



RISK MANAGEMENT

AN INCREASING CONCERN FOR CFOS IN SOUTHEAST ASIA

INTRODUCTION

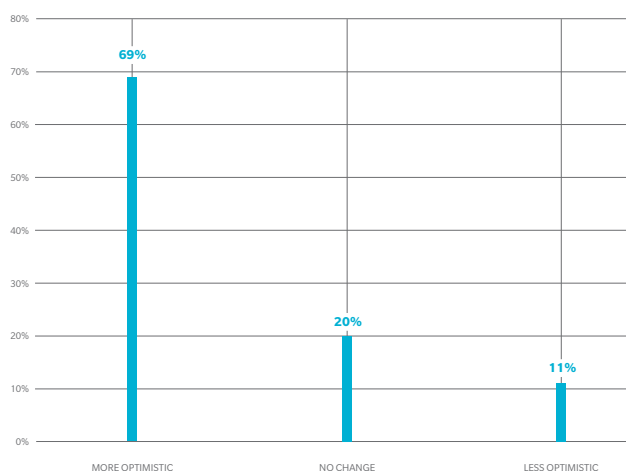
Marsh was a major sponsor of the CFO Innovation Asia Forum that took place in Singapore on 24 and 25 June, 2014. The annual event, which is one the largest of its kind in Asia, draws around 200 chief financial officers (CFOs), directors of finance, financial controllers, and finance managers from around Asia, and in particular, Southeast Asia.



Over the course of the two days, Marsh asked attendees to take part in an onsite survey which sought to gain insight into their risk issues, approaches to risk, and risk management.

RESULTS OF CFO SURVEY

FIGURE 1 | ARE YOU MORE OR LESS OPTIMISTIC ABOUT THE FINANCIAL PROSPECTS FOR YOUR COMPANY IN 2014 THAN LAST YEAR?



THE OUTLOOK IS BRIGHT

Growth prospects remain bright, with 69% of CFOs indicating they are more optimistic about business prospects in 2014 when compared to last year. This is not surprising given that Asia, and in particular Southeast Asia, continues to enjoy growth rates that are the envy of developed economies.

Just 11% of respondents are less optimistic about their business when compared to last year, a figure that was evenly distributed across the technology, media/communications, manufacturing, and retail/wholesale industries.

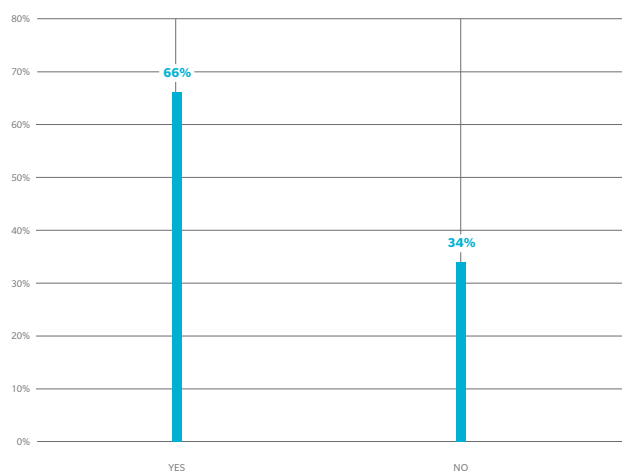
The remaining 20% of finance professionals have expectations that remain unchanged from 12 months ago.



69%

CFOs INDICATING THEY ARE MORE OPTIMISTIC ABOUT BUSINESS PROSPECTS IN 2014

FIGURE 2 | DO YOU HAVE SEPARATE RISK MANAGEMENT FUNCTION IN YOUR ORGANISATION?



