NUS National University of Singapore

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'Most Asia-Pac banks, insurers not prepped for pandemics'

Study by NUS dons finds that only one in 50 banks and three in 50 insurers identified a pandemic as a key risk factor

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LEADERS of financial institutions in the Asia-Pacific were mostly caught unaware by the damaging effects of Covid-19, a recent study of the largest banks and insurance companies in the region has found.

Only one out of 50 banks and three out of as many insurers had identified a pandemic as one of the key risks, with three of these being Japanese companies, said the study published by accounting body CPA Australia in July.

Titled "Banking on Governance, Insuring Sustainability", the 90-page report was co-written by National University of Singapore business professors Mak Yuen Teen and Richard Tan, and based on data from the 100 companies' annual reports in 2018 and 2019.

"As most financial institutions were grappling with key risks such as technological disruption and cyber security, they were blindsided, like many others, by a much bigger risk," wrote the co-authors.

Among the financial institutions surveyed across 15 economies – including Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand and Vietnam – Sumitomo Mitsui Trust Holdings was the only one that had specifically identified a pandemic outbreak as a key risk.

The Tokyo-headquartered organisation disclosed mitigation strategies, such as developing business continuity plans (BCP), to ensure that operations can continue in the event of such an outbreak. It conducts exercises and updates its BCP periodically, to ensure preparedness.

Besides having an emergency response centre led by its president in the event of a crisis, the organisation also strengthens human resources and its management system by working with external specialised agencies.

The three insurers that identified pandemic risk as a key risk include Tokio Marine Holdings, MS&AD Holdings and AIA Group.

The study highlighted Tokio Marine Holdings, the largest property and casualty insurer in Japan by revenue, for its protocol for managing qualitative risks.

The organisation abides by a process to "comprehensively assess and report emerging risks" that result from changes in their business environment. Not only does it assess quantitative elements of the identified risks, which would include economic loss and frequency, but also qualitative elements, such as business continuity and reputation.

"Pandemic risk" was spelled out as a material risk as it can seriously impact the financial soundness, business continuity and other aspects of the organisation.

MS&AD Holdings, also headquartered in Tokyo, has in place a BCP as well as a crisis-management framework to respond to unforeseen events, including disease outbreaks.

Finally, Hong Kong-headquartered AIA Group relies on reinsurance to reduce concentration and volatility risk, and as protection against catastrophic events such as pandemics.

Organisations must not view risk management as merely a "checkbox exercise", said Associate Professor Mak. "It should be informed by a thorough consideration of different types of risks that may impact the business. It needs to be a serious exercise which requires diversity of thought and not groupthink.

"This is where board compositions, and their diversity in demography and expertise, become important," he said.

About a quarter, or 24 per cent, of the banks surveyed did not disclose any directors' diversity policy.

In terms of age diversity, the study found that Chinese banks have the youngest directors on average, with a mean age of 56.3 years; Japanese and Korean banks have older directors with a mean age of 65 years. Chinese banks also have the smallest mean age difference – at $10^1/_2$ years – between their oldest and youngest directors.

Overall, less than 7 per cent of the banks have independent directors who are younger than 50 years old.

Among insurance companies, Singapore insurers tend to have older directors, with a mean age of 65.9 years, but also better age diversity.

When it comes to gender diversity, the study found that only 17.8 per cent of boards across the 50 banks are women. The banks that fared best in this regard include the four Australian banks, China CITIC bank, Hong Kong's Hang Seng Bank, Thailand's Kasikorn Bank and Malaysia's Maybank, where women make up at least 30 per cent of their directorship.

Board diversity in terms of technological expertise also left more to be desired, according to the study's authors, even as they acknowledge that the institutions have been looking at issues relating to digital transformation and cyber security.

Of the banks surveyed, three in five did not have independent directors with experience in technology. Singapore-based DBS Group Holdings is the only one that has an independent director with experience in both technology and cyber security.

Among the insurance companies surveyed, only nine had appointed independent directors with technology experience, while only three had directors possessing cyber security experience.

"Having sufficient truly independent directors on boards is critical for good governance. However, equally important is having directors with different skills and experience," the authors wrote.

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