges they face.

REGULATION

Regulation and compliance rank among the biggest risks faced by corporations operating in the Asia-Pacific region. Simply keeping up with the rapidly changing legal picture is a task that is increasingly vexing risk professionals. The growth of directors' and officers' legislation is a particular concern to board members and those tasked with protecting them

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LEGAL RISKS ACROSS ASIA

JLT Risk Consulting regional director in Asia Craig Paterson reveals some of the main legal issues facing businesses across Asia

1 Increasing regulatory burden and the cost implications: As Asian economies grow, the regulatory environment will adapt to ensure that it continues to govern businesses well. The ability to deal with new regulations and the associated costs of implementation (and penalties for non-compliance) will affect business confidence.

2 Inability to fully understand overseas regulatory requirements: For many companies in Asia, growth opportunities are outside their own geographical borders. This in itself brings new regulatory risks, as a lack of understanding of requirements in different countries can cause a failure to meet obligations.

3 Changing interpretation of new and existing regulations: Changing technology means that existing regulations may be interpreted in different ways to meet changing needs, leaving businesses exposed to new and unquantified factors.

4 Complex untested regulations: In several instances, regulations may be in place, but they may never have been tested in a court of law. Therefore companies are exposed to regulations being interpreted differently from what was originally intended.

5 Changing business environment: The regulatory environment may struggle to keep abreast of changes in such areas as technology, operations and corporate governance, which can expose companies to unforeseen losses or a lack of legal recompense.

6 Lack of consistency in the regulatory environment: Across Asia, multinational corporations encounter different cultures and conventions in doing business. This is reflected in myriad regulations that are in place and a lack of consistency across the region.

7 Lack of in-house regulatory and compliance experts: There is a lack of expertise in overseeing internal regulatory functions in the region, so many companies resort to using third-party experts. While helpful in the short term, firms do not build up a bank of knowledge on these types of issues.

> Regulation can be an opportunity, but it is also a wider monster as it can open up barriers to entry
>
> **Mohamad Bin Mohd Zain, chairman, Marim and group business assurance vice-president, Telekom Malaysia**

MANAGING REGULATION EFFECTIVELY

Ensuring a company is compliant is a particularly difficult risk to manage, says JLT Specialty Asia's regional director, professional and executive risks, Ronak Shah.

He says: "Regulators around the world have been working together for some time. You see a lot of cross-border co-operation. If you are a business that has presence across a region or across the world, the cost and expenses in relation to making sure you are compliant in each territory are getting more and more exorbitant by the day.

"And it doesn't look as though it is going to get any better. So the question is how you deal with them? How do you mitigate those risks?"

Shah is not alone in his view, but regulatory issues are not always unwelcome for risk managers.

Risk professionals in Malaysia have told *StrategicRISK* they do not consider it a hindrance – instead they are encouraged by the fact that regulation has, in general, led to better board engagement.

Malaysia Airports Holdings head of risk management Zalina Jaflus says: "Risk management is often about changing the business culture. But compliance with regulatory changes from the government makes it easier for risk managers to implement and enforce matters. Some risk managers look on regulatory compliance as an opportunity to put their ideas across and also to ensure commitment from their boards.

"While the board will always give its support to these initiatives, it is usually the line managers who are more challenging for risk managers to deal with, as they have a lot of other things to do. Risk management is another obstacle for them. So when they see that what they need to do is mandatory, it makes it easier for us."

Chemical Company Malaysia head of enterprise risk management Hafsah Ahmad agrees. "We have seen the board taking on regulation and pushing governance through instead of leaving risk managers to fight our way," she says. "Regulation to an extent may be positively viewed as a barrier to entry. However, when changes are constantly imposed they are not always welcomed, as they tie up management resources and curb productivity and growth."

Marim chairman and Telekom Malaysia group business assurance vice-president Mohamad Bin Mohd Zain refers to certain regulatory aspects as being a "double-edged sword".

"Regulation can be an opportunity, but it is also a wider monster as it can open up barriers to entry. It can provide an opportunity for us to move, improve and innovate. When it comes to regulatory issues, there is always greater lenience towards new entrants to the market, but a price has to be paid by the incumbents.

"Regulation is healthy – but it has to be done on the right footing."

While primarily positive, Bin Mohd Zain also recognises how time-consuming compliance can be for risk managers.

"We must keep our knowledge base up to date with the latest regulatory changes, which is difficult when we have so many to comply with – up to 40 at a time in Malaysia alone – and this is without all the ones affecting our operations outside the country."

But he also has a solution: "The best thing risk managers can do is to engage more with the regulators."

D&O DOMINATES REGULATORY WORRIES

With the days of Asia's relatively benign litigation culture fast disappearing and directors and officers being faced with increased regulatory challenges, directors' and officers' (D&O) policies have never been so popular. They're becoming more complex, too, to deal with the growing threat of legal action by employees, shareholders and regulatory authorities, as well as possible civil, criminal or alternative-dispute proceedings.

According to Stella Tse, the financial and professional risks practice leader at insurance broking and risk management firm Marsh, a major liability trend in Asia is increasing employee-led litigation. Shifting social attitudes and evolving workplace laws across the region have contributed to more employees possessing a heightened awareness of their legal rights and a greater willingness to assert them.

Then there's the rise in corporate corruption cases being brought against executives under the US Foreign Corruption Practices Act, the UK Bribery Act and other local regulations. In a Marsh report on the personal risks faced by company directors in Asia, the company's South-East Asia chairman Alan Cheah points out that regulators around the world are working together to implement regulations that reach beyond national borders. "With increased pressure at all levels, company directors and executives across Asia are finding themselves being more personally exposed than ever before," he says.

JLT managing director of professional and executive risks Asia Ali Chaudhry agrees that the top risks in the region are regulatory. "For example, the regulators in Hong Kong, the SFC [Securities and Futures Commission] in particular, have started being a lot more aggressive than they were with the level of investigations and pursuing people," he says.

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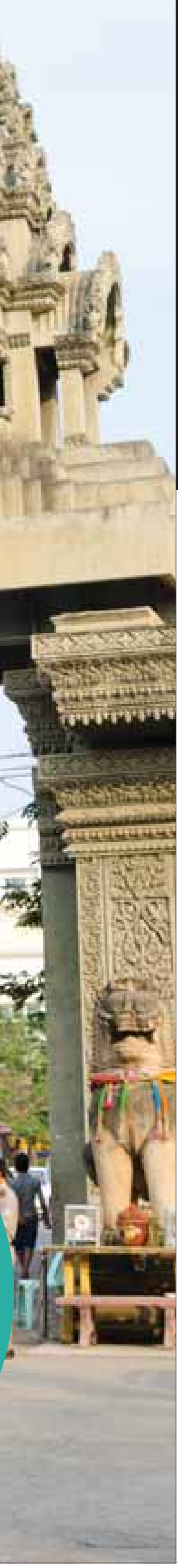
This border crossing at Poipet, Cambodia, is a magnet for Thais, owing to its casinos – gambling is illegal in Thailand

> With increased pressure at all levels, company directors and executives across Asia are finding themselves being more personally exposed than ever before
>
> **Alan Cheah, South-East Asia chairman, Marsh**



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INFLUENCE OF CHINA

The impact of regulation is felt more in some countries than others across the region. Those operating out of Hong Kong, for example, face the additional burden of interest by China.