THE RISK FUNCTION IS DEVELOPING ACROSS ASIA

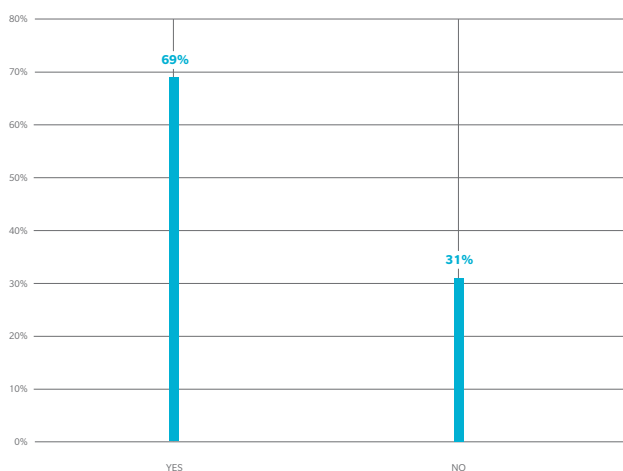
The risk function within a company, such as the role of risk manager, chief risk officer, or a risk management department, is generally not as prevalent in Asian companies as it is in those headquartered in developed markets. However, this appears to be changing, with 66% of those surveyed saying their companies have a dedicated risk management function. This high figure for an emerging market region could be due to the number of attendees being located in Singapore and working for multinational companies, which is one of the most developed and sophisticated business environments in Asia and an attractive hub for multinationals to base their regional operations.



66%

SAYING THEIR COMPANIES HAVE A DEDICATED RISK MANAGEMENT FUNCTION

FIGURE 3 | IF YES, DOES IT REPORT THROUGH TO THE CFO / FINANCE FUNCTION?



CFOS HAVE ULTIMATE RESPONSIBILITY FOR RISK MANAGEMENT...

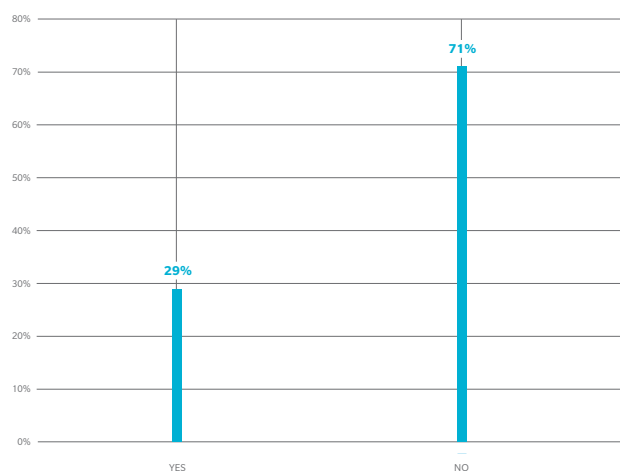
In many parts of the world, the CFO has responsibility for risk, risk management, and insurance. A key finding of our survey is that 69% of CFOs said that the risk management and insurance function reports to them, either directly or indirectly. In the few instances where risk management and insurance was not part of their responsibility, the legal and compliance departments are the most common. As the CFO's list of responsibilities continues to grow, it is clear that risk analytics is quickly becoming a critical tool to help them make informed decisions.



69%

CFOS SAID THAT THE RISK MANAGEMENT AND INSURANCE FUNCTION REPORTS TO THEM, EITHER DIRECTLY OR INDIRECTLY

FIGURE 4 | DOES YOUR ORGANIZATION CURRENTLY MEASURE YOUR TOTAL COST OF RISK (TCOR) OR ENTERPRISE COST OF RISK (ECOR)?



... BUT VERY FEW ARE QUANTIFYING THEIR RISK

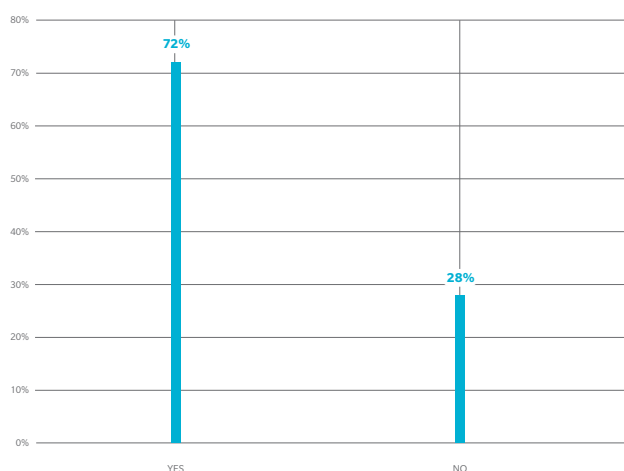
A key finding of the survey is that a small percentage – just 29% – actually measure their total cost of risk (TCOR) or economic cost of risk (ECOR). This means that 71% of companies are not quantifying and tracking their insurance premiums and retained losses on an annual basis, nor are they taking into account volatility premiums and analysing the most effective use of their capital. Anecdotally, the majority of respondents who said they do not measure TCOR or ECOR were not familiar with the concepts.



