



Focus on Asia Pacific Risks


























































Top Country-Specific Risk Insights for Business

The Asia-Pacific region (APAC) has become a global economic growth engine and its geopolitical importance is expected to continue its ascent in the coming years. It is also fast becoming a center of innovation and home to many new technological advancements. Despite progress in fostering economic integration, APAC remains a largely heterogeneous region where countries remain vastly different from each other in terms of demographics, economic development stages, political institutions and cultures. Such differences set APAC apart from markets such as the European Union, where arguably these elements are closer to each other, tied together by a set of similar institutional structures.

Regional heterogeneity across APAC has translated to diversified sets of concerns in different countries/territories. Correspondingly, businesses, particularly those with international and regional operations, need to be able to deal with more risks from multiple sources. Even where there are similar risks, the nature of the risks can differ significantly and thus necessitates different responses from stakeholders. Not only will businesses have to maintain a clear vision of APAC overarching risk landscape and the region's key vulnerabilities, they also need to be able to navigate the complexities across the region's diverse economies. Businesses across APAC economies listed the following five main risk areas among their top concerns for doing business, as shown in Exhibit 1.

Not only will businesses have to maintain a clear vision of APAC overarching risk landscape and the region's key vulnerabilities, they also need to be able to navigate the complexities across the region's diverse economies.






















Top Concerns For Doing Business In The Next 10 Years For Selected Markets In Asia-Pacific*






AUSTRALIA	CHINA**	HONG KONG	INDIA	INDONESIA
 Energy price shock	 Natural catastrophe	 Asset bubble	 Cyber-attacks	 Cyber-attacks
 Cyber-attacks	 Deflation	 Cyber-attacks	 Terrorist attacks	 Terrorist attacks
 Asset bubble	 Data fraud/theft	 Social instability	 Failure of financial institutions	 Data fraud/theft
 Regional/global governance failure	 Illicit trade	 Regional/global governance failure	 Water crisis	 Food crisis
 Critical infra. shortfall	 Fiscal crisis	 Cyber-attacks	 Misuse of technologies	 High unemployment
				 Misuse of technologies
JAPAN	MALAYSIA	NEW ZEALAND	PHILIPPINES	SINGAPORE
 Cyber-attacks	 Data fraud/theft	 Extreme weather events	 Critical infra. shortfall	 Cyber-attacks
 Misuse of technologies	 Cyber-attacks	 Cyber-attacks	 National Governance failure	 Terrorist attacks
 Regional/global governance failure	 High unemployment	 Regional/global governance failure	 Inflation	 Data fraud/theft
 Illicit trade	 Misuse of technologies	 Critical infra. shortfall	 Climate adaptation failure	 Asset bubble
 Natural catastrophe	 National Governance failure	 Climate adaptation failure	 Regional/global governance failure	 Water crisis
				 Infectious disease
 Economic  Environmental  Geopolitical  Societal  Technological				

Note: *World Economic Forum Executive Opinion Survey 2018 (~12,500 responses worldwide). Results are based on 2,500 responses across the region. Respondents could choose up to five risks which they viewed as being most important for doing business in their country in the next 10 years. Top regional risks are calculated as the average across all countries of the proportion of respondents in each country identifying each risk as one of their five choices.

** The results for China are based on the most recent available survey data from 2017.

Source: World Economic Forum's Global Risks Report 2018, APRC analysis

SOUTH KOREA	TAIWAN - CHINA	THAILAND	VIETNAM
 High unemployment	 Interstate conflict	 Man-made environmental crisis	 Urban planning failure
 Interstate conflict	 Energy price shock	 National Governance failure	 National Governance failure
 Cyber-attacks	 Asset bubble	 Asset bubble	 Regional/global governance failure
 Asset bubble	 Extreme weather events	 Critical infra. shortfall	 Cyber-attacks
 Fiscal crisis	 High unemployment	 Cyber-attacks	 Asset bubble
	 Cyber-attacks		

 Economic
 Environmental
 Geopolitical
 Societal
 Technological

Top Risk Insights for Businesses in Asia-Pacific

The Marsh & McLennan Companies' Asia-Pacific Risk Center leveraged the Global Risks Report published by the World Economic Forum (WEF), with whom Marsh & McLennan Companies is a strategic partner, to provide businesses with an informed overview of APAC's risk landscape. Marsh & McLennan Companies' senior management and experts have identified three key business-specific recommendations for businesses operating or planning to operate in each of the countries/territories referenced above. We recommend that business leaders use these insights to make sure their business is more resilient and prepared for these risks.

