StrategicRISK

ASIA RISK REPORT

THE TOP CONCERNS
OF ASIAN RISK MANAGER

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SINGAPORE

IN ASSOCIATION WITH

ZURICH®

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PARIMA
Pan-Asia Risk and Insurance Management Association

INTRODUCTION

SEAN MOONEY
Asia editor

INTANGIBLE THREATS ON THE AGENDA

Welcome to *StrategicRISK*'s 2014 Singapore Risk Report, which examines the major challenges facing this tiny country with a predominantly services-oriented economy.

While researching this report, we talked to local risk practitioners and brokers who explained that intangible threats such as cyber and reputational risks were of prime concern to them. This contrasts with many other countries in the region, which are more concerned with risks raised by natural catastrophes and political instability, for example.

An increasingly complex regulatory environment, strong regional competition and a variety of human capital risks also register strongly on Singapore's risk radar.

This report is produced with the support of Zurich and with the assistance of the Pan-Asia Risk and Insurance Management Association (PARIMA). PARIMA's aim is to strengthen and enhance the risk culture in the region through the creation of opportunities for education and dialogue within the risk management community. It is a mission that sits comfortably with the aims of our publication and we will be working with PARIMA members in the future to bring you comprehensive coverage of Asia-Pacific's risk landscape.

Keep an eye out for future risk reports on countries such as South Korea and Taiwan – and our pan-Asia risk report and interactive webinar towards the end of the year.

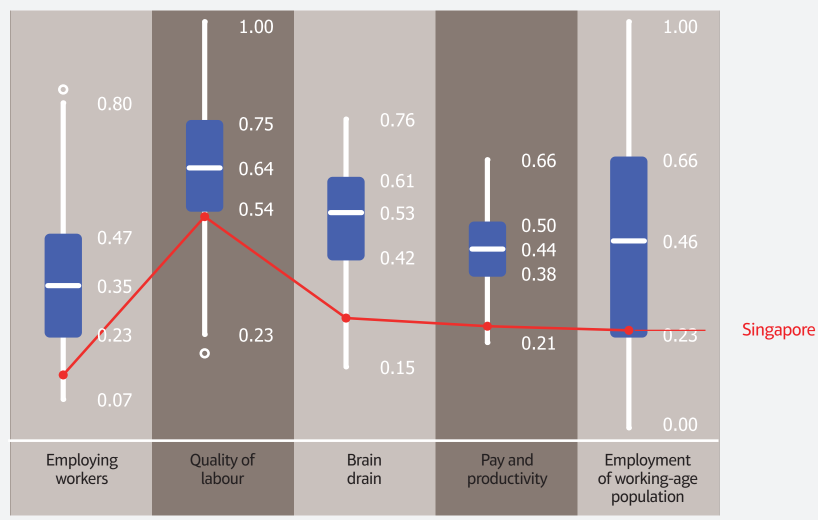
RISKS IN FOCUS

EMPLOYMENT AND POLITICAL INSTABILITY

Singapore's stable government and high-skilled employment market make it one of the most business-friendly countries in Asia

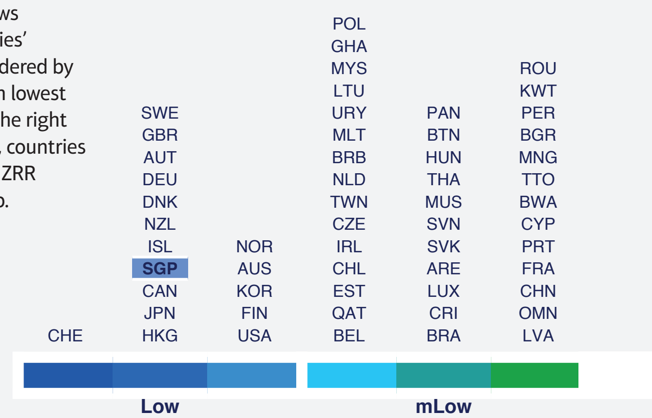
NOTE The risk bars indicate the world distribution of the particular risk, from the lowest scoring country to the highest. The lower the score, the lower the risk or exposure to the particular indicator (a lower score is always positive).

Employment



Singapore's labour market fundamentals – flexible employment laws, a sizeable local and expatriate worker pool driven by high-skill immigration, high productivity and a low unemployment rate – reflect consensus expectations of robust economic growth over the year(s) ahead.

COUNTRY RISK STACKS
The Risk Stacks chart shows a histogram of the countries' riskiness. Countries are ordered by ascending ZRR Metric with lowest on the left to highest on the right hand side. Within one bin, countries are ordered by ascending ZRR Metric from bottom to top.