29%

ACTUALLY MEASURE THEIR TOTAL COST OF RISK (TCOR) OR ECONOMIC COST OF RISK (ECOR).

FIGURE 5 | DOES YOUR ORGANIZATION CURRENTLY HAVE AN ENTERPRISE RISK MANAGEMENT (ERM) FRAMEWORK OR PROGRAM?



ENTERPRISE RISK MANAGEMENT IS A COMMON PRACTICE

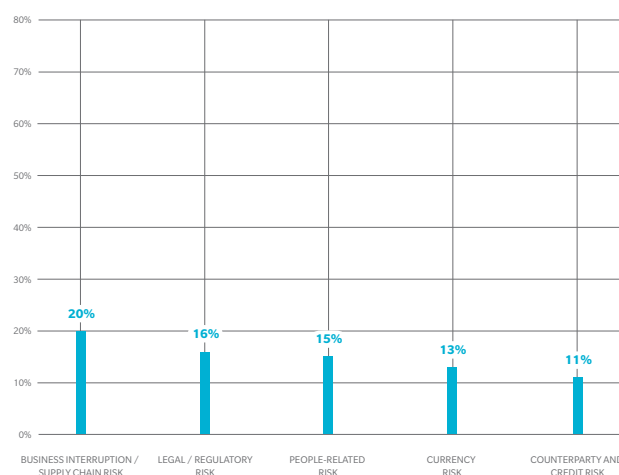
Enterprise risk management (ERM) is a concept that has been on the corporate radar for many years, with numerous regulations and guidelines across Asia put in place to promote a holistic approach to risk management and business resiliency. This consistent message seems to be working, with 72% of companies having an ERM framework or programme in place. Small company size and a lack of resource was a common response for those companies that did not have an ERM framework or programme in place.



72%

COMPANIES HAVING AN ERM FRAMEWORK OR PROGRAMME IN PLACE

FIGURE 6 | PLEASE PICK THE TOP THREE MOST CRITICAL RISKS IN YOUR OPINION?



WHAT KEEPS CFOS UP AT NIGHT?

CFOs are most concerned with business interruption/supply chain risk, with 20% of respondents identifying this as their top concern. This was followed by legal/regulatory risk (16%), people risk (15%), currency risk (13%), and counterparty/credit risk (11%). An even spread such as this shows the multiple risk categories that CFOs must contend with, and the importance of having a robust risk management and insurance framework to address and mitigate these risks. It is also not surprising that the risk categories that directly relate to the financial health – such as currency and credit risk – are among the top concerns for CFOs.



20%

RESPONDENTS IDENTIFYING BUSINESS INTERRUPTION/SUPPLY CHAIN RISK, AS THEIR TOP CONCERN.

CONCLUSION

Risk management is becoming a critical agenda item for CFOs across Asia, as companies operate in an increasingly complex business environment. However, as organizations continue to take advantage of the positive growth environment in Asia, CFOs need to take a closer look at their risk management approach, including taking a more disciplined approach to quantifying their total cost of risk and economic cost of risk. With 74% of respondents requesting more information on these concepts, there is a clear desire to take a more analytical and data-driven approach to risk management and insurance decisions.





Marsh is one of the Marsh & McLennan Companies, together with Guy Carpenter, Mercer and Oliver Wyman. This document is not intended to be taken as advice regarding any individual situation and should not be relied upon as such. The information contained herein is based on sources we believe reliable, but we make no representation or warranty as to its accuracy. Marsh shall have no obligation to update this publication and shall have no liability to you or any other party arising out of this publication or any matter contained herein. Any statements concerning actuarial, tax, accounting or legal matters are based solely on our experience as insurance brokers and risk consultants and are not to be relied upon as actuarial, tax, accounting or legal advice, for which you should consult your own professional advisors. Any modeling, analytics, or projections are subject to inherent uncertainty, and the Marsh Analysis could be materially affected if any underlying assumptions, conditions, information, or factors are inaccurate or incomplete or should change. Marsh makes no representation or warranty concerning the application of policy wording or the financial condition or solvency of insurers or re-insurers. Marsh makes no assurances regarding the availability, cost, or terms of insurance coverage. Although Marsh may provide advice and recommendations, all decisions regarding the amount, type or terms of coverage are the sole responsibility of the insurance purchaser, who must decide on the specific coverage that is appropriate to its particular circumstances and financial position. ASM_S_14-0128

© Copyright 2014 Marsh LLC. All rights reserved.