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## PRESS RELEASE

### INCREASED CONCERNS OVER CORPORATE GOVERNANCE STANDARDS

*Survey among Singapore-listed companies reveals that despite high-profile corporate scandals due to lapses in risk management, two in five companies do not have adequate systems in place.*

**Singapore, 3 August, 2005** – Highly publicised corporate scandals in Singapore over the past year, such as those relating to China Aviation Oil, Accord Customer Care Solutions and Citiraya appear to have affected confidence in the quality of corporate governance. This is one of the key findings of a survey organised by the National University of Singapore (NUS)'s Corporate Governance and Financial Reporting Centre, a unit of the institution's Business School and Jardine Lloyd Thompson Pte Ltd.

#### **Increased concerns about market malpractice/manipulation and investor protection**

The survey was conducted among companies listed and incorporated in Singapore and covered a cross-section of industries. Compared to 60 percent of respondents last year who believed that investor interest was adequately protected in Singapore, only 43 percent of respondents in this year's survey expressed confidence. There was also a significant decrease in respondents who agreed/strongly agreed that market malpractice/manipulation is not a significant problem – from 63 percent last year down to 50 percent this year.

Commenting on the survey results, Dr Mak Yuen Teen, co-director of the Corporate Governance and Financial Reporting Centre (CGFRC), said: "The increased concerns are expected given the recent corporate scandals. It would be interesting to see how future country surveys of corporate governance conducted by other international organisations will place Singapore, relative to the rest of the world.

"Singapore has a well-deserved, hard-earned reputation as a country where the rule of law, ethics and integrity are taken very seriously. This reputation, once lost, is hard to regain as some countries have discovered to their cost.

I would urge regulators, companies and all market players to work together collectively to ensure that the reputation we have worked hard to achieve over decades is not lost in a matter of years. The good thing for Singapore is that the recent scandals worldwide have made ethics and integrity valuable. This is a big part of the Singapore 'brand' and we should capitalize on it."

### **Inadequate risk management systems**

Despite high profile corporate problems due to failures in risk management, almost two fifths (38 percent) of respondents said that they do not have a system for identifying and managing risks. However, 70 percent of respondents said that following these problems, they have reviewed their risk management function. A further 14 percent expressed the intention to review their risk management functions in the near future.

Tony Mitchell, managing director for financial solutions for JLT Asia, said: "All good businesses are focused on growing their profitability and revenue streams, but so often, the importance of putting in place adequate risk management systems can be neglected. Even in first rate economies and regulatory environments such as Singapore, senior management needs to continually focus on the fact that risk management systems are critical and help organizations protect shareholder value."

### **Lack of D&O Education**

One concerning trend borne out in the survey is that many organizations do not provide continuous education to directors and officers on corporate governance issues and their legal duties and liabilities. Almost one in two respondents (46 percent) also felt that there was a shortage of individuals who are qualified to be independent directors. Mitchell said: "It is in the emerging or supporting aspects of company management, such as risk management and audit, that the truly independent directors can have a critical role in underpinning the business".

Respondents anticipated that claims against directors and officers would be an increasing problem going forward – compared with one-tenth (10 percent) of respondents who felt that the risk was high/very high at present, almost one-third (30 percent) felt that the threat would be high in the future. Almost three-fourths of respondents felt that higher standards of

corporate governance demanded by regulatory authorities and shareholders have increased Directors' and Officers' (D&O) liability. Respondents highlighted inaccurate disclosure of financial information and fraud as the two most probable reasons for claims being brought against directors and officers.

More than four-fifths (83 percent) of respondents recognised D&O liability insurance as an essential part of a listed company's insurance programme. Almost four-fifths (79 percent) said that they had D&O insurance coverage. Three in four felt that D&O liability insurance would help to attract and retain experienced directors.

Mitchell added: "By and large, respondents in the survey recognize that there are two key pillars to protecting against directors and officers' liability claims. The first pillar is to institute an effective corporate governance structure. Once this has been put in place, with all the right checks and balances, the next step is to institute a comprehensive D&O insurance programme to cover against the residual risk of liability claims against directors."

### **D&O Liability Insurance Market Survey**

A separate survey conducted among D&O insurers by JLT Asia showed that recent corporate governance issues in Singapore have affected the Singapore liability insurance market. Eight out of 10 insurers assessed the level of D&O risk in Singapore to have increased over the past 12 to 18 months.

The biggest impact has been insurers reducing the scope of policy coverage, which can often go unnoticed by directors and officers – until there is a claim. Insurers identified claims from employees, shareholders and regulators as the three key sources of claims as perceived by the market.

Mitchell said: "The perception among insurers is a further affirmation of the findings of the NUS Survey. The situation continues to provide challenges - in the face of more restricted covers and heavy price competition by insurers, companies need to be more rigorous in evaluating and selecting policies. Prudent directors and officers will ensure that they are involved in the process."

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### **About Jardine Lloyd Thompson Pte Ltd**

Jardine Lloyd Thompson Private Limited (JLT Pte Ltd), the Singapore company of Jardine Lloyd Thompson Ltd, is one of the top three retail insurance brokers in Singapore. JLT Pte Ltd has been a provider of insurance broking and risk management services in Singapore since 1969. Our company's strength is supplemented by our ability to tap our international and local network resources and expertise to the advantage of our clients.

JLT Pte Ltd has a staff strength of more than 60 people, including many highly qualified individuals who have accumulated vast knowledge and expertise from their long working experience in the insurance industry. Apart from placing insurance for major corporations, we also provide technical resources in various fields of expertise including liability, professional indemnity, marine and construction.

Integrity is a hallmark of the JLT organization. We believe that our quality and compliance regimes are the most thorough among brokers in the industry.

Website: [www.jltasia.com](http://www.jltasia.com)

### **Corporate Governance and Financial Reporting Centre (NUS Business School)**

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.

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