3.6%
1 year ahead GDP growth forecast %

2.0%
1 year ahead Inflation forecast

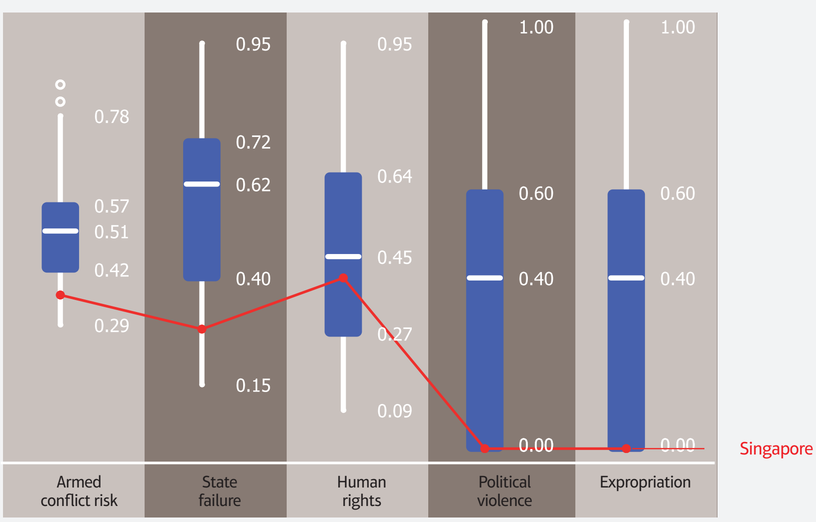
2.7%
Annual inflation

6.9%
Fiscal balance (%GDP)

277.9
GDP, current USD (billions)

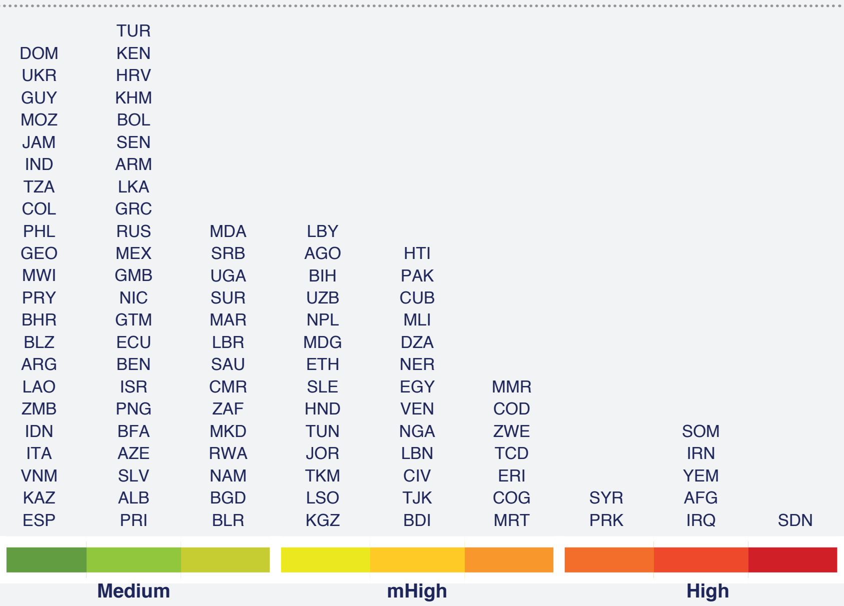
3.6%
Real GPD growth, year on year

Political instability



Stable government, adherence to the rule of law and control of corruption underpin the city state's reputation as one of the most business-friendly countries in the world.

Source: Zurich Risk Room



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TOP RISKS

A haven for business?

With a reputation as a reliable and trusted economic hub, Singapore has attracted many international businesses. However, inadequate cyber security and regional competition from cheaper neighbours are eroding that reputation

Singapore is a country with a keen focus on service industries, a fact that significantly affects its risk landscape. Although some of the primary risks faced by businesses based in or operating from Singapore are not defined by geographical boundaries, several issues are of particular concern to risk professionals in the country. One of the most pressing is cyber risk.

Singapore's success as a global financial centre and international business hub has long been underpinned by its reputation as a politically stable, low-risk location. However, gaping holes in the country's cyber security defences are now threatening its reputation as a safe place to do business, according to founder and chief executive of the strategic intelligence, risk and security management firm KCS Group Stuart Poole-Robb. "A lack of awareness of the high level of cyber security threat the country is now facing coupled with a chronic lack of cyber security professionals are leaving many organisations at risk from cyber crime and industrial espionage," he says.

According to Risk and Responsibility in a Hyperconnected World, a World Economic Forum (WEF) initiative, major technology trends such as sophisticated analytics and cloud computing are likely to generate between US$9.6trn and US$21.6trn for the global economy. However, should countries such as Singapore fail to keep pace with oncoming waves of increasingly sophisticated cyber attacks, the WEF believes cyber crime could end up costing the world economy US$3trn a year by 2020.

