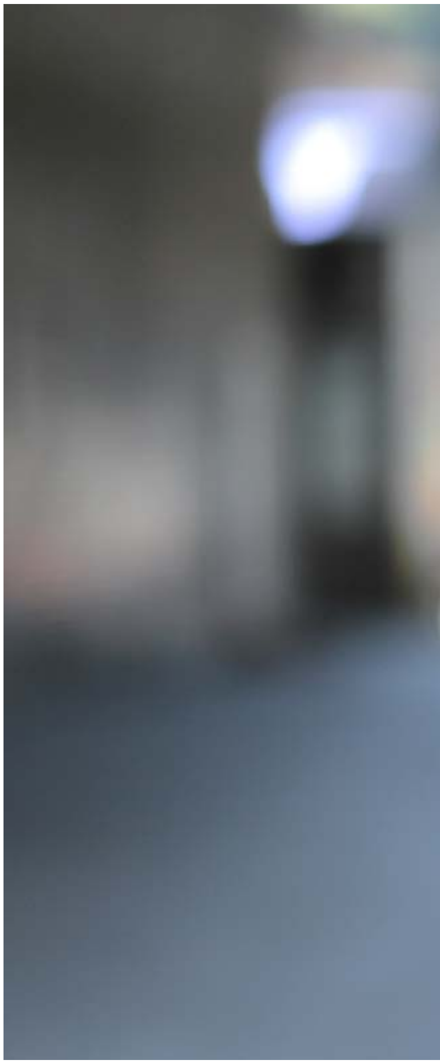

Global ambitions

Attitudes are changing to risk in the rapidly developing countries of Indo-China, as IRM ambassador to the region Saman Bandara explains

BY ARTHUR PIPER

The Indo-China region is undergoing rapid economic and social development. The countries in the region – Cambodia, Vietnam and Laos – have transformed significantly since the mid-1980s. The World Bank, for example, has called Vietnam's 30-year reform programme remarkable. "Economic and political reforms under Đôi Mói, launched in 1986, have spurred rapid economic growth," the bank said, "transforming what was then one of the world's poorest nations into a lower middle-income country." Between 2002 and 2018, GDP per capita increased by 2.7 times.

The pandemic has hit the region, setting back economic and social reform. COVID-19 has plunged Laos into its first recession since the early 1990s. Since Cambodia relies heavily on tourism, manufacturing garments for export, and construction, it too has seen contraction. Vietnam, on the other hand, has fared better with an anticipated growth rate of about 2.8 per cent for 2020, according to the World Bank.

The US's recent spat with China has made Vietnam, in particular, more attractive to inward investment. Foxconn, for instance, is reportedly building assembly lines for Apple's iPad tablet and MacBook in Vietnam's

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north-eastern Bac Giang province, according to Reuters news agency. It also said that Taiwanese manufacturers are looking to relocate to the countries. Japanese businesses invest heavily in Vietnam, and the European finance group Nordea has described Vietnam "as one of the most attractive countries in terms of foreign direct investment in Asia".

Challenges

Investing in the region is not without problems, according to Saman Bandara, IRM's ambassador to the region. As a partner at the global consultancy EY, where he heads its assurance-financial services and forensics practice, he sees the difficulties first-hand. Vietnam has a different mechanism when it comes to regulation and governance. "From a risk management perspective, one of the main issues for foreign investors is the development of the overall legal environment," he says. "Some of the laws and regulations are not directly comparable to the laws and regulations in neighbouring, developed economies such as Singapore and depend more on a rules-based approach to standard-setting."

For example, Vietnam has been working to introduce International Financial Reporting Standards to replace its local accounting standards. While Vietnamese Accounting Standards are rules based, they still allow for alternative treatments through regulatory interventions in a wide range of areas, which makes the accounts difficult to interpret accurately. The situation is complicated further by limited publicly available information.

> **"There can be a veneer of professionalism on the surface, but at a deeper level, personal relationships carry more weight**

IRM AND APAC

The IRM APAC Regional a Group (RIG) is a network of risk and business practitioners that stretches across the Asia Pacific and Oceania region, spanning across India, the countries of South East Asia, China, Japan, Australia and New Zealand.

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Due to our geographic span, most of our work is virtual. We arrange online thought leadership events for our members, enabling them to stay abreast of global best practices, to build strong relationships and to network and share experiences, stories and good practices.

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- Hold web meetings and webinars on topics of interest
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- Help assist with training

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Representatives: Gareth Byatt (APAC region + Australia), Saman Bandara (Cambodia, Vietnam and Laos), Abhishek Paul (India), Hersh Shah (CEO, IRM India Affiliate) and Jason Qian (China).

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> Things are changing as the spread of risk management-type activity becomes more common

"If someone wants to invest in Vietnam, the amount of data is very limited and they may get conflicting information about the risk profiles of those businesses and sectors," says Bandara. "There have been a lot of cases where investors have lost money because they did not dig deeper at the time of making the investment decision; there is a lack of detailed information at the point of investment."