In Hong Kong, Chinachem Group chief operating officer David Parker says: "There's a whole range of industries here in Hong Kong that have regulation now that never had it before.

"We have trade practices legislation that has just come into force in Hong Kong, which is going to have a huge impact on a lot of industries that have never before had to think about regulation."

DATA STORAGE

Looking after company and client-related data is a particularly difficult risk to deal with yet authorities take no account of this when handing out punishments that are often severe.

Australia-based multinational shopping centre company Westfield Group's chief risk officer Eamonn Cunningham says there are serious concerns about the storage of customer data in light of regulations to support the amendments to the privacy act due to commence in Australia in March 2014.

Cunningham says cyber risk can manifest itself in many forms, including unauthorised entry into computer systems to misappropriate or destroy data, and leakage of private and personal information.

"The regulatory environment associated with this, particularly in terms of notification requirements, is complex and differs region by region," he says. "Legislation in relation to this is still maturing. There are few court cases to give guidance as to how law would apply in practice."

Meanwhile, Thomas Choo, Ian Roberts and Melissa Russell, partners at international law firm Clyde & Co, cite several compliance risks for businesses in Singapore. Top among them is the Personal Data Protection (PDP) Act 2012 (Act 26 of 2012), which was approved in October 2012 and is coming into force on a staggered basis: certain provisions on 2 January 2014, and the rest on 2 July 2014. Several developments include the establishment of a Personal Data Protection Commission (PDPC) to enforce the PDP Act, and the broadening of the definition of personal data to include electronic as well as non-electronic data. More importantly, the PDP Act will allow the PDPC to impose various fines and enforcement mechanisms against individuals, companies and their directors and officers. This will generally apply to all professions.

EXPERT VIEW

Dylan Bryant, Zurich regional head of international, customer, distribution and marketing, Asia-Pacific

Asia is home to various insurance regulatory regimes, ranging from highly regulated tariff-rated jurisdictions to relatively free markets. For any business, whether it is an insurance company, broker, captive insurance company or corporate entity, the regulatory environment in which it operates can influence business growth.

The interconnectivity of risk is reaching unprecedented levels, not only for insurers and insureds, but also for regulators. This will change forever the risk management environment for us all. Understanding how regulators are working together is important for all businesses.

The recent development that bodes well for regulator co-operation was a Monetary Authority of Singapore (MAS) representative office opening in Beijing. According to MAS: "The Beijing representative office will further strengthen bilateral collaboration between the MAS and the People's Bank of China, as well as with other Chinese financial authorities including the China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission."

The key consideration for insurers and corporate entities alike is to ensure that their Chinese operations are covered in a compliant and sustainable way.

It is also crucial to understand the regulatory environment that exists for insurers in Singapore. MAS, the regulator, is particularly active and this can bring benefits, but also pose risks for business. As such, companies need a structured framework in which they can operate so they are comfortable dealing with varied and complex regulatory issues.

In general, however, active regulators – such as those that operate in Singapore – should be seen as positive entities. Their aim is to encourage and facilitate insurance buying by creating access to varied and quality products, while also encouraging the growth and development of insurers, reinsurers and captives.

One of the key benefits of the Singapore market, in terms of admitted and non-admitted insurance, is the country's attractive regulatory environment for continuing insurance activity – for both large corporate entities and insurers. One area that seems to be lagging behind in Asia – including to some degree in Singapore – is the degree of disclosure about corporate risk management. In certain countries, annual reports now need to have sections explaining their risk management processes, but, even in such leading markets as Singapore, this is still not the case.

With no clear regulation or stock exchange requirements on corporate risk management disclosure, there is a opportunity to improve risk management's standing within individual businesses, but also in the wider community, including investors.

In future, listed companies could be required to report on their risk management activities in the way the FTSE asks UK-listed companies to do.

HUMAN CAPITAL

Organisations across Asia are battling to attract staff with good skill sets, languages and local knowledge. Almost all the brokers and risk professionals consulted by *StrategicRISK* listed people risk – specifically talent retention and acquisition – among their top risks. Key issues were developing career paths for the ambitious, and a lack of skilled workers in certain sectors

A ROTATING TALENT POOL

Asia's ageing population and shortage of skilled workers are not looming risks – they are affecting the growth of the region right now. Lockton's managing director for corporate and multinational clients in Asia-Pacific Gregory McCoy says that, as a result, 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."

JLT Malaysia chief executive Michael Leong says that he operates in a country on the road to major growth, but facing serious human capital challenges on the way. "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," he says.

JLT Thailand managing director and country manager Andrew Minnitt sees a definite lack of skills in certain industries, meaning that "getting in the right people and offering them a career that keeps them interested and engaged is becoming the most important challenge".

Not an easy task, according to a member of the enterprise risk management unit at an agency in Singapore Sandra Ong. "It feels like this generation has to move every three years, not because they don't like the job or that they have been offered something more, but simply that they won't work more than three years in any one place," she says. "With technical positions, this creates problems, because people don't stay long enough to acquire the level of detail needed."

As Schneider Electric Asia-Pacific group insurance risk manager Juliette Gelpi puts it, there is no shortage of highly educated people in Singapore, but "their educational qualifications are not always right for the work that is available". Managing director of strategic risk solutions at JLT Singapore Philip Ondaatje calls it a "rotating talent pool that you have to keep rebuilding and reinvesting in".

GROW YOUR OWN

Human capital issues can strike at the heart of risk management itself. Pan-Asia Risk & Insurance Management Association (Parima) chairman Franck Baron says that the region "deserves to have a strong community of risk managers. [However], when it comes to skills, experience, know-how and knowledge, there is still a lot to do to ensure that our workforce in Asia is up to speed," he says.

The vice-president of group business assurance at Telekom Malaysia Mohamad Bin Mohd Zain agrees that there is a critical shortage of people who are able to manage new business risk. "As such, talent pinching will be a key risk," he says. Staff retention, especially of risk managers with five to 10 years' experience, will be a problem for many companies as other firms establish their own risk-management units. "Rather than building the expertise in-house, buying staff from other companies will continue because of the limited supply of qualified enterprise risk management practitioners."


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Acquisition of [skilled] talent not only saves time and money, but also minimises disruption to our customers

Putri Perdana Sari, risk management manager, Aerofood Indonesia

> Rather than building the expertise in-house, buying staff from other companies will continue because of the limited supply of qualified enterprise risk management practitioners
>
> **Mohamad Bin Mohd Zain, vice-president of group business assurance, Telekom Malaysia**

RISK: SKILL SHORTAGE

You might think that with more than 250 million inhabitants (making it the fourth most populous country on earth), Indonesia would have plenty of people to fill the ranks of its workforce. But numbers aren't the problem, it's a shortage of skills.