Many of the risk and insurance professionals consulted for this report list cyber risk as their top concern for Singapore, including Microsoft Asia's chief security officer Pierre Noel, who says it is "increasingly becoming top of mind discussion at board level". Noel sees a dangerous shortage of talent in related disciplines. "Singapore is lacking more than 30,000 IT and IT security practitioners, which induces… poaching," he warns.

Head of Marsh Singapore Iris Teo highlights data privacy risk: "With the implementation of the Personal Data Protection Act 2012 in Singapore, companies now have a regulatory reason to take this risk seriously," she says. "It has become a boardroom issue and we expect this to continue and escalate in the future."

Fellow broker Peter Jackson, who heads up Lockton Companies Singapore, says that companies are slowly realising that they face daily risk of cyber crime from inside and outside their business. "There needs to be much more focus on companies' intangible risks," he says. "Most companies' insurance and risk management is out of date and too focused on physical risk."

Cyber focus

Furthermore, Jackson says, web-based transactions are increasingly *de rigueur* in Singapore. "Registrations over the internet for manner of activity, including social media and downloads, are frighteningly common and routinely required," he says. "Data collection and analysis are all captured by financial institutions, data and IT managers and service providers, retail establishments and so on to facilitate business efficiency, customer convenience, their own revenue opportunities and growth. Credit card details and personal data are all in the care, custody and control of these establishments and their IT service providers."

Roland Teo, board member of the Risk & Insurance Management Association of Singapore, board member of the Pan-Asia Risk & Insurance Management Association (PARIMA) and head of risk management office for a Singaporean healthcare group, says cyber risk is a complex and invasive peril that requires intervention by industry leaders and the government to support Singaporean companies. "Available IT professionals helping companies with managing this risk need to be ahead of the curve and in tandem with the pace of global IT development," he says. "They have to introduce holistic ways for employees to manage rather than stop-gap measures. This will inadvertently impede innovation and growth. I also understand that not many underwriters have updated policies to address this risk."

> **'There needs to be much more focus on companies' intangible risks. Most companies' insurance and risk management is out of date and too focused on physical risk'**
>
> **Peter Jackson**, Lockton

Vice-president of group risk at Barclays Bank Geetha Kanagasingam says that although some might argue that this cyber risk should fall within the operational risk bracket "owing to the significantly increasing use of the internet to do business to stay ahead, data storage in clouds and so on, it warrants being singled out for greater focus as it is on the radar of corporates in Singapore today".

In fact, Kanagasingam lists operational risks as her top concern for Singapore and explains that they include risks directly or indirectly affecting the performance and quality of a corporate's services and products. "Other subcategories of risk exposures that may fall within the operational risk ambit include supply chain

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(business interruption), people, fraud, financial, security and IT risks," she says.

Kanagasingam also worries about regulatory risk, which she says involves "keeping up with the changing regulatory environment while ensuring your key stakeholder, the regulators, are kept happy at all times". "For some industries, invasive regulatory involvement and requirements can be rather costly to implement," she adds. "Not to mention penalties or fines for failure to comply."

Lockton's Jackson points out that Singapore is "quite rightly" a highly regulated business environment. "Businesses need to recognise that failing to meet regulations is a real business risk [in terms of] the penalties, damage to reputation and the diversion of management time from running their business," he says. (For more in-depth analysis of regulatory risk in Singapore, see 'The hand of the law' on pp8-10.)

Jackson also flags an often related issue, political risk, as a pressing concern. "As Singapore-based and multinational companies expand across Asia and invest into building critical assets, they are vulnerable to political risks," he says. "[This means] not only confiscation or expropriation, but changes to legislation, forced abandonment, embargo, non-payment and so forth. Few countries in Asia are immune from political mood swings that could cause damage or loss of business for Singaporean business."

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

InterContinental Hotels Group's (IHG) head of risk management for Asia Australasia Shuh Lin Tan agrees, adding that "civil unrest and security incidents such as island disputes" can adversely affect firms that rely on regional firms.

Many challenges

Another interlinked issue is regional competition, according to head of enterprise risk management and internal audit at Tigerair Gordon Song. He sees the geographical location of Singapore as both a competitive advantage and a threat to Singapore-based corporates.

"On the one hand, it facilitates access of companies to the region. On the other hand, it exposes Singapore corporates to competition from players that may be more nimble operating in home bases with lower cost bases and regulatory restrictions," he says. "The airlines sector is an example of one that was badly affected by regional competition and sudden capacity spike."

Roland Teo points out that high wage costs, a strong currency and weak exports have put the competitiveness of Singapore-based companies at risk. "Some US multinational corporations have left Singapore and more are planning to do so," he says. "Were it not for the current political instability, environmental catastrophes and major disasters [in other territories], many Singapore companies would have also left Singapore. Once our neighbouring countries have straightened out their politics and policies, countries such as Myanmar, with lower labour costs and abundant resources, may be a big draw for foreign direct investments."