Top 3 Risk Insights for Businesses

Australia



Leverage computation and cooperation to more effectively manage financial crime risks. For instance, banks can invest in analytics and robotic process automation to more effectively monitor transactions and identify likely criminal activity. Furthermore, cooperation within the industry on "best practices" in risk management and the sharing of critical information such as Know-Your-Customer requirements will also be beneficial to all institutions involved.

Ensure a holistic view of the business's input and supply chains. Businesses should go beyond direct contacts to understand the origins and concerns of their entire supply chain. Businesses can suffer from notable disruption to

operations or strategic direction by not understanding the vulnerabilities two steps away; such as the collapse of a supplier, regulatory changes, restrictions on supply or the collapse of a market.

Understand the impact of technological change from the perspectives of customers, suppliers, markets and regulators. This is crucial for businesses to be able to keep pace and remain relevant. Technological change will also have an impact on how business is conducted, how products/services are developed and brought to market and how staff are attracted, trained and retained. Finally, businesses need to challenge how they protect their infrastructure and information within their current system, and look for ways to bolster resilience against potential technological risks.

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Top 3 Risk Insights for Businesses

China



Be prepared for future economic uncertainties. While businesses have benefited from China's exceptional growth in the last decade, they will face major headwinds in the form of slower growth from the country's shift to a consumption-led economic growth model, as well as global uncertainties such as the trade war with the United States. Consequently, businesses will have to become more nimble and agile in responding to potentially unstable market conditions.

Effectively incorporate environmental risk due diligence in any new investment decision. With China's geographic diversity and vulnerability to several types of natural disaster and extreme weather events, businesses need to conduct risk due diligence, including considered site selection and the incorporation of seismic or flood protection features in any new investment decision. For new plants or facilities, advanced natural catastrophe modelling will

be helpful to determine potential incurred losses in the event of a natural catastrophe and to inform risk transfer efforts.

Build up a multi-dimensional cybersecurity management system. Businesses need to go beyond investments in cybersecurity technologies and regular systems review and risk assessment. A robust cybersecurity framework should also include external vendor and business partner risk management (third party risk management) and leverage reliable internal and external experts to help manage vendors and provide quick access to market risk information. Other aspects include employee training and communication, and risk transfer via cyber insurance policies. Particularly for multi-national companies, it is extremely important for business leaders to have a clear data management strategy that considers both local laws and the need to protect consumer data for their operations within and outside China.

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Top 3 Risk Insights for Businesses

Hong Kong



Leverage the Greater Bay Area (GBA) combined talent pool. The different cities in the GBA have different competitive advantages in terms of talent, and businesses can leverage talent across the participating cities. For example, many companies in Hong Kong are starting to tap into Shenzhen as a source of digital

talent, especially in the artificial intelligence space. Businesses can consider several ways of doing so: moving the relevant roles from Hong Kong to Shenzhen, moving the Shenzhen digital talent to Hong Kong and/or engaging freelancers or contractors who are able to contribute remotely.

Increase the use of on-demand or contingent workforces. Many companies in Hong Kong are already starting to make use of a contingent workforce. Importantly, HR practices will need to evolve with this trend. Companies will need more advanced workforce planning that can work out the quantity and quality of skill gaps and determine the optimal mix of workforce type to fill the gaps. This would entail adjusting the talent acquisition, contracting, performance management and rewards models so that companies can accommodate a diverse set of workers and manage the mix dynamically.

Conduct stress-testing exercises. Banks are subject to regular stress testing from the Hong Kong Monetary Authority to ensure that they are able to withstand severe scenarios, such as an extreme outflow of funds over a short period. In the same way, businesses outside the banking industry should also run stress-testing exercises to see the potential impact of the HKD-USD peg breaking on their businesses, as well as other downturn scenarios.

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Top 3 Risk Insights for Businesses

India



Implement comprehensive cybersecurity programs to improve resilience against cyber-attacks. Guarding against cybercrimes requires the recognition that no system is perfectly secure. A well-thought out cybersecurity program should include a security threat assessment, contingency plans that address what happens after a cyber incident occurs and the necessary financial protection to cover both direct and indirect losses. Training and upskilling employees in cybersecurity is equally crucial, with the recognition that these efforts should be calibrated according to the needs of each individual setting.

