SINGAPORE ACTUARIAL SOCIETY

SINGAPORE ACTUARIAL CONFERENCE 2023

Corporate Governance and ERM

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2.00 PM, Breakout 2, Day 2

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Corporate collapses – a recurring phenomenon

- This session explores lessons from corporate failures with a focus on corporate governance and ERM
- Illustrative cases
    - **Barings Bank (1995)**
    - **Enron (2001)** (example from the dotcom era)
    - **Royal Bank of Scotland (2008)** (example from the Global Financial Crisis)
    - **Hyflux (2018 – 2021)**
        - Bankruptcy protection (2018); judicial management (2020); wound up (2021)

Corporate governance refers to …

- having the **appropriate people, processes and structures** to **direct and manage** the business and affairs of the company to enhance **long-term shareholder value**, whilst taking into account the interests of **other stakeholders**.
- Companies that embrace the tenets of **good governance**, including **accountability, transparency and sustainability**, are more likely to engender **investor confidence** and achieve **long-term sustainable** business performance.

– Para 1, Code of Corporate Governance, 6 Aug 2018 (last amended 11 Jan 2023)

Barings Bank (1995)

Collapse of Barings – Background

- Unauthorised derivatives trading of a rogue trader in Singapore
- The Kobe earthquake on 17 Jan 1995
- Chairman of Barings reported losses to Bank of England on 24 Feb 1995
- Barings sold to ING for £1

Investigation reports

- "Report of the Board of Banking Supervision inquiry into the circumstances of the collapse of Barings", 18 July 1995. ("UK Report")
- "The report of the Inspectors appointed by the Minister for Finance", 6 September 1995. ("Singapore Report")

Collapse of Barings – A case study with many lessons

- Business strategy (e.g., top management not fully understand security business)
- Corporate governance (poor oversight, lack of expertise etc.)
- Organisation structure (unclear responsibility, lack of segregation of duties etc.)
- Culture (tone at the top, profit focus, lack of risk and control culture etc.)
- Incentives and bonuses
- Risk management & internal controls (numerous weaknesses)

"Until the collapse, Barings' management in London believed the trading conducted by BFS to be **essentially risk free** and **very profitable**."

– page 7, the UK report

Enron (2001)

Lessons from the collapse of Enron

- Business model
- Corporate governance
- Corporate culture and ethics
- Compensation and incentives
- Risk management
- Accounting and financial strategies

Royal Bank of Scotland (2018)

Why did RBS fail? Key factors …

- Weak capital position
- Excessively dependent on short-term wholesale funding
- Asset quality concerns arising from aggressive growth
- Large fair value losses in credit trading activities
- Acquisition of ABN AMRO
- Systemic collapse of confidence in autumn 2008
- Deficiencies in RBS’s management, governance and culture

Source: “The failure of the Royal Bank of Scotland”, Financial Services Authority Board Report (Dec 2011)

“substantive failures of Board effectiveness at RBS, even if no formal failures in the governance process”

- The FSA Board report raised questions as to whether the RBS Board:
  - adequately challenged RBS’s focus on increasing revenue, assets and EPS (inadequate attention given to capital, liquidity & asset quality)
  - set appropriate CEO’s incentives
  - adequately identified and addressed the aggregation of risks
  - adequately encouraged management to re-examine assumptions behind their strategy, especially in light of developments in global markets.

Source: “The failure of the Royal Bank of Scotland”, Financial Services Authority Board Report (Dec 2011)

Hyflux (2018 - 2021)

Lessons from the collapse of Hyflux

- Corporate governance and culture
- Business strategy
- Risk management
- Financing strategy

"Hyflux's board ticked boxes but let down stakeholders"

– Mak Yuen Teen, Business Times (24 May 2019)

Code of Corporate Governance – 13 Principles

Board Matters

1. effective Board
2. independence and diversity
3. division of responsibilities between Board and Management (no one individual has unfettered powers)
4. formal and transparent process for the appointment and re-appointment of directors
5. annual assessment of effectiveness

Remuneration Matters

6. policies on director and executive remuneration
7. remuneration appropriate and proportionate to sustained performance & value creation
8. transparency on remuneration matters

Code of Corporate Governance – 13 Principles

Accountability and Audit

9. The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls
10. Audit Committee

Shareholder Rights and Engagement

11. The Company treats all shareholders fairly and equitably … gives shareholders a balanced and understandable assessment of its performance, position and prospects.
12. communicates regularly
13. adopts inclusive approach by considering and balancing the needs and interests of material stakeholders

“a culture of substantive compliance, rather than a checklist approach, is crucial ”

– Para 5, Code of Corporate Governance, 6 Aug 2018 (last amended 11 Jan 2023)

Thank You

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