Labour costs are also highlighted by Singapore-based governance and risk manager Eric Lee. "Given the size of the economy and population pool, organic growth is increasingly becoming a challenge," he adds. "Local organisations need to look beyond the local markets and industry boundaries to meet their growth targets." When it comes to human capital, Lee says mobility as well as marketability of talent makes it a constant challenge for organisations operating in Singapore.

Song points out that although inflation rates are generally kept under control in Singapore, the cost of labour and real estate has increased substantially in the past decade. "There is a noticeable talent crunch in some sectors such as IT and healthcare, further exacerbated by increasing labour mobility, mounting pressures on immigration and regulations on foreign manpower," he says.

Roland Teo points out that Singapore-based companies are competing with the entire region for top talent. "More professionals are also sought after in this region because of the progression of many companies and industries towards higher skilled jobs and profession," he says. Retention of talent is equally challenging, Teo adds: "Although it is not good for an employee to change jobs frequently (as they don't stay long enough to acquire the details needed, especially for technical positions), one cannot blame the employee sometimes because many companies do not provide long-term security for their employees."

Iris Teo says: "Firms are caught in a squeeze play of having to offer competitive benefits to attract and retain employees, while at the same time reduce cost. They need to also look at health management and wellness programmes to address root causes of workforce health." (For more on people risk, see box overleaf).

HUMAN CONUNDRUM

Singapore's ageing population and a shortage of workers with relevant qualifications is problematic for many risk managers. The working population in Singapore is fluid and transient, which only complicates matters. As head of Lockton Companies Singapore Peter Jackson puts it, building a settled team is key to having as successful business. "In Singapore, you have to work doubly hard at this," he says. "There is a shortage of talent and too many people mistakenly believe that changing job every 18 months is a sustainable career strategy."

Singapore-based governance and risk manager Eric Lee says Singapore has a relatively high number of educated, literate and skilled workers, which translates into high staff mobility. "Retention of talents will always be a challenge owing to the global mindset (especially among the younger talents) where organisations are no longer competing only on home ground," he says. Against such a backdrop, Lee says, organisations must expect potentially shorter tenure as the norm, while increasing their competitiveness through focusing on other aspects to better attract and retain employees. "The use of money as a job motivator might no longer be sufficient to retain talents, who will be attracted by other qualitative factors such as potential for growth and exposures, work-life balance, work flexibility and so on," he says.

Vice-president of group risk at Barclays Bank Geetha Kanagasingam advises Singapore-based corporates to regard employees as a major company asset, particularly if their principal business involves the provision of services. "People risk can challenge a company in many ways from lack of talent and high turnover, to dealing with unions," she says. "In fact, to a large extent the ability to attract and retain talented people does affect the reputation of the company, so undoubtedly corporates must make the necessary efforts and take measures to not only attract people, but retain them by recognising and rewarding them while ensuring they are satisfied and motivated."

Roland Teo, board member of the Risk & Insurance Management Association of Singapore, board member of the Pan-Asia Risk & Insurance Management Association (PARIMA) and head of risk management office for a Singaporean healthcare group, says that when companies take a long time to replace or fill a position, it affects their productivity and can result in a loss of intellectual property. "This is made worse when the new staff leaves after a short stint," he says. "Currently, in Singapore, it is an employee market and I have seen new employees' length of stay decrease from an average of one-and-half years to six months." Teo points out that positions requiring a high level of skills and expertise are becoming harder to fill in Singapore. "Hong Kong is quite a draw for banking and finance professionals and healthcare professionals are also in demand in the region," he adds.

InterContinental Hotels Group (IHG) head of risk management for Asia Australasia Shuh Lin Tan says businesses in Singapore must be prepared to groom and retain the talent they hire, especially local talent. "We understand the importance of training and developing local talent, so through our IHG Academy we join forces with local education providers to provide real-life skills and create job opportunities in hospitality," she says. "This public-private partnership improves employment prospects for local people, provides us with a pipeline of talent and ensures we offer high-quality guest experiences worldwide."

Head of at Clyde & Co Clasis Singapore's employment practice group Julia Yeo says that recent regulatory requirements are designed to restrict foreign talent import in favour of home-grown workers who are equally qualified and who can do the same job on competitive local terms. Some of the challenges posed by this for companies operating in Singapore include the need to change the hiring process to search locally before extending their recruitment searches overseas, and the fact that increased demand for local talent is likely to exacerbate the trend of employees moving from job to job within a few years. "Salary inflation [can occur] as employees move often to gain a jump in salary, but sometimes without the relevant depth in experience to match the job," she adds. "Succession planning as employees do not stay long enough to learn the ropes [is also problematic, as is] the need to review retention strategies and employee progression programmes to avoid having to engage in a never-ending round of hiring and rehiring."

