StrategicRISK

ASIA RISK REPORT

THE TOP CONCERNS OF ASIAN RISK MANAGERS

2014 EDITION

INDONESIA

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INTRODUCTION

SEAN MOONEY
Asia editor

QUESTIONS FOR THE NEW PRESIDENT

Welcome to *StrategicRISK*'s 2014 Indonesia Risk Report, which looks at the major challenges to corporates operating in a country that has faced great uncertainty during two major polls held this year: the legislative members election and the presidential election.

Questions still remain as to whether new president Joko Widodo will be able to secure the support of the parliament to push forward the ambitious plans he proposed as part of his election campaign.

Education and training, skills shortages and retention of talent also feature heavily on the risk radars of Indonesia's risk professionals, together with regulatory change and challenging economic conditions.

This report is produced with the support of Zurich, and with the assistance of the Pan-Asia Risk and Insurance Management Association (PARIMA). PARIMA's aim is to strengthen and enhance the risk culture in the region through the creation of opportunities for education and dialogue within the risk management community. It is a mission that sits comfortably with the aims of our publication and we will be working with PARIMA members in the future to bring you comprehensive coverage of Asia-Pacific's risk landscape.

Keep an eye out for future risk reports on countries such as China, South Korea and Taiwan and our pan-Asia risk report and interactive webinar towards the end of the year.

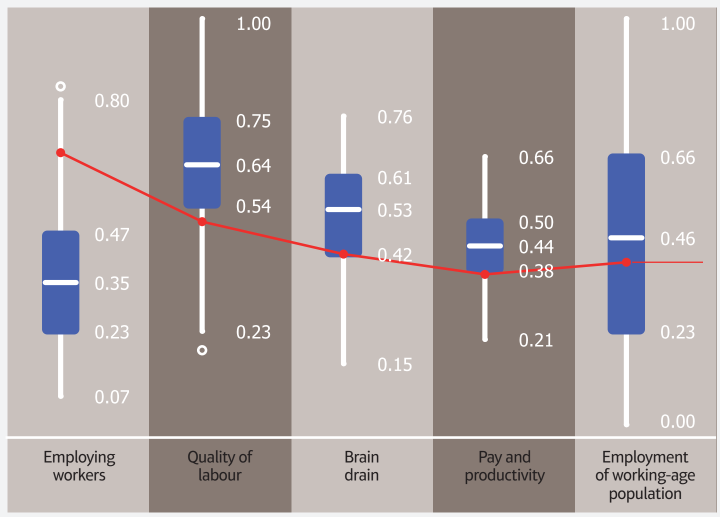
RISKS IN FOCUS

EMPLOYMENT AND POLITICAL INSTABILITY

Employing workers is harder in Indonesia than in other countries in the region and supply chain risks are also a concern owing to potential political violence incidents

NOTE The risk bars indicate the world distribution of the particular risk, from the lowest scoring country to the highest. The lower the score, the lower the risk or exposure to the particular indicator (a lower score is always positive).

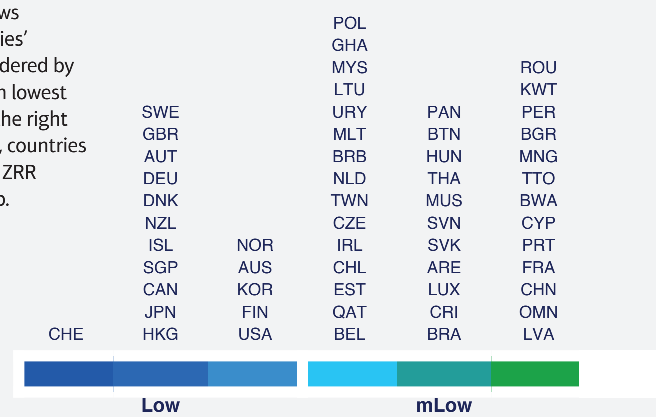
Employment



Despite a persistent economic expansion and robust growth performance in the past couple of years, Indonesia's labour market has lately started to weaken. Some key fundamental indicators such as a qualified domestic talent pool, low-skilled immigration and a favourable pay-to-poductivity ratio continue to play their part in helping to keep employment levels up. In the opposite direction, however, restrictive labour regulation means employing workers is substantially more difficult than in some of the employer-friendly countries in the region.

