

Lawsuits against directors on the rise: Study

26 May 2004

Jardine Lloyd Thompson Private Limited survey finds that senior executives at listed Singapore companies believe corporate governance standards should be strengthened as the risk of liability for directors and officers increases.

Singapore, 26 May 2004 - A new study commissioned by Jardine Lloyd Thompson (JLT) Private Limited has shown that the number of cases filed against directors has been increasing steadily over the last three decades and there is a need to improve corporate governance in Singapore. In 71% of the cases, the directors lost, indicating that the probability of a director successfully defending the case is very low.

The study was conducted by the Corporate Governance & Financial Reporting Centre (CGFRC) at the NUS Business School, National University of Singapore (NUS) and the reported results are based on actual cases filed against directors in Singapore since 1975 and key findings from a survey targeted at companies listed in Singapore.

Mr. Tony Mitchell, Managing Director, Financial Solutions with JLT cited that the company invested in this study in order to assist clients and associates to better understand the issues surrounding corporate governance and risks facing directors of companies in Singapore.

Current corporate governance environment in Singapore Associate

Professor Mak Yuen Teen, Co-Director of the CGFRC and Vice-Dean of NUS Business School said, "Most respondents to the survey believe that the likelihood of claims against directors and officers is going to be higher in the future and the highest threat of claims arises from regulators, banks, the company itself and institutional investors. They feel that more efforts should be made to improve corporate governance."

Inadequate or inaccurate disclosure of information and accounting and other fraud were the top two reasons that respondents cited as potential areas for claims against directors and officers. Many companies are also shown lacking in providing training to directors on their duties and liabilities.

"Most companies are realising the importance of effective risk management and insurance protection and its role in a corporate governance programme to help attract and retain experienced directors," said Mr. Tony Mitchell. He added that many respondents reported increased interest from the directors regarding the Directors and Officers' (D&O) Liability insurance and the majority felt that an insurance broker adds value to their insurance programme. "Three quarters of the respondents also agreed that the details of the D&O liability insurance should be made known to the non-executive directors before they are formally appointed to the board."

Comparisons with Hong Kong and Asia

A similar [study commissioned by JLT in Hong Kong](#) last year, also showed similar trends in the need to improve corporate governance as demand by shareholders and regulatory authorities have increased the liability for directors and officers.

Four key measures cited by respondents in Singapore and Hong Kong to strengthen their own company's corporate governance include improving transparency, establishing checks and balances within the company, strengthening the role of independent non-executive directors and increasing oversight by independent professionals. While 82% of respondents in Singapore reported improving remuneration disclosure as a measure to increase their standard of corporate governance, only 20% in Hong Kong reported doing so.

21% of listed companies in Singapore do not have D&O liability insurance which is less in comparison to Hong Kong's 41.5%. However, in both countries, those without D&O insurance tended to consider that their

future potential risk of claims against directors and officers was low. Most respondents in Singapore perceived Singapore's corporate governance to be better than most other countries in Asia. 58% of them said that they had similar level of corporate governance as Hong Kong and Japan while around 40% felt that Singapore had better corporate governance as compared to these two countries.

Contact:

Mak Yuen Teen, Singapore (65) 6874 6857

Tony Mitchell, Singapore (65) 6430 4551



Tony Mitchell, Managing Director, Financial Solutions, Jardine Lloyd Thompson Asia



Panel of presenters (from left to right)

Ms Lan Luh Luh, Advocate & Solicitor and Assistant Professor, NUS Business School, Associate Professor Mak Yuen Teen, Co-Director of the CGFRC and Vice-Dean of NUS Business School and Mr. Tony Mitchell, Managing Director, Financial Solutions, JLT Asia

Notes for the Editor

Jardine Lloyd Thompson (JLT) Private Limited began its operation in 1969, and has since gained a steadfast reputation as one of Singapore's top retail insurance brokers. They are part of the Jardine Lloyd Thompson Group, the largest UK and European based broker quoted on the London Stock Exchange with a market capitalisation in excess of £1 billion.

The Corporate Governance and Financial Reporting Centre is a unit of NUS Business School. The centre's mission is to research, disseminate and promote best practices in corporate governance and financial reporting. It is one of the few centres in the world for the promotion and development of good corporate governance and better financial reporting.