IMPACT

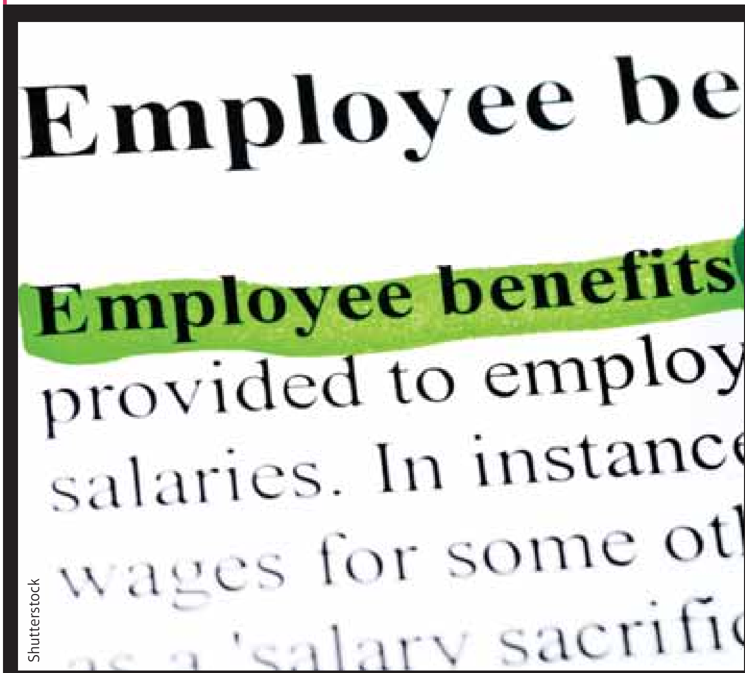
Willis Indonesia president director Simon McCrum says that Indonesia's consumer class is growing rapidly, but the service sector is struggling to keep pace, mainly owing to the lack of skilled human capital. "Government spending on education remains among the lowest in Asia despite a promise to improve matters," he says. "All industry sectors, including insurance, will need to work together to address the pressing human resource issue, which will remain a major problem."

ACTION

McCrum says that education will be the key for the future. "I can certainly see a time where industry establishes and supports 'academies' to provide properly trained manpower to their sectors," he says.

Risk management manager at Aerofood Indonesia Putri Perdana Sari says that significant growth in many industries has given companies little time to develop their employees. "Acquisition of [skilled] talent not only saves time and money, but also minimises disruption to our customers," she adds.

Duma Irene Mitalevanie is a risk consultant at Astra International in Indonesia. She believes that as the general standard of living increases in her country, the more people desire "the better things in life such as larger income, higher position and greater career opportunities. Employees will be more likely to move from one company to another company that has better offers," she says.



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ADDITIONAL BENEFITS

Employee benefits are often presented as one way for companies to differentiate themselves from other employers, thereby assisting with both attracting and retaining employees.

JLT Asia chief executive Duncan Howorth says that while benefits alone don't achieve better retention rates, they are an important component of any compensation structure. "Giving employees a better understanding of the value of benefits, through mechanisms such as Total Reward Statements (TRS), allows employees to understand that benefits are part of the total compensation package so they're not just focusing on the salary," he says.

A TRS provides personalised information about the value of an employment package and includes details about remuneration and the benefits provided by an employer. JLT regional benefits director Asia Pete Whittington explains that a TRS "shows your salary, your bonus, your pension contribution, and the costs of all your benefits". Whittington says companies should make full use of the benefits that they already offer. "If they communicate this and employees understand it, then they are extracting more value from their current spend without paying another dime," he says. "It's about making employees understand what they have already."

TREATMENT OF STAFF

Remuneration is obviously a big factor in retaining talented young people, but another pressing issue is how well managers are managing their staff. Are they creating career paths? Are they delivering useful feedback? Are they providing staff with a sense of purpose in the company?

The chief executive for Zurich's global corporate business in the Asia-Pacific region, Keith Thomas, believes organisations need to ask themselves this question: "How are you treating your workers?"

Thomas also flags the challenge of maintaining operational experience when you have a young and ambitious, but ultimately inexperienced, workforce. Recruiting people of a lower technical knowledge means you need to provide more experienced supervision. "The question is, who are the more experienced people helping to manage the plant; how do you get that knowledge transfer?" he asks. "It costs business big time to have this transition of institutional knowledge."

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It costs business big time to have this transition of institutional knowledge

Keith Thomas, chief executive, Zurich's global corporate business in the Asia-Pacific region

FIND THE TALENT

Head of Willis Asia Adam Garrard is quite clear that his biggest challenge is finding, developing and retaining the right talent. "What we expect our client advocates to do is to be able to have a business conversation with the client, talk about the macroeconomic environment, talk about the microenvironment for that client, and talk about the competitive landscape – to do that they need to concentrate on one or two industry groups," he says.

Garrard says that his company's employees are expected to find out what their clients need, then call upon the right resource to provide a solution. "We do not necessarily expect our advocates to then be able to go and broker every piece of insurance that they talked about, or to be able to provide the analytics, or provide the engineering work or whatever it is; those are specialist roles," he says. "It is in these two areas – advocacy coupled with industry sector knowledge and specialist roles within risk and insurance – where we continue to develop and search for talent."

EXPERT VIEW

Dylan Bryant, Zurich's regional head of international customer, distribution and marketing, Asia-Pacific, and president of the Insurance Institute of Hong Kong

Where are the future risk managers coming from, how will they be trained, and what does risk management look like in the future?

In Asia, risk managers are either risk professionals brought in from outside the region or people who have transferred into risk management from other functions such as legal, treasury and sometimes occupational health and safety. There will be multiple avenues to attracting professionals into risk management and we should be looking for broad experience, as well as technical knowledge relevant to that particular organisation.

Historically, the industry had been successful in training brokers and underwriters, but not necessarily risk managers. We have a unique opportunity to learn from the risk management fraternity in both Europe and the US, using their best practice gained through proven risk management techniques, and also their mistakes. Some universities in Asia now offer risk management courses as part of their undergraduate business degrees. The key here is for the insurance industry to engage with academia to ensure these courses are up to date and relevant for graduates wanting to enter the insurance industry.

Companies looking to build training platforms for risk-management departments can use external providers, whether it be specific training on lines of business issues, claims handling, legal issues around operating insurance cross-border, or enterprise risk management development. The key is to embed this philosophy of learning and development within the HR and risk management functions to ensure the right training and development is in place to foster the next generation of risk managers.

CYBER

The internet and technology provide enormous benefits and opportunities for businesses across Asia. But these often come at a price. From cyber terrorism to the accidental loss of critical data, the spectrum of danger is broad and changing constantly. Meanwhile, the ability to capitalise on technological advances is also important so businesses do not get left behind

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ASIA BECOMES WORLD'S CYBER-ATTACK HOTSPOT

Cyber threats know no geographical boundaries, but their impact and influence is felt in some countries and regions more than others. In 2013 the focus shifted to Asia, with the region named the world's cyber-attack hotspot in the State of the Internet report by Akamai Technologies, which revealed that more than two-thirds of global attacks were being launched from Indonesia and China.