The focus in the future will be on the management of information and having clever people whom you can trust, says general secretary of PARIMA and director of Tunstall and Associates Steve Tunstall. "If you can do those two things, then it's almost impossible to fail," he says. "Getting the right people, getting the mobility is a significant challenge irrespective of location. But Singapore goes through stages; at times it's very open to people coming in from overseas if they have the correct skill set, but at other times the pendulum swings back the other way, which is where it is at the moment." Tunstall says that it is a challenge to assemble quality teams in Singapore. "At many levels in organisations, it is difficult to hire the people you want in Singapore, and even once the overseas talent you want to get in has been identified, it's by no means a shoe-in that they will receive a work permit, and certainly not permanent residency," he says.

Another risk area highlighted by almost all the risk and insurance professionals consulted for the report is reputation. Roland Teo puts it at the top of his risk list because he sees it as "not only about saving face but survival". "Singapore has a sterling reputation of being a trusted hub for trade and finance and companies have reputations for being reliable, efficient and trustworthy," he says. "The increase in trading activities and higher expectations from customers and stakeholders will inevitably increase the likelihood of companies suffering reputation damage. The trigger points are usually major incidents that attracted negative media attention."

Teo says that although some companies are quick to put in place a good communication and crisis management programme to mitigate reputation risk, this is not a medium- to long-term solution. "We also cannot think that when there is no news in the mainstream and social media, it is good news," he adds. "I know of Singaporean companies that have good track records, but lost their bid for a similar project because of negative publicity from their previous customers."

Social media

Lockton's Jackson says that traditional media and social media hold great sway on public opinion. "You may do nothing wrong, indeed, you may do everything right, but be on the wrong side of a media story that affects a company's financial performance through lost sales," he warns.

IHG's Tan says the risk of reputation damage on social media channels represents a real problem for her business. "Once 'primed' with a negative impression of a hotel, people are more likely to believe further negative news, while positive news face an uphill struggle to be accepted. Social media's ubiquity means that reputational damage can spread faster than before; it also opens the door for the easy creation and spread of malicious rumours."

Indeed, Barclays Bank's Kanagasingam sees reputation as a firm's most valuable and fundamental asset, which takes it years to build. "It must be effectively managed as the effect can be so significantly detrimental to the organisation," she says.

The only constant

Looking forward, Kanagasingam predicts that the primary focus of Singapore-based corporates in coming years will "probably be geared towards cyber risks, fraud risks, catastrophe risks and regulations risks". Tan worries about competition from neighbouring countries, the stunting of innovation owing to lack of talent and mergers and acquisitions that could result in lawsuits or loss of revenue because of poor integration or adequate due diligence. Lee says change will continue to be the only constant. "Given the dependency of Singapore on the much bigger economical environment, global uncertainties, such as the opening up of Myanmar, the slower growth of China, political changes in Thailand and the EU recovery, will all affect how companies operate here, bringing new risks," he says.

Roland Teo says the risk landscape is changing at a faster pace than he ever imagined was possible. "Greater and more storms of adversity are coming to our shores," he warns. "If companies have in place strong fundamentals with long-term strategies, they should survive these storms. The future of risk management in Singapore will depend on the regional and local risk community – risk managers, insurers, brokers, solutions provider, consultants and the government – working closely together for a common good." **SR**

THOUGHT LEADERSHIP

MARCEL VAN PEENEN
Manager for professional lines, Zurich Asia

FOREWARNED IS FOREARMED

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

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

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

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

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

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

Experts will say that the question is no longer "what to do IF there is a breach?", but:"what to do WHEN there is a breach?", so be prepared.

REGULATORY RISKS

The hand of the law

Singapore has a relatively sophisticated governance framework, but recent changes to regulation, such as that on data protection, mean that compliance has become even more important for corporates than previously

Corporate governance has become an issue of overwhelming importance for risk managers in Asia – particularly, in recent times, for those based in Singapore. General secretary of the Pan-Asia Risk & Insurance Management Association (PARIMA) and director of Tunstall and Associates Steve Tunstall says that recent changes of the Singapore Code of Corporate Governance mean that directors now have to mention risk management in their annual reports, which is driving more interest in the topic. "Some of the biggest risks facing many companies, not merely financial institutions, centre around compliance issues these days," he says. "So organisations need to ensure they keep up with the changing regulations in their area and that they deal with them in a practical and pragmatic manner."

Of course, if a Singapore-based organisation is spread out across the region or the globe, it becomes "even more of a difficult ask", Tunstall points out. "Many jurisdictions advance faster than others, so compliance obligations are sometimes contradictory," he says. "In that case, it is essential to establish how to deal with those to avoid ending up on the wrong side of the law and suffer reputational damage." The entire area of compliance and changing regulation is particularly interesting in Singapore at the moment as its regulators are "really starting a more Western jurisdictional approach to regulation", Tunstall says. "The entire compliance aspect is accelerating in terms of the energy required to keep up to date and the potential downside in case of a misstep."