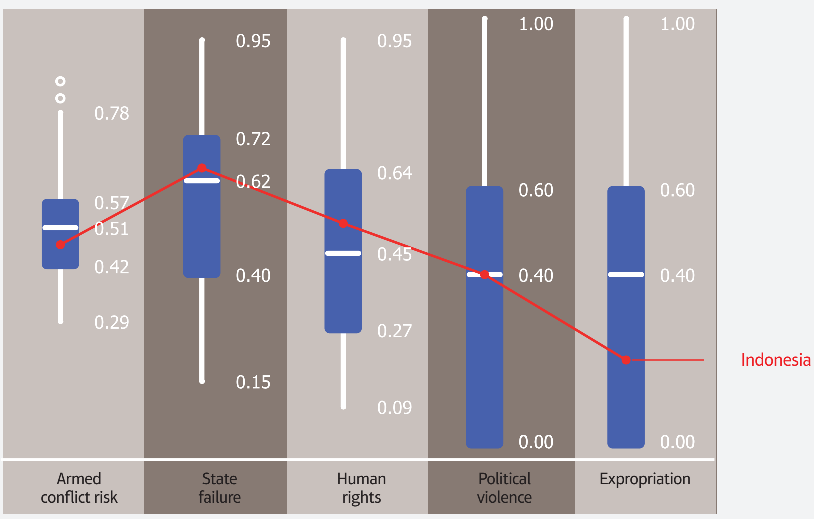
COUNTRY RISK STACKS

The Risk Stacks chart shows a histogram of the countries' riskiness. Countries are ordered by ascending ZRR Metric with lowest on the left to highest on the right hand side. Within one bin, countries are ordered by ascending ZRR Metric from bottom to top.



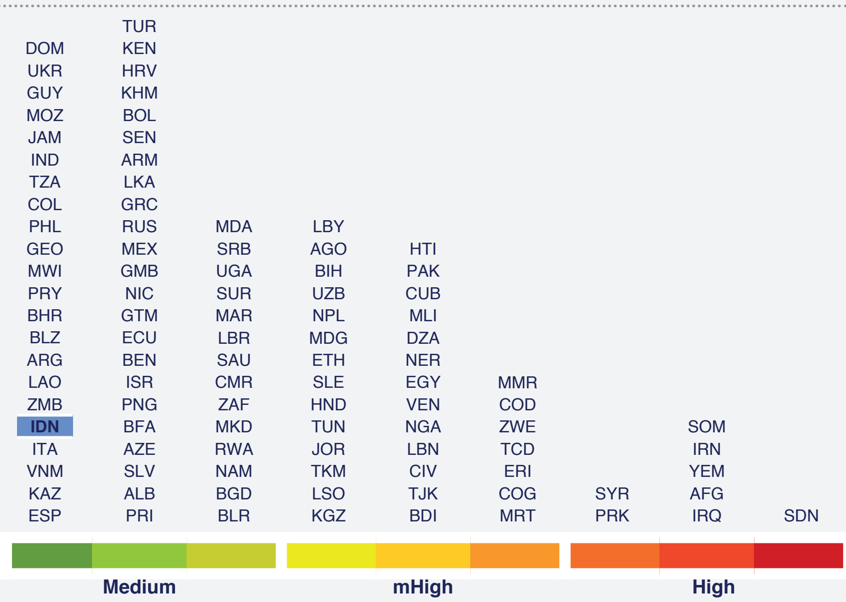
5.3% 1 year ahead GDP growth forecast %	**6.5%** 1 year ahead Inflation forecast	**6.7%** Annual inflation
-2.1% Fiscal balance (%GDP)	**1006.9** GDP, current USD (billions)	**6.5%** Real GPD growth, year on year

Political instability



The election of Joko Widodo to the presidency in July 2014 has contained the near-term risk scenario of political and social unrest disrupting the economy. Nevertheless some fundamental tail risks remain. Foremost among these is the exposure of supply chains and subsidiaries and affiliates of multinational companies operating in the country to incidents of political violence and non-adherence to human rights.

Source: Zurich Risk Room



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TOP RISKS

A new government is in power, but old problems remain

Companies in Indonesia are taking a 'wait and see' approach to the policies of the new political regime. But talent shortages, regulatory change and economic challenges figure high on their list of worries

It is often said that a week is a long time in politics, which would make a year an eternity. It certainly feels like a long time since *StrategicRISK* consulted a selection of Indonesia's top risk managers and local brokers for last year's risk report, as so much has happened in the country's political sphere since the *SR* roundtable was held in Jakarta in November 2013. Political risk was a major area of concern at that time, with great uncertainty surrounding the implications of the 2014 presidential election. It was clear that roundtable participants felt that