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SURVEY: SINGAPORE COMPANIES RECOGNISE IMPORTANCE OF RISK MANAGEMENT, BUT MANY NOT MATCHING THIS WITH ACTION

New pan-industry, regional risk organisation set up to discuss issues and best practices

Singapore, 28 November 2007 – While the vast majority of listed companies in Singapore – 85 percent – recognised and advocated the importance of risk management, there is still some way to go to match this with action. This is the finding of a survey commissioned by Jardine Lloyd Thompson (JLT) Asia and conducted by the National University of Singapore's Corporate Governance and Financial Reporting Centre. The survey of listed companies in Singapore assessed awareness levels of corporate governance, risk management and directors' & officers' (D&O) liability issues.

Four out of 10 companies surveyed still did not have a formal enterprise-wide risk management process, with less than a third having a formally approved risk management policy. While six out of every 10 companies had appointed someone to oversee risk, only 21 percent of these were full-time positions.

Two-third of companies that responded said that they describe the risks faced by their company in their Annual Report. However, the majority of these same companies do not disclose their risk management policy statement, provide a risk management report or describe the strategic risk management approach taken by their company.

Operational, credit and compliance risks were the risk areas most monitored by organisations, while reputation risk and risks due to hazards were the least.

Responding to these results, Paul Clarke, JLT Asia's Regional Director for Echelon Risk Consulting, said: "These findings demonstrate that as a whole, Singapore companies do appreciate the importance of Enterprise Risk Management. However, there is more that many of these companies can do to demonstrate this commitment. For example, companies can agree what exactly are their major risk exposures through a formal process of risk identification and assessment."

Prof Mak Yuen Teen, co-director of the Corporate Governance and Financial Reporting Centre and Regional Research Director at Watson Wyatt Worldwide, said: "Factors such as an integrated approach to risk management, the board taking responsibility for approving the company's risk management policy, setting the risk appetite and tolerance, and overseeing risk management through regular risk reporting from management, are all increasingly recognised as important tenets of good corporate governance. Recent corporate scandals are often at least partly attributable to risk management failures. However, they also indicate that risk management is much more than just having a risk management framework in place."

Increasing concerns over D&O liability risks

The survey also indicated that concerns over D&O liability risks were growing. Between 2005 and 2006, the biggest increases related to concerns over employment practices (from 26 percent to 62 percent) and interested party transactions (from 49 percent to 71 percent). Respondent companies identified false/misleading disclosure of financial or other material information (87 percent) and accounting and fraud (85 percent) as the most concerning areas.

Growing recognition over good corporate governance practices

Almost all the respondents believed that practising good corporate governance was the best defence against liability of directors and officers. Nearly two-third of respondents said that their companies provided continuous education to their directors and officers on corporate governance issues and their legal duties and liabilities.

Around three in four companies believed that D&O Liability Insurance helped attract and retain experienced directors. Compared to the 2005 survey, there was a significant increase – from 10 percent to 25 percent – in the proportion of respondents who felt that the risk of potential claims against directors and officers was high or very high.

Another huge disparity between positions taken and actual implementations was in the area of whistle-blowing policies. While 90 percent of companies surveyed believed in the merits of a whistle-blowing policy, only 45 percent had actually implemented any such policy.

“The awareness of the importance of whistle-blowing policies is a relatively recent phenomenon in Singapore,” according to Prof Mak. “The revised corporate governance code in 2005 encouraged companies to put such policies in place. Companies will likely take some time to develop and properly implement such policies. It is better that they do it well, than do it quickly.”

Strong Reliance Upon Insurance Brokers and Specialist Consultants for Risk Management Advice

Insurance brokers were the external organisations most used by companies to obtain advice on risk management (34 percent), followed by risk management consultants (33 percent) and regulators (24 percent). The role of the insurance broker was most apparent in the purchase of D&O Liability Insurance. Around 88 percent of respondent companies with D&O insurance had used an insurance broker to purchase it.

Three in four companies felt that insurance brokers added value to their insurance programme, as they are able to advise clients on various types of coverage available, present risks to underwriters, negotiate favourable terms from companies and assist them in settling claims.

Asia Risk Council formed to discuss risk issues

JLT Asia today also announces the establishment of Asia Risk Council (ARC), an organisation aimed at promoting excellence in risk management in the region. While JLT

Asia laid the foundations and will sponsor its ongoing maintenance, its future direction and initiatives will be decided by members.

Founding members of the ARC include seasoned risk management professionals from across the region, in various industries. The ARC will allow members in various backgrounds and experiences to exchange and discuss ideas relating to risk, solutions and industry best practices.

“I would like to commend JLT Asia for taking the initiative to establish such a council,” Prof Mak said. “It is extremely timely given the increasing importance placed by companies and boards on enterprise risk management. Such a council can do much to raise awareness and educate directors and other professionals on implementation of sound risk management practices.”

About Jardine Lloyd Thompson Asia

Jardine Lloyd Thompson (JLT) Asia, a wholly owned subsidiary of the Jardine Lloyd Thompson Group, is a market leader in insurance & reinsurance broking, risk management and consultancy services. Employing over 600 industry professionals across 12 major territories in the region, JLT Asia's technical abilities and knowledge span a wide range of industries and specialist areas. Our insurance specialists are renowned for their innovative approach to developing integrated insurance, reinsurance and alternative risk transfer solutions that address the complex risks inherent in Asia.

JLT Asia provides risk management advice to clients through Echelon Risk Consulting, its consulting practice unit dedicated to providing specialist advice in key areas of risk management including Enterprise Risk Management, Business Continuity Management, Strategic Risk Finance and Claims Advocacy Consulting.

Integrity is a hallmark of the JLT organisation. We believe that our quality and compliance regimes are the most thorough in the industry. You can obtain more information about JLT Asia at: www.jltasia.com

About the NUS Corporate Governance and Financial Reporting Centre

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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