The report also said that the volume of cyber attacks originating from Indonesia had almost doubled in the second quarter of 2013 compared with first-quarter traffic. Indonesia, going from its first-quarter traffic figure of 21% up to 38%, pushed China from the top spot to second place, at 33%.

Furthermore, with Indonesia and China originating significantly more observed attack traffic than any other country, the distribution of this traffic was heavily weighted towards the Asia-Pacific. In the second quarter, the region was responsible for 79% of observed attacks, up from 68% in the first quarter, and 56% in the fourth quarter of 2012.

The number of distributed denial of service (DDoS) attacks reported by Akamai Intelligent Platform customers in Asia nearly tripled in the second quarter. A DDoS attack involves the use of multiple computers to prevent a computer network from accessing information or services. Such attacks largely concentrated on customers in the business and financial services sector.

Akamai product line director David Belson, the report's editor, says the increased attacks in Asia are primarily against a small number of companies within the region.

Belson says that Akamai maintains a distributed set of unadvertised agents deployed across the internet to log connection attempts that the company has classified as attack traffic. "Based on the data collected by these agents, Akamai is able to identify the top countries from which attack traffic originates, as well as the top ports targeted by these attacks," he says. "It is important to note, however, that the originating country as identified by the source IP address may not represent the nation in which an attacker resides."

The report also provides insight into other key global statistics, such as network connectivity and connection speeds, and broadband adoption and availability. It finds that extremely large growth rates in broadband adoption can be seen in Indonesia and China, as well as Malaysia and Thailand.

"All four countries more than doubled their levels of broadband adoption from the second quarter of 2012," Belson says. "The most impressive growth rates were seen in Indonesia, which grew by nearly three times year-on-year, and in China, which was up more than 500% during the same period."

Belson says that with the growing number of users online, and as connection speeds improve, the importance of security will also grow. "Botnets have grown beyond leveraging end-user systems to leveraging the massive bandwidth available through compromised servers running software packages with known vulnerabilities," he says.

> Botnets have grown beyond leveraging end-user systems to leveraging the massive bandwidth available through compromised servers running software packages with known vulnerabilities
>
> **David Belson, product line director, Akamai**

> Companies need to consider a holistic approach to cyber and technology risks, including cyber insurance and supply-chain resiliency planning
>
> **Stella Tse, financial and professional liability practice leader for Asia, Marsh**

RISK: CYBER THREAT MUST BE BETTER UNDER-STOOD

Risk managers in Asia need to ensure their companies' IT departments are included in preparations to mitigate the impact of technology failures on supply chains and general operations, according to Marsh.

Furthermore, outages and failures have the potential to cause significant loss of income, increase operating expenses and damage an organisation's reputation.

IMPACT

Marsh's financial and professional liability practice leader for Asia Stella Tse says this is particularly important in Asia as it is such an "integral link in any global supply chain".

"For example, if a cyber attack shuts down a manufacturing facility, the ripple effects down the chain could be significant," she says. "Companies need to consider a holistic approach to cyber and technology risks, including cyber insurance and supply chain resiliency planning."

Singapore-based Tse says firms in the region need to look beyond data privacy. "Supply chain disruption and business interruption from IT outages are critical issues companies should consider when assessing their cyber-risk exposures," she says.

ACTION

Marsh's Cyber Risks Extend Beyond Data and Privacy Exposures research briefing states: "No business can inoculate itself against all risk of technology failure, but with effective planning inside a comprehensive risk-management programme, businesses can better prepare for IT outages and minimise their impact on business operations, revenues and reputations."

Historically, cyber insurance coverage was only triggered when insureds suffered data breaches or hacking attacks. However, many policies now provide coverage for a broad range of technology failures.

"Given recent SEC [US Securities and Exchange Commission] guidance on cyber risks, risk managers need to be prepared to answer questions from their directors about whether the firm's insurance coverage provides adequate protection in the event an incident occurs," the briefing says. "It will be important for risk managers to explain that the rapid evolution of privacy and security risks means many traditional forms of insurance may not be able to adequately respond to these exposures."

FUTURE CYBER DANGERS: CAR HACKING

Potential vulnerabilities in automotive computer systems have fuelled fears of future liability risks and product recalls.

Earlier this year, two US hackers partially funded by the US government's own Defense Advanced Research Projects Agency demonstrated their ability to connect to a car's computer and remotely take control of the vehicle's acceleration, braking and steering.

With car manufacturing a significant part of Asia's regional economy, there is alarm about what this development could mean for the industry.

JLT managing director of professional and executive risks Asia Ali Chaudhry says automotive manufacturers could face product-liability exposures if their vehicles are involved in accidents that cause injury or damage and are ultimately found to be 'defective'.

"If the problem does not go as far as causing injury or damage, then the cars could be recalled simply because there is potential for someone to hack them and cause accidents," Chaudhry says.

"Issues then arise whether these costs rest with the motor manufacturers or whether they try and pass these costs back down the line to their suppliers."

This could create liability risks for the designers of the equipment or the software. "[There could be] some interesting problems in ascertaining whether it's a defective product or a professional service/design problem," Chaudhry says.

TECHNOLOGY IS A THREAT – AND AN OPPORTUNITY

Risk managers across the Asia-Pacific region have differing views on the scale of threat posed by cyber issues. While it is a concern for businesses in every country, many are just starting to deal with its significance.

Others, however, have broader concerns regarding technology in general and innovation – nowhere more so than in Malaysia, as *StrategicRISK* discovered.

"There is always a fear that we are not innovating fast enough," says Bernard Lee, head of business continuity and insurance at Malaysian communications provider Maxis Berhad. For Lee, the solution is to bring in new personnel "who can see the future and who know what might be out there", although he admits this is "something which is really hard to manage".

"We have a team that focuses on new technology, but innovation change is definitely something that can keep management awake at night," Lee says. "Look at what has happened to Nokia compared with where it was 10 years ago – no one is safe."

Keeping up with technology gets to the heart of the risk management function, according to Hafsah Ahmed, senior manager of group risk management, at the Chemical Company of Malaysia.

"As we adapt to technological changes, we assure ourselves of being relevant in a dynamic environment. While 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. It's all about our tolerance for taking risks that address real problems."