An area of great interest

Data protection is a particularly hot topic in Singapore because of new laws in this area, as Tunstall explains. "It's not that onerous by overseas standards – many companies will be fully compliant already – but there's been a bit of a panic, with some consultants talking up the problem. However, the changes bring Singapore only broadly in line with most other Westernised countries in terms of the rights and obligations for corporate data, particularly in respect of customer data, but employee data as well."

There is still a way to go before it becomes really clear how those laws will be applied, Tunstall says, adding that data protection is an evolving issue that involves everyone. "Everybody, as individuals, is interested in how companies look after the information we have shared with them," he says. "So, big issues arise there in terms of how that's managed within a company, but at the same time there are increasing pressures by all companies to use that data effectively."

Partner at Clyde & Co Clasis Singapore Ian Roberts agrees that data protection is an area of great interest. "The Personal Data Protection Act 2012 (PDPA) came into full force in July 2014, regulating a person's ability to carry out direct telemarketing activities (specifically to Singapore telephone numbers) and setting out obligations relating to the collection, use and disclosure of personal data (both electronic and non-electronic)," he says. "All organisations must designate a data protection officer to be responsible for ensuring compliance with the PDPA and to ensure that reasonable security arrangements and processes are in place to comply with their obligations when collecting, storing, using and transferring personal data within Singapore and overseas."

> **'The entire compliance aspect is accelerating in terms of the energy required to keep up to date, and the potential downside in case of misstep'**
>
> **Steve Tunstall**, Tunstall and Associates

Organisations will also be obliged to deal with requests from individuals to access and/or correct their personal data. "Enforcement will largely be complaints-based and the Personal Data Protection Commission has the power to issue financial penalties of up to US$1m for breach of these obligations, while breaches of certain specific offences under the PDPA may carry up to three years' imprisonment and/or a fine of up to US$100,000."

In addition to the new obligations under the PDPA, the Monetary Authority of Singapore (MAS) has issued new technology risk management guidelines, which also came into effect in July, setting out requirements for financial institutions to maintain high availability for critical systems and to protect customer information from unauthorised disclosure. Roberts explains that all financial institutions must now have systems in place to detect malfunctions and security breaches and are required to notify MAS within one hour of discovering a breach that has a severe and widespread effect on operations. "Contravention of the updated notice may attract a fine, termination of licence and other sanctions," he warns.

Global best practice

Singapore-based governance and risk manager Eric Lee says corporate governance rules in Singapore are a reflection of global best practices. "As such, corporations typically can learn from practical implementation lessons of firms elsewhere, reducing the steep learning curve," he says. Franck Baron, chairman of PARIMA and general manager for risk management and insurance at international healthcare, medical assistance and security services company International SOS, agrees that Singapore provides a relatively sophisticated regulatory and corporate governance framework. "This being said, the need for a truly enterprise-wide embedded risk management is still there," he cautions.

Vice-president of group risk at Barclays Bank Geetha Kanagasingam agrees that Singapore has a fairly mature environment in terms of regulations that enforce good corporate governance requirements for listed entities and she expects to see improvements in the governance risk of such corporates. "I'm expecting to see a more robust governance framework put in place with greater recognition given to the role of risk managers," she says. "However, I do not expect to see improvements at the same pace for SMEs in Singapore in light of the less stringent requirements coupled with the cost of implementation."

Further concerns are expressed by Microsoft Asia's chief security officer Pierre Noel, who believes that for many organisations in Singapore "the overall responsibility of the board of directors is more rubber stamping than anything". "The climate is not conducive for corporate directors to take a more inquisitive approach," he says. "Also, chief risk officers seldom exist within unregulated organisations in Singapore, and when the role exists, their ability to engage effectively with the board is often limited. I'm afraid it will take some severe incidents for corporate governance to evolve and give a more effective place to overall enterprise risk management in Singapore." As Roland Teo, board member of the Risk & Insurance Management Association of Singapore, board member of PARIMA and head of risk management office for a Singaporean healthcare group puts it: "Although many Singapore companies are 'compliant', unfortunately, not many are compliant in form and substance."SR

OUTSIDE THE MAIN DANGER ZONE, BUT NOT OUT OF DANGER

Although Asia in general is known for its vulnerability to natural catastrophes, such as earthquakes and tropical storms, Singapore is fortunate to lie outside the most serious danger zones. However, risk managers should guard against complacency. As Roland Teo, Risk & Insurance Management Association of Singapore (RIMAS) and Pan-Asia Risk & Insurance Management Association board member and head of risk management office for a Singaporean healthcare group, puts it, recent natural catastrophe events in the region "serve as a wake-up call to Singaporean companies that even though these events happened thousands of miles away from us, we are not spared". "It provides a good case study in the reality of such threats and risks," he says.