Manage rising costs and address new skill requirements for the workforce. For India, a country with a diversified workforce and varied family size and need, corporations today need to focus on the long-term sustainability of their benefit plans. Adopting integrated health and wellbeing strategies, underpinned by innovative insurance solutions, will be critical

in managing the rising costs of employee health and benefit programs going forward. In addition, companies will need to continue to upskill their talent to match with the fast-paced development in the digital world. Companies can use analytics to identify skill gaps, and should focus on addressing both technical reskilling, as well as improving soft skills such as empathy.

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Prepare for terrorist attacks. Despite their relatively low likelihood, businesses need to assess the direct and indirect impacts of these events occurring. Models can be deployed to help consider and evaluate the political, economic, social and technological factors that ultimately impact the potential cost of a terrorist incident to businesses, while political or terrorism risk insurance presents a solution for risk transference.

Top 3 Risk Insights for Businesses

Indonesia



Companies that have a well-defined purpose and sense of corporate responsibility will be best positioned to inspire employees to drive towards success.

Educate leadership on cyber risks and potential responses.

Companies in Indonesia must move quickly to educate key decision-makers on the technical aspects of their cyber protection programs and the extent of current vulnerabilities. The next step

is to engage both internal and external experts to quantify the size of the risk and devise appropriate responses, from setting up a holistic cybersecurity and governance framework to risk transference solutions such as cyber risk insurance.

Create a thriving environment. Companies that have a well-defined purpose and sense of corporate responsibility will be best positioned to inspire employees to drive towards success. Organizations must develop flatter, more agile structures that are better able to accommodate change and face challenges. Furthermore, businesses must create an environment where employees can thrive, with access to health and wealth programs, training opportunities, and new talent ecosystems in order to provide a much-needed boost to labor market productivity.

Prepare for downside risks in a challenging macroeconomic environment. Companies should look to improve capabilities to project their balance sheets and performance into the future, and the ability to stress test projections against downside scenarios to understand potential risks. An effective framework will enable firms to take mitigating actions to manage their exposure and ensure levels of risk are within acceptable bounds.

Top 3 Risk Insights for Businesses

Japan



Changes to the culture of prevalent overtime work and initiatives to equalize wages between regular and non-regular employees will help empower employees and increase employee loyalty and retention.

Work culture reform and innovative plans for retirement, savings and healthcare. Changes to the culture of prevalent overtime work and initiatives to equalize wages between regular and non-regular employees will help empower employees

and increase employee loyalty and retention. Successful organizations are also finding innovative ways to implement retirement and healthcare policies. An example is private hospital plans that can be paid for by employers during an employee's tenure but carried forward at the point of retirement and be paid for by the employee post-retirement.

Respond and adapt to emerging technologies. While a key priority is to establish a robust cybersecurity system that is resilient to the increasing number of cyber-attacks, this should not be Japan's only area of focus. Businesses will also need to anticipate the security, regulatory and ethical implications of other emerging technologies, such as Internet of Things, cloud computing and artificial intelligence, to be successful.

Understand and manage macro risks. Businesses in Japan have benefitted greatly from globalization. This means that Japan now faces two major macro risks: intensifying trade disputes and nationalist economic policies, and systemic risks in the global financial system. It is crucial for businesses in Japan to have a holistic understanding of how these ongoing trends will impact them. For instance, businesses are actively thinking about how recent foreign exchange volatilities in several markets may affect their revenue and bottom line.

Top 3 Risk Insights for Businesses

Malaysia



Take a long-term view in fostering, developing and retaining talent. Human resources should communicate with senior leadership regularly to ensure that talent management objectives align with the business's evolving strategy. Data analytics can also be deployed to support talent management initiatives, such as the use of predictive analytics to assist in identifying high potential individuals or employees in critical areas who are most at risk for leaving the company.

Improve employee benefits to retain talent. One way to do so is to improve healthcare benefits while reducing healthcare spending. Many companies in Malaysia operate their employee healthcare benefits on a self-funded basis. However, without an efficient benefit-administering structure combined with general healthcare inflation, rising benefit costs can become a major

concern. Implementing a network of preferred providers coupled with advanced analytics and technology can give employees more options and provide tangible savings and reductions in cost growth trajectory.

Develop internal capabilities to deal with cyber-related risks. It is crucial for businesses to improve internal competencies across technical infrastructure, governance, processes and people skills in order to be more cyber resilient. Given the high potential costs and liabilities associated with cyber risks, it is important for businesses to quantify their cyber risk exposure and consider transferring the potential costs and liabilities via cyber insurance.