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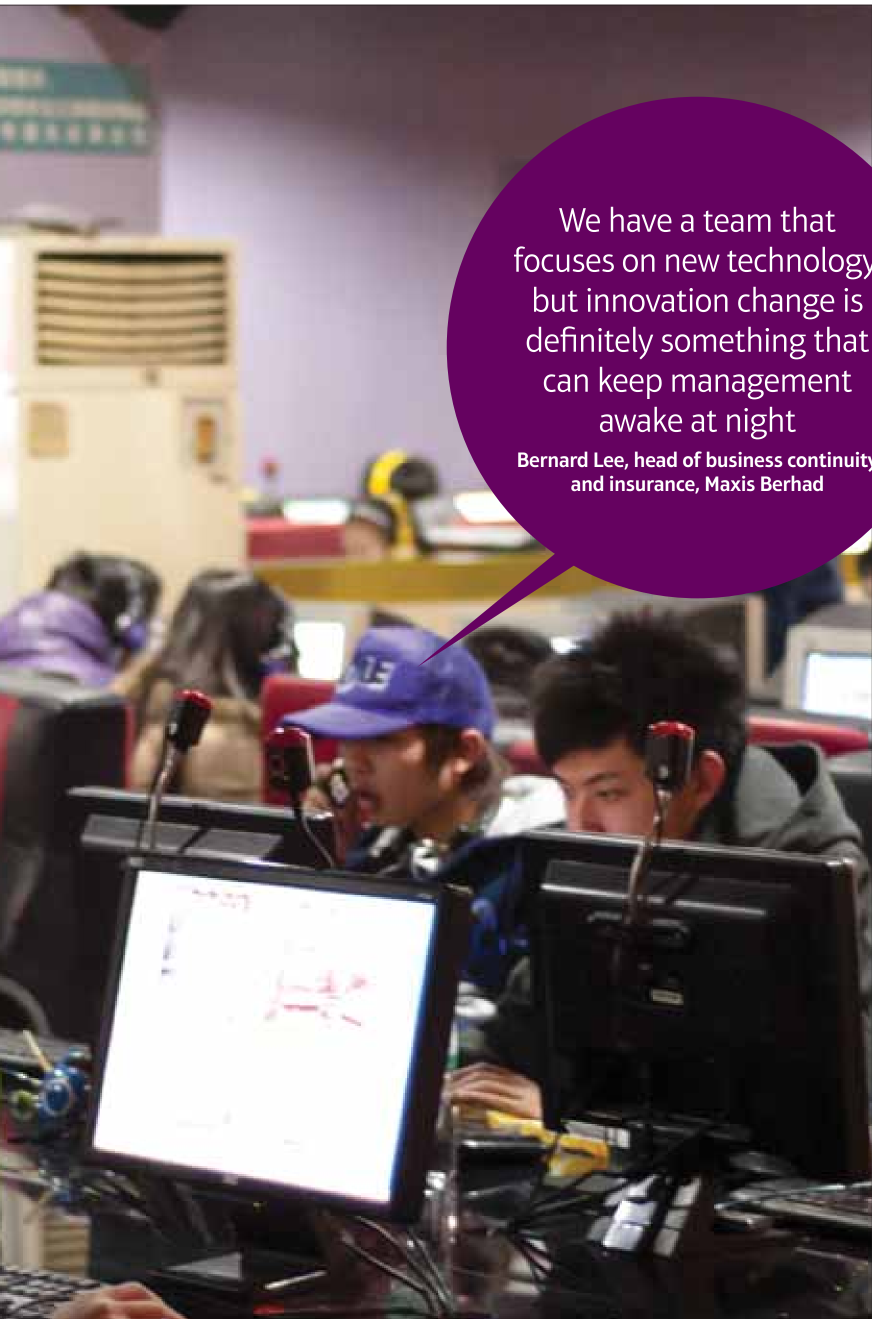
CYBER AND INSURANCE

With so many attacks taking place globally every day, it is impossible for large businesses to avoid being hit. While mitigation strategies are crucial, insurance is also starting to play an increasingly important role.

However, as JLT Asia managing director for strategic risk solutions Philip Ondaatje explains, cover is not always straightforward.

Cyber is an emerging threat for risk professionals in Singapore, and for its insurance industry, which is still trying to tackle fully this often unseen danger. Many uncertainties remain, particularly in relation to coverage.

"Cyber has become a headline item in terms of insurance over the past few years, but, a little like directors' and officers' 10–15 years ago, there is not enough experience of how the solutions actually respond to the risks presented," he says, "and in that respect, the length of the liability tail for these is still unclear here – essentially, the question of where and when it might hit in the future."



> We have a team that focuses on new technology, but innovation change is definitely something that can keep management awake at night
>
> **Bernard Lee, head of business continuity and insurance, Maxis Berhad**

SOUTH KOREA ON CYBER FRONTLINE

A series of co-ordinated cyber attacks between March and July 2013 took down government and media websites in South Korea and targeted financial institutions. Hackers working for neighbouring North Korea were blamed for the attacks – although Pyongyang rejected the accusations and claimed it was also a victim.

The March attack on banks and broadcasters hit 32,000 computers and caused chaos in the banking sector. Economic damage to South Korea in this period has been estimated at $770m.

South Korea is not alone in being targeted and other countries and businesses are likely to be hit in future. Mark Tomkinson, head of treasury and risk management at Service Stream (Australia), says: "Hacking attempts – both deliberately targeting an organisation but also as seen recently as a by-product of some other international political agenda that may be totally unrelated to the company itself – can affect a company directly or indirectly via their service providers, and only because they happen to be resident in a particular country."

EXPERT VIEW

Dylan Bryant, Zurich's regional head of international customer, distribution and marketing, Asia Pacific

Awareness of cyber risk has grown steadily in recent years. With increased media coverage following some high-profile data breaches, regulators imposing or considering cyber legislation have all converged to bring this emerging risk to the forefront of risk managers' minds. Cyber security professionals continue to warn of the growing exposure of information systems. Cyber risks, it can be argued, represent an important risk for all types of organisations.

Now that cyber risk is discussed at the board and executive management level, the full range of exposures need to be considered. Cyber risks include risks associated with such things as intellectual property infringement, stolen or lost data, cloud computing, violation of privacy laws, social media, mobile devices and bring-your-own devices.

According to several recent surveys, organisations are adopting various strategies to address these risks. Increasingly we are seeing organisations adopting an enterprise-wide, or at least a multi-departmental, approach to cyber-liability risk management. With the small but growing insurance solutions available in the market, there are increasing options for risk managers to address the potential costs associated with a loss as a key element of the organisation's cyber risk management strategy.

Currently, IT departments continue to lead the way when it comes to data security and privacy initiatives in most organisations. However, risk managers are beginning to play a more significant role in the development of a response strategy and in the discussion on transferring that risk. A 2012 survey conducted by Advisen in the US found that: "The percentage of organisations where risk management/insurance led the data security risk management programme increased slightly to about 15%, as compared with about 13% in 2011."

Another key finding from the survey was that, in nearly 80% of organisations with multi-departmental data security and privacy teams, the risk management/insurance department is represented on the team.

A key area that will become increasingly important for organisations in Asia will be around the evolving data-breach reporting requirements. Currently, most countries in the region now require the reporting of such incidents. The key decision for the board will be where the risk management for cyber liability will sit: will it be the IT department or the risk management department?