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

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

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

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

However, Lee says that insurance should be viewed only as a safety net against worst-case scenarios. "Additional measures such as greater business continuity planning (BCP) should also be enforced and not neglected," he says. "One practical element of BCP is to tap into the knowledge of the locals as they will likely have encountered similar nat cat situations in the past and can draw lessons from these experiences." Indeed, head of Lockton Companies Singapore Peter Jackson says he has seen a change in attitudes to business interruption within the business and with suppliers and customers. "What would help is a better understanding of the effects of natural catastrophe on businesses and availability of data," he adds.

INSURANCE & RISK MANAGEMENT

Room for improvement

The insurance market in Singapore is growing quickly, but this may not be sustainable in the long run. Also, although the awareness of risk management has grown, organisations still need to see it as more than a compliance exercise

Singapore has established itself as the insurance hub for South-East Asia and is home to a large number of Asia headquarters for global insurers. This is "more of an opportunity now, rather than a risk", according to general secretary of the Pan-Asia Risk & Insurance Management Association (PARIMA) and director of Tunstall and Associates Steve Tunstall. "The average corporate insurance buyer in Singapore can be guaranteed to have access to as good a market capability as anywhere in Asia, if not the world, because as Singapore's so small it's much easier to get hold of people than in London or New York," he says. "What's been interesting is the trend that all the global insurers want to be here. They all want to be in Asia, they all want to expand and generally that's keeping the market soft. As a buyer, it's great, but I suspect there are multiple companies with almost identical strategies on how they are going to succeed in Asia, so perhaps problems may arise in the future."

Since the publication of *StrategicRISK*'s 2013 *Singapore Risk Report*, the premium ratings applicable to indigenous and overseas risk (predominantly property) written via Singapore markets have experienced a freefall, according to managing director of strategic risk solutions at JLT Singapore Philip Ondaatje. "Although this has proved to be economically beneficial to insureds, its sustainability is now entering the spotlight," he says.

Ondaatje says the industry has also made a continued strong push on marketing new products such as cyber in what he calls "a somewhat small attempt to mitigate the loss of premium earn from property and traditional casualty products". "We do not doubt for a moment, however, that this is a truly emerging risk and, coupled with legislative imposition such as the Personal Data Protection Act 2012, we need to make our clients aware of the perceived exposures and current risk mitigation alternatives."

Ondaatje concedes that the low cost of risk transfer represents great news for firms at present, but adds that "it is widely expected that when the market turns (usually triggered by a heavily insured natural catastrophe event or wholesale reduction in reinsurance capital investment), the supply will fall well short of the demand, and this will have a very punitive correlation to future pricing".

Singapore-based vice-president of group risk at Barclays Bank Geetha Kanagasingam says the insurance market in Singapore is growing "very positively and faster than I had expected". "Many insurance products that were not available in the market before are now easily available, such as financial lines and cyber risk products," she says.

Franck Baron, chairman of PARIMA and general manager for risk management and insurance at international healthcare, medical assistance and security services company International SOS, sees the Singaporean insurance market's big challenge as residing in the ability of market players to be "Asia-compatible (versus underwriting policies decided in Europe and the US), and for regional staff to be fully empowered in terms of decision making and awareness about regarding their group offering capabilities".

Solutions rather than products

Risk & Insurance Management Association of Singapore (RIMAS) and PARIMA board member and head of risk management office for a Singaporean healthcare group Roland Teo believes there is an increased awareness in the Singaporean insurance market of the "need to provide solutions, rather than only products to customers". "However, I know of risk and insurance managers who still do not know that, apart from support from insurers and brokers for insurance coverage and claims support, they could call on them for other help to effectively manage risk." Nevertheless, Teo says he sees many Singaporean companies setting up enterprise risk management (ERM) offices and that this is "a good sign". "However, we have some way to go before the board and senior management can tap the true value ERM," he says.

> **'The pressure to remain compliant can take organisations down a road of box-ticking and compliance-driven procedures'**
> **Douglas Ure**, Marsh Risk Consulting

Gordon Song, head of enterprise risk management and internal audit at Tigerair, says there is definitely a heightened awareness on the importance of having a formal risk management framework and process in place.

However, there are two critical success factors, he says. First, organisations must chart and track their roadmap for their risk management journey. Second, corporates must embed risk management, rather than leave it as a "stand-alone paper exercise". Song believes the risk function in most Singaporean companies is "still very much compliance driven". "My observation is that the awareness of risk management has grown tremendously, but in terms of the maturity of internalising what it should be about, we are not there yet," he says.