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Top 3 Risk Insights for Businesses

New Zealand



Anticipate risks and capitalize opportunities with regards to the 2035 renewable energy goal. A key risk that all businesses need to consider is the potential mismatch in supply and demand of renewable energy which could drive up electricity costs. However, there are also significant business opportunities available to contribute to the transition, such as in the development of battery storage and improvements to New Zealand's transmission and distribution network.

Look out for potential changes made by the new government and how the company can maximize benefits and mitigate associated costs. Given that the recently-elected government is focusing on environmental sustainability, market competitiveness and wider social issues such as inequality, businesses should expect a shift in policies towards these directions. This also means that there might be significant regulatory uncertainties where policies may be formulated

without consultation with every stakeholder, such as the announcement of a ban on new offshore oil and gas exploration in April 2018 that caught many off-guard. Businesses will need to prepare for similar scenarios in their strategic considerations and respond accordingly to avoid getting blindsided.

Focus on the well-being of employees. Employers in New Zealand can pursue a host of initiatives to improve employee well-being. Policies can be directed to facilitating ethnicity and gender diversity, as well as equality such as closing the gender pay gap. A third major area is improving employee "financial wellness" through the provision of a range of services from education through to superannuation, home and personal loans and insurance. Targeting these areas of employee well-being will pay dividends not only by producing a healthier and happier workforce, but also by developing a more productive one.

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Top 3 Risk Insights for Businesses

Philippines



Review strategies and response in anticipation of reduced consumption and higher interest rates. The Philippines is a consumer-driven economy and is highly dependent on public consumption to fuel economic growth. Worrying signs include: increases in commodity prices, higher household expenses, rising unemployment and stagnant income growth. These trends signal a less favorable outlook to the Philippine economy, which will dampen consumer confidence and subsequently put downward pressure on domestic consumption.

Take a long-term view of their workforce pipeline. To identify talent needs, businesses need to have a vision on what their future workforce should look like, taking into account key trends, such as digital transformation, increasing regulatory uncertainties and shifting employee expectations. By examining

how their current workforce matches up with this vision, employers can understand and identify the job requirements and benefits that will be needed in order to upskill the current workforce and attract the right talents.

Start assessing and building their climate resilience in order to gain a competitive edge in the long run. To start, businesses in the Philippines can undertake a geographic portfolio review, mapping demographic and infrastructure vulnerabilities to climate-related risks, and thereby identifying the aggregated weather exposure. These insights will allow them to better choose the type and level of risk mitigation and risk transfer strategies such as natural catastrophe insurance.

The Philippines is a consumer-driven economy and is highly dependent on public consumption to fuel economic growth. As such, businesses need to be prepared for macroeconomic trends that might affect consumption.

Top 3 Risk Insights for Businesses

Singapore



Cyber risks present unprecedented challenges that need to be addressed from the very top. Board and senior management can increase involvement by leading and engaging in risk appetite discussions as well as demanding more insightful reporting.

Leverage technology for organization and job redesign to enable Singapore's older workforce. Automation of physical tasks, deployment of communication technologies to improve

operational efficiency, and implementation of flexible working hours, among other strategies has helped several local small and medium enterprises to harness the skills and experiences of their older workers as an effective response to talent shortages.

Increase board and senior management involvement in cyber risk management. Cyber risks present unprecedented challenges that need to be addressed from the very top. Board and senior management can increase involvement by leading and engaging in risk appetite discussions as well as demanding more insightful reporting. Importantly, the business strategy should be sensibly "stress-tested" for cyber and technology risks so that they can be mitigated.

Manage "what-ifs" under the newly enacted Singapore cyber law. Proprietary cyber insurance policies that provide broader and bespoke coverage can cover both first-party costs; for example, business interruption or incident response, and third-party liability; for example, regulatory fines or client notification, to keep organizations on stable financial footing in the event of a successful cyber-attack. Attention should be paid to tangible assets and intangible ones, such as data, systems, people, brand and reputation, as this is where much of the value of a company lies.

Top 3 Risk Insights for Businesses

South Korea



Revisit current employee benefit programs. As a rapidly aging society, Korea faces problems in insufficient retirement pensions, rising medical costs, and lack of opportunities for supplementary income and medical coverage after retirement. A comprehensive review of employee benefit programs is necessary to properly manage the cost while meeting the demand from employees, labor unions, government and society.

Employ a strategic approach on human resources issues. The current Korean government is driving economic growth with labor-friendly policies, such as increases in the minimum wage and limiting the working week to 52 hours. Businesses in Korea

will need to navigate a changing regulatory environment amid a tightening labor market.