ECONOMIC

The effects of the Asia-Pacific boom are not uniform across the region and countries are developing at varied paces. Risk managers and businesses are aware that while times are currently relatively prosperous, this cannot be guaranteed to continue. Much depends on the health of China's economy – and the US and Europe also have a significant impact

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> With increasing household debt, people are more cautious about their spending
>
> **Pharkpoom Sukhambhiranond, head of risk management, Total Access Communication**

> Since concerns over the global economy do not appear to be dissipating, organisations and national economies need to embrace the economic slowdown from a global perspective
>
> **Owen Belman, chief executive, Greater China, Aon Asia**

A BRIGHTER ECONOMIC GROWTH PICTURE IN ASIA?

The economies of the Asia-Pacific region have been accelerating upwards over the past decade.

While the West continues to feel the effects of the financial crisis that began in 2008, many countries across Asia are still going from strength to strength.

It is now five years since the collapse of Lehman Brothers sent seismic shockwaves around the world – propelling financial markets into meltdown and triggering a catastrophic slowdown of 'traditional' key industry sectors in Europe and also the US.

Recovery of sorts is now starting to take place in the US, but Europe's troubles remain and do not seem likely to be resolved for some time to come.

Part of the reason for their continued problems is the increased economic strength of countries in the Asia-Pacific region that are moving into sectors Europe and the US once dominated.

While the global slowdown had some impact on the overall financial picture after 2008, the effects were limited in Asia.

Expansion has been fuelled in part by China's voracious appetite for growth, but it would be incorrect to suggest that this is the only reason.

Thailand, Malaysia and Indonesia in particular have enjoyed an economic boom of their own making – much of it through filling the vacuum left by Europe's dying manufacturing industry.

Singapore has long since asserted itself as a major global financial hub, while Hong Kong is moving away from manufacturing and developing its services sector further.

Nor is growth restricted to the region's larger countries – Vietnam and Cambodia are going through a phase of fairly rapid expansion and, as such, are becoming increasingly attractive to business investment.

Of course, while these countries afford plenty of opportunities to companies around the world – not just those with traditional links to the region – there are also some considerable economic threats to consider.

For example, China remains the biggest player in the region and its economy has slowed over 2013.

Nonetheless, its growth curve remains firmly on an upward trajectory.

However, even a small deceleration in China's economy can have a sizeable impact elsewhere, hence the relative vulnerability of Australia's economic fortunes highlighted in an October 2013 warning by the IMF. A reduction in demand from Beijing for natural resources will leave Australia exposed.

Thailand also suffered economic contraction in 2013, even slipping into a mild technical recession early in the second part of the year.

Some of Thailand's economic woes are connected to the country's political instability – its currency, the baht, depreciated about 3% in November 2013, a fall directly attributed to the country's political unrest, with foreign capital flowing out. Nonetheless, foreign businesses are likely to want to continue to invest strongly and this offers considerable promise when looking beyond short-termism.

However, Total Access Communication head of risk management Pharkpoom Sukhambhiranond believes that Thailand's increased exposure to global economic pressures means outcomes are less predictable.

"Thailand is almost fully (if not fully) open to the global economy," he says. "About 70% of GDP comes from exports, and during global economic downturns Thai exports are affected tremendously. Inflation and foreign exchange risks are also very challenging.

"Any fluctuations of inflation in developed economies such as the US, European countries and China will undoubtedly affect Thai inflation because we do a huge amount of trade with those countries.

"Economic conditions affect corporate and consumer spending. With increasing household debt, people are more cautious about their spending.

"This will affect consumer products and also pressure revenue growth for most companies. The very small growth in exports will affect exporting companies and the people working for these companies, and this in turn will come to affect demand for consumer products. It could be a downward cycle."

ECONOMIC

GROWTH AFFECTED BY EXTERNAL INFLUENCES

China's economy is the engine room powering growth across Asia. However, while its voracious economic expansion has been impressive over the past decade, it is unsustainable.

The latest forecasts by the IMF reveal that growth in China will almost halve to 7.6% in 2013.

There are several factors conspiring to slow China's economy – not least a natural realignment owing to overheating – but one issue has started to override all others. Developing countries – and China remains among these – are tied far more closely to first-world economies than at first thought. As such, they are vulnerable to the effects of financial turbulence elsewhere.

This has been highlighted by such luminaries as the American economist Nouriel Roubini, who believes a period of overheating in 2010–2011 left the BRICs and other emerging economies with growth figures above potential and inflation.

The economies then tightened monetary policies, with negative consequences for growth that have carried on in 2012-2013.

"The idea that emerging-market economies could fully decouple from economic weakness in advanced economies was far-fetched: recession in the eurozone, near-recession and slow economic growth elsewhere were always likely to affect emerging-market performance negatively," says Roubini.

As such, these countries are more exposed to financial policies and issues beyond their traditional orbit.

This is now being seen, for example, in the effects of stimulus measures that are being reduced or withdrawn by advanced economies.

To illustrate, the 2013 Financial Stability Review from the Monetary Authority of Singapore (MAS) warned of the danger of a spate of changes to the monetary policy programmes that had been introduced in several major advanced economies to try to fight the worst of the financial crisis.

A secondary effect of these measures was to further economic growth in Asia. However, now these policies are changing there is a risk of damage to Asia.

These policies made Asia's future growth outlook "more uncertain and played a part in its debt build-up," according to the MAS.

Debt and currency devaluation issues are now key concerns across Asia as a result.

The effect can be seen in the experience of Indonesia, which this year saw its currency, the rupiah, lose around a fifth of its value because of tapering by the US Federal Reserve.

Aon Asia chief executive, Greater China, Owen Belman sees further change ahead as the region evolves economically.

"Since concerns over the global economy do not appear to be dissipating, organisations and national economies need to embrace the economic slowdown from a global perspective," he says.

"The rapid ascent of the Chinese economy has been largely dependent on consumption from foreign economies and it now faces a litany of challenges associated with continued growth. External challenges include slowing overall global growth rates, political turmoil and uncertainty, increased regulatory and legislative measures, along with numerous other macroeconomic factors.

"President Xi Jinping is engaging in several internal activities to transform the Chinese economic and political environment to provide a more stable and sustainable growth model for the Chinese economy. As growth continues to slow globally, the Chinese economy will be forced to take measures to sustain growth while beginning to shift from a producing to a consuming economy."

Ultimately, when the advanced economies finally stabilise, natural growth will provide further stimulus to economies in Asia.

However, it has been domestic demand that has been encouraging growth lately and it was a fall in consumer purchasing that saw Thailand's economy struggle in 2013.

Two consecutive quarters of contraction resulted in the Thai government cutting 2013 growth estimates to 3.7% from 4.5%, although businesses and economic forecasters remain broadly positive about the country's financial future.

However, for the time being consumer spending is restricted, as Phatparadee Chingulgitnivat at Thai supermarket chain Big C, says: "We have seen the basket size of shoppers reduce since the beginning of this year."