"I think people still see risk management as a kind of a compliance-driven regime. I don't see many companies formally embedding risk management into processes such as business development, supply chain management and due diligence on corporate transactions such as joint ventures." Song laments that he had expected more Singaporean companies to invest in risk management in the past decade. "Although many companies have made quantum leaps, there is still a long way to go before companies in Singapore embrace and internalise risk management like some companies have in Europe and Australia, for example," Song says. "I want to see Singaporean companies moving in that direction because there is value, but the value cannot be realised until there is good tone at the top on internalising it instead of treating it as a 'tick the box' exercise."

Douglas Ure, leader of Marsh Risk Consulting in Asia believes that regulation has been a big driver for ERM in Singapore. "However, the pressure to remain compliant can take organisations down a road of box-ticking and compliance-driven procedures that may not add value," he cautions.

"Businesses need to strike a balance between meeting regulatory requirements and establishing the right risk management processes that actually make a difference." Ure says

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risk maturity does not merely involve implementing risk processes and governance structures; a financial element can also be measured. "By looking at the cost benefits of a risk mitigation process, a picture can be built of how robust a firm's approach is," he says.

Board engagement

Barclays' Kanagasingam is of the opinion that the level of boardroom awareness and the key role boards play in risk management and internal controls are growing in Singapore.

"I definitely see a strengthening of risk management with greater engagement and involvement of board of directors," she says. "In fact, the latest revised Singapore Code of Corporate Governance expressly provides that the board is responsible for the governance of risk, hence, I would expect this to be implemented with increasingly more time spent on reviewing and discussing risks in the boardroom."

Second vice-president of RIMAS and convenor of Singapore's National Risk Management Working Group Daniel Tan Kuan Wei says a very engaged board can set a well-established overall strategic direction of risk management practices, but ultimately, strengthening depends on key organisational stakeholders such as senior management, especially the risk management function. "They need to plan and execute initiatives effectively," he says. "Having said that, there seems to be a strengthening of risk management 'hardware' such as policies, frameworks and gradual adoption of international risk management standards such as ISO 31000 in Singapore, especially after the launch of the revised Code of Corporate Governance in 2012, where more emphasis is given to risk management."

Kuan Wei says that for risk managers to ensure risk management success in their firms, they should "reach out and establish or join bilateral or multilateral connections within or across industries to share and learn effective practices". "Sometimes, success in a specific risk management practice of a firm could also be replicated in another," he says.

Head of Lockton Companies Singapore Peter Jackson cautions that although more attention is being focussed on risk management in larger companies, this is not necessarily the case in "high-growth, privately owned businesses, which are arguably the most vulnerable group". Franck Baron says a need still arises for truly enterprise-wide embedded risk management in many Singaporean companies. "There is still room for improvement to ensure maturity of risk management at the top level," he says. "This can be achieved only within a compliance-driven framework." **SR**

THOUGHT LEADERSHIP

SIMON DAVIES
Head of talent for Asia-Pacific and the Middle East at Zurich Insurance Company

TALENT RETENTION

Attracting, retaining and utilising the right talent is critical to an organisation's success. To put it in simple terms, if the pipeline of talent runs dry, the pipeline of business will soon run dry too. This is a particularly pressing challenge for companies with a strong Asia-Pacific presence. In the region's emerging economies, demand for talent outstrips supply, especially for leaders and professionals. In Singapore, which is a regional hub with a relatively small, tightly focussed business community, there is a demand versus supply challenge for slightly different reasons, but the end result is the same.

The big risk is one of business continuity or failure to realise a key strategy because an organisation does not have, cannot keep or utilise its talent. Through lack of talent, organisations can suffer a significant loss of competitive advantage at what is often a critical point during entry or expansion in an emerging market.

There is no market or industry in the region that is immune to this and the problem is not going away. So companies need to be aware and have a plan. They need to equip themselves to identify and address these risks – both external talent acquisition and internal talent development are vital to the effective management of human capital.

An annual 'talent review' is a useful exercise. It begins by understanding where the biggest challenges lie and which roles are most critical to the company's success. It progresses into understanding existing employees, identifying who has the potential to progress and how they could be developed, supported and utilised.

The insights from this lead on to succession planning for critical roles. The outcome is part 'health-check' and part 'to do list'. A 'health-check' in the sense that the company is aware of its level of risk and can start to focus on addressing problems, whether that means developing someone as a successor, devising a 'Plan B' or even making an informed decision that it is a risk that the firm is willing to accept for now. A 'to do list' is also useful in the sense that it puts clear focus on the action that must be taken, tracked and measured.

Markets in Asia are growing at faster rate than senior leaders can be developed. This is a challenge that companies will have to address for the foreseeable future. After all, a workforce demographic cannot change overnight, but it is possible to understand and mitigate your own talent risk.

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