Build capacity to quantify cyber risks and prepare contingency plans. Cyber risk is the most recognized emerging risk in Korea and, with the advent of the fourth industrial evolution; cyber risks will get more attention from top management. Current concerns are focused on insuring direct first-party exposures, but third-party liabilities cannot be overlooked.

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Top 3 Risk Insights for Businesses

Taiwan-China



Manage the risks arising from an expanding supply chain.

Many Taiwanese companies have begun to diversify their operations away from coastal China or Taiwan and into lower cost locations such as Cambodia, Vietnam and even as far as Africa and the Middle East. Companies are hedging against geopolitical risks, supply chain disruptions and lastly, ensuring proper trade credit arrangements and protection are in place.

Develop a holistic people strategy. The war for talent has been more severe than ever and now extends beyond geographical borders. Besides the gap between graduate training and the demands of the labor market, sluggish salary increases have made attraction and retention of the right talent even more challenging. Companies should develop flexible working arrangements, a meaningful work purpose proposition, continuous upskilling and clear career paths in order to create a sustainable and innovative workforce.

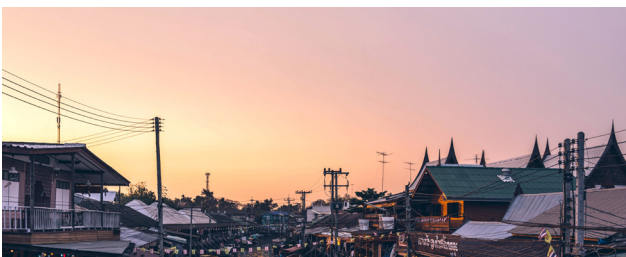
Ensure that management teams are well-informed and local/regional leaders have the power to make decisions to address increasingly frequent changes in manpower legislation.

Recent changes to working hours and leave entitlements have forced corporates to review their fundamental working rules. Increasingly stringent government audits mean that employers are facing a significantly higher risk of penalty and damage to corporate branding. For companies with local HR teams, it is crucial to leverage a trustworthy source of market best practices. For those that do not have dedicated HR on the ground, acquiring regular updates to legislation changes is key to reducing the risk.

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Top 3 Risk Insights for Businesses

Thailand



Develop Business Continuity Measures (BCMs). The rising frequency and severity of risks, such as cyberattacks, natural disasters and political unrest, means that BCMs are becoming increasingly important. BCM frameworks should cover and be tested for localized risks and be reviewed for end-to-end global resilience, while taking into account inter-dependencies across geographies.

Review available measures for financial protection and risk transfer. The disruption in supply chains after the 2011 floods demonstrated the importance of financial protection and risk transfer for property and assets and the potential loss of productivity. Businesses should leverage analytics, such as natural catastrophe modelling, in order to conduct an in-depth

financial analysis to determine the revenue and cost impacts of business interruptions and potential employee health and benefit costs.

Be proactive and innovative in improving healthcare for the workforce. Employers in Thailand should start encouraging participation in early detection and screening programs to curb the increase of non-communicable diseases (NCDs), regardless of insurer sponsorship. Proactive employer involvement in improving healthcare will in turn reduce the burden of healthcare costs and premiums and hopefully keep Thailand's population healthier.

Businesses should leverage analytics, such as natural catastrophe modelling, in order to conduct an in-depth financial analysis to determine the revenue and cost impacts of business interruptions and potential employee health and benefit costs.

Top 3 Risk Insights for Businesses

Vietnam



Embark on a firm-wide enterprise risk management (ERM) program. Given the plethora of risks that Vietnam is exposed to, it is crucial for businesses to understand how these risks can affect their balance sheets. As such, an ERM program should include every operating department so that it is comprehensive enough for the business to produce a defined and measurable document where risks are adequately and appropriately identified. Annual risk management surveys are also important in identifying and eliminating any substantial risks or threats.

Early warning signals, monitoring and actions. Leading banks in Vietnam are trying to build early warning systems and indicators to detect different types of risk; for example, a weakening of credit quality. The concept is relatively

straightforward, but the key will be interpreting those signals appropriately, making quick internal communications/decisions and reacting faster than peers.

Ensure sufficient and appropriate risk transfer. Not all risks can be eliminated, particularly geopolitical risks. As such, business leaders, including those in State Owned Enterprises, need to understand and determine how much loss their business is willing and able to accept if a risk event materializes. Engaging internal and external experts to determine the appropriate coverage, pricing and security is key to balancing competing priorities and interests of different stakeholders.

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About Guy Carpenter

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