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Indonesia's rupiah is depreciating against the US$. Large corporates in Indonesia need to have a sustainable strategy to pass through these harsh economic conditions

Johan Candra, enterprise risk management specialist, XL Axiata

Sulphur mining workers at the Ijen volcano crater in Java, Indonesia

INDONESIA A MAGNET FOR INVESTORS

Indonesia's economy is one of the fastest growing in the Asia-Pacific region and it is proving increasingly attractive for investors and businesses alike.

As the world's fourth most populous country it has a huge and versatile potential workforce that it is now putting to use to drive its expansion.

Some experts believe that in little more than a decade, Indonesia could be the seventh largest economy in the world.

Its predicted gross domestic product growth is 5.7%, according to Bloomberg. Only China's growth is higher than this in Asia.

However, while the long-term outlook for Indonesia is impressive, there are some immediate economic pressures that must be dealt with first.

Indonesia is at present running a current account and a budget deficit.

The country has also seen the price of its biggest export – coal – fall while the price of oil, which is imported, has stayed relatively constant.

A series of other economic changes – such as a large increase in interest rates and exchange rate weaknesses – are predicted to affect domestic spending.

Bumi Resources Minerals enterprise-wide risk management head Rachmadi Gustrian says: "Economic turmoil will reduce purchasing power in general."

Enterprise risk management specialist at Indonesian firm XL Axiata Johan Candra explains the causes of this and also the potential to affect business: "The inflation rate for this year is increasing quite significantly, affecting purchasing power," he says. "Indonesia's rupiah is depreciating against the US$. Large corporates in Indonesia need to have a sustainable strategy to pass through these harsh economic conditions."

There is a multitude of reasons behind Indonesia's current economic circumstances, as Duma Irene Mitalevanie, risk consultant at Astra International in Indonesia, reveals: "Indonesia has a lot of debt, especially to the IMF, and doesn't have industry/business sector focus that will be developed specifically.

"Indonesia used to be an agricultural country, focusing on the development of its agricultural sector and successfully meeting domestic needs. But now Indonesia has to import food raw materials to meet these needs.

"The government doesn't clearly define the direction and goals of the country and there is a lack of guidance for the creation of healthy and integrated business."

These issues should not detract from Indonesia's overall economic prospects but should be considered in context.

Aon Risk Solutions head of specialty – Indonesia, Cameron Sheild says: "Make no mistake; Indonesia is still an extremely attractive place to invest in comparison to other countries.

"However, while still resilient, economic growth in Indonesia is moderating, reflecting a dip in investment, in commodity prices, as well as in domestic consumption. Indonesia's current account deficit also continues to widen, with imports increasing at a faster pace than exports.

"Recent policy shifts, such as the reduction in fuel subsidies, are considered as positive developments that will help Indonesia re-stimulate growth. Therefore, Indonesia's economy is adjusting to short-term uncertainty.

"The country's growth prospects are undisputed, particularly if long-term development plans and public policies boost investment on the expansion of labour skills and of infrastructure.

"However, in the current economic environment, corporations' projections a year ago might well fall short of the expectations of today. One might say the honeymoon is over for the growth expectations of a year plus ago."

POLITICAL

Political risks vary across the Asia-Pacific region. From the stability of Singapore to the volatility of Thailand, the political spectrum is broad and often challenging. While 2013 was relatively quiet, it was by no means benign, and uncertainty continues to affect business operations and the considerations of risk managers working in the region

THAILAND SEES VIOLENT UNREST

After three years of relative calm, Thailand once more was the scene of political disturbances in 2013.

August and September saw protests by rubber farmers angered at what they perceived to be overly generous government subsidies for rice growers. Eventually the protests died out, only to be replaced in December by violent demonstrations aimed at ousting Thai prime minister Yingluck Shinawatra and her administration.

The protest was staged by opposition supporters who accused Yingluck of being a stooge for her brother Thaksin, Thailand's former PM who was removed in a military coup in 2006.

Demonstrations that started peacefully at the end of November ultimately escalated into the worst political violence the country had seen since 2010.

Yingluck, who was elected in 2011, refused to step down, claiming that calls for the government to be replaced by an appointed council were illegal and unconstitutional. Protest leader Suthep Thaugsuban said he would fight on until the government was toppled and, after a brief hiatus to mark the birthday of the King – who remains a revered figure among Thais – demonstrators were back on the streets.

In a bid to quell the disturbances and reassert her authority, on 9 December 2013 Yingluck dissolved parliament and called an election for 2 February 2014.

She said: "At this stage, when there are many people opposed to the government from many groups, the best way is to give back the power to the Thai people and hold an election."

Yingluck won a large majority in 2011 thanks to her Pheu Thai party's large powerbase in poor and rural Thailand.

A repeat victory cannot be ruled out which is likely only to enrage her opponents further.

However, at the time of writing the leaders of the demonstrations had rejected the elections plan and continued to call for council rule.

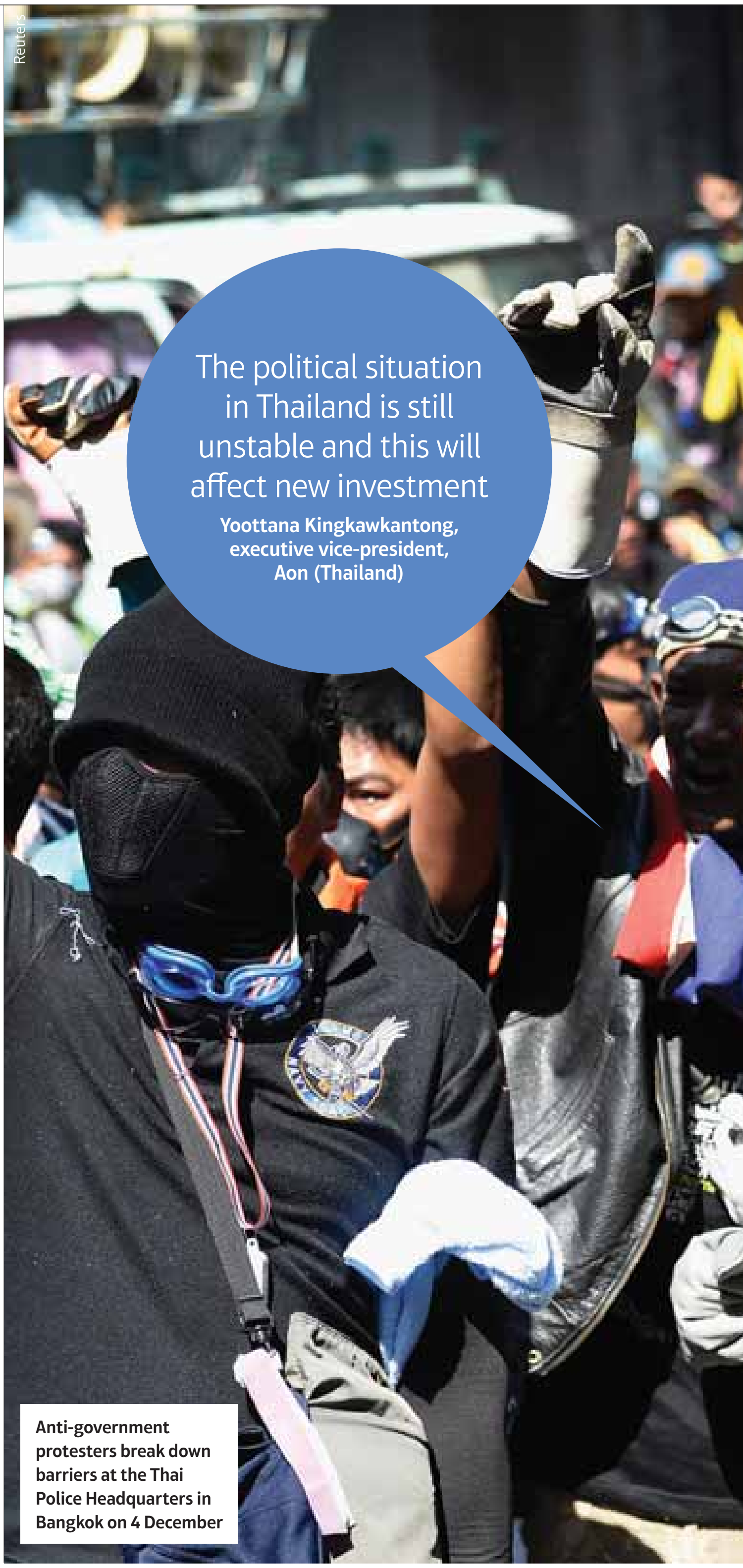
Simmering tensions were clearly visible in Thailand when *StrategicRISK* visited the country in September. Political risk was a key element of a debate attended by several leading risk professionals who highlighted their concerns about the country.