Small and medium-size businesses

Bandara believes the accounting reforms will boost the country's burgeoning family business sector – many of whom want to attract overseas investment. With strong growth potential, such companies can be an attractive proposition for investors. There is a young and educated workforce. Businesses used to operating in China may find the regulatory regime less stringent, but similar in other respects. Yet while setting up a business is relatively easy, enforcement of rules around intellectual property for example, or dealing with deep-rooted family relationships, could prove more challenging.

"Directors do seek professional advice about their businesses, but professional opinion is often side-lined because the decisions have already been made and discussed in family circles," he says. "There can be a veneer of professionalism on the surface, but at a deeper level, personal relationships carry more weight."

There are differences between sectors. The financial services industry has become more attuned to international standards. In banking, the regulatory environment may still be a couple of decades behind countries such as Singapore and the UK, but the government is pushing for banks to meet the capital adequacy requirements under Basel II. While 13 banks were meant to have listed by the end of December last year, according to S&P Global Market Intelligence, the pandemic has slowed progress so that only the largest three have achieved those aims by the target deadline. Even so, these initiatives are beginning to raise the profile of risk management across many sectors.

Risk management

Bandara says that the culture in Vietnam – and in the region more generally – is very entrepreneurial. It is typical in developing countries, including Indo-China, for people to make money first and think about risk later. In the earlier stages of business start-ups, Bandara says, risk management is given a low priority among family business owners – they delay risk management practices until they have grown into larger enterprises. That is when they begin to understand the risks they face can be managed in a more formalised way.

Bandara ascribes this approach to a lack of understanding and education in risk management – something he believes IRM fosters in the region. Interest in IRM is gaining momentum. "Young professionals have been taking greater interest in risk management as a topic," he says. That is partly because they are beginning to appreciate that the old style of risk management can be replaced by something more relevant and dynamic.

For example, regulated industries, such as banking and financial services companies, have risk management functions in place. But formal education in risk management is scant. "If you are not educated in the discipline, you do not have the right perspective and skills to manage risk," Bandara says. He recalls meeting a head of risk whose background was in sales. Without having had the right training, that person was still looking at risk from a sales perspective, which favoured risk taking. In less well-regulated sectors, many directors still believe that because risk management is not mandatory, it is not worth having. "Often you will find in organisations that even the basic risk documentation does not exist," he says, "but over time it is becoming better."

In his role as a forensic accountant, he sees that the effects of a lack of education in risk can be far-reaching and costly. "When we ask risk management teams to implement our recommendations, they are unable to do so if they don't have a proper understanding of the subject and its methodologies," Image credit: @Cloud.Shepherd-Brian Miner

Above: Hanoi, the capital of Vietnam, at night.

he says. "They can feel they are wasting time because they have paid hundreds of thousands of dollars to consultants for a report that is gathering dust on somebody's desk." That makes better risk management education and training vital.

Stressing the value

International consultants, the government and IRM have been working to raise the profile and explain the benefits of enterprise risk management. In the government's attempt to foster a good growth agenda, for instance, there are initiatives that imply better risk management in such areas as corruption regulation and corporate crime. Whether directly or indirectly, things are changing as the spread of risk management-type activity becomes more common.

On the ground, the argument can be relatively easy to demonstrate. "I actually think that one of the biggest barriers to the greater take-up of risk management is the quantification of its benefits," Bandara says. "If businesses need to bring in higher-paid employees to manage threats, they need to understand what the return on their investment will be." Bandara's approach is to show case studies, which has often been enough to persuade directors to take the first steps. After that, it does not take long for those organisations to start seeing benefits, he says.

Raising the profile

COVID-19 has restricted people's ability to go out and meet friends, and people are working from home. This has been difficult, but also a time where Bandara has been encouraging them to listen to IRM's webinars on risk. He has been writing articles in papers and talking to universities to raise the profile of the profession in the region. As an ambassador for IRM, he has been talking to regulators. Over the past two years, he has been able to talk to many risk management teams and persuade them to get started with IRM so they can perform their roles better.

His belief in proper risk management comes directly from his own experience. Bandara trained as a chartered accountant in his home country of Sri Lanka. He was hired by a big audit firm and posted to Singapore, where he focused on auditing insurance companies. While insurers are heavily involved in managing risk for others, Bandara realised the companies they served were not actively managing their own risks. It was something that did not make sense to him.

Bandara also started studying forensic accounting and ended up being certified in fraud investigations. After that, he moved to Vietnam to start the insurance practice for EY. That was when he sat for the IRM Certificate in Risk Management in Financial Services. It took about nine months to complete.

"It was really worth doing because currently there are so many qualifications where you can get a certificate after a couple of weeks' study," he says. He was impressed by the rigour and scope of IRM's course. "IRM qualifications are more detailed and take time – they should take time because you should not just be thinking of it as an exam, but as a way of getting a deep understanding of the field linked to practical experience and knowledge," he says.

As the profile of risk continues to rise across the region, he is keen to see more adoption of IRM qualifications and courses. The more properly qualified risk managers there are, the more the value of risk management will become apparent. And the better opportunities businesses will have for attracting crucially important foreign investment in their industries and the rapidly growing family business sector. While the full transformation of the profession in the region may be years away, it has got off to a good start.

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