Managing director of Howden Broking Group's retail businesses in Asia V Harikes said political uncertainty was his primary risk and predicted the problems that would follow just a few weeks later.

"Political divisions between supporters of Thaksin and the Democratic Party will come to the forefront," he said.

Aon (Thailand) executive vice-president Yoottana Kingkawkantong, agreed. "The political situation in Thailand is still unstable and this will affect new investment."

What the political future holds for Thailand remains unclear, but it is likely that instability will continue to affect the country for some time to come.



Reuters

The political situation in Thailand is still unstable and this will affect new investment

Yoottana Kingkawkantong, executive vice-president, Aon (Thailand)

Anti-government protesters break down barriers at the Thai Police Headquarters in Bangkok on 4 December

> Political stability is very influential to economic planning, decision-making and growth
>
> **Duma Irene Mitalevanie, risk consultant, Astra International**

CHINA CONCERN

China's influence is apparent for nearly all businesses around the world, but its impact is greatest in the Asia-Pacific region.

China's ruling Communist Party remains strong, stable and unchallenged.

But for how long? The 2011 so-called Arab Spring toppled in a matter of weeks regimes that had lasted decades.

While it did not spread beyond the region, events will have alarmed Beijing's rulers. Any perceived threats to their power have been stamped on sharply.

In 2013 popular politician Bo Xilai was jailed for corruption. His supporters believe the conviction to be a sham and that the prosecution was motivated politically to remove him as a threat to the country's leadership.

Although he is now behind bars, for his supporters the fight continues. Some have set up their own political party in direct contravention of a direct ban on new political organisations.

Whether this results in a serious political challenge or, more likely, more arrests, it is clear that potential opposition to China's ruling elite is getting bolder.

The consequences of any significant change, whenever it comes, will be felt not only across Asia but also around the world.

KOREAN SCARE TACTICS

Not every country in the Asia-Pacific region is democratic, and the actions of North Korea in early 2013 threatened, for a short time, to undermine stability in the area – and beyond. An underground nuclear weapons test followed by some highly provocative military posturing put South Korea and other neighbouring countries on high alert. Eventually the threat turned out to be little more than sabre-rattling from new leader Kim Jong Un, but this, followed by the execution of his influential uncle, left many feeling uneasy regarding his state of mind and ultimate policy ambitions.

INDONESIAN ELECTION UNCERTAINTY PUTS BUSINESS ON HOLD

Political tension is rising across Indonesia ahead of the presidential election due to be held in mid-July 2014.

Whoever wins, the country is guaranteed a new leader as its current president Susilo Bambang Yudhoyono is barred from seeking a third term in office under the country's constitution.

One of the favourites to succeed him is Prabowo Subianto (pictured), leader of the Great Indonesia Movement Party (Gerindra).

He has pledged to tackle a range of issues including corruption, the wealth gap, government inefficiencies and Indonesia's declining resources.

His main rival is Joko Widodo, the governor of Jakarta, who led opinion polls even though at the time of writing he was yet to declare himself an official candidate.

The impact of the 2014 election could be felt on businesses in Indonesia months before even a single vote is cast, with many stalling on key decisions until the political situation was more clear.

"In the lead up to the 2014 presidential elections it's a mixed bag in terms of what to expect and how to prepare for the next change in government," says head of specialty – Indonesia, Cameron Sheild at Aon Risk Solutions.

"The risk is subjective to the industry a corporation is operating in within Indonesia. In recent times, growing nationalism has all but stopped foreign investment into mining. In September, the minister of energy and mineral resources issued Regulation No 27 of 2013 regarding Procedures for Share Divestment Price Determination & Change of Investment Particulars (MoEMRR 27/2013).

"MoEMRR 27/2013 makes a number of important changes to the regulatory regime for foreign investment in the local mining industry and has taken most foreign investors in the local mining industry and their advisers very much by surprise. Uncertainty over similar proposals to curb foreign ownership of banks has also been called into question. On the other hand, the government has pledged to revise a list of industry sectors open to foreign companies as a part of an effort to boost foreign investment amid declining growth figures.

"In view of the above uncertainties, coupled with political parties jostling for positions with no clear view of a lead candidate, and add in the staggering statistics of corruption by state officials, we have moved political uncertainty to the number 1 spot. Post the 2014 elections we suspect this will decline in risk, to what extent is yet to be determined."

Risk consultant at Astra International in Indonesia Duma Irene Mitalevanie explains some of the rationale behind companies' concerns.

"Political stability is very influential to economic planning, decision-making and growth," she says.

"Indonesia has many (more than five) political parties that are competing for the seat of government. Each party and its members has an agenda and most of them are personal or group interests.

"It is obvious from watching the development of businesses or particular companies that they can thrive if they have the support of, or are owned by, important and powerful persons or organisations in government. Policies, regulations or laws can be made based on the interests of certain parties to the detriment of others and if there is no clearly defined punishment, then the result is inequality and financial corruption in many sectors."

Political uncertainty will dominate life in Indonesia for the next few months, according to enterprise risk management specialist at Indonesian firm XL Axiata Johan Candra: "Next year will be the year of politics: the national election will be held, so in many companies in Indonesia it is now a matter of wait and see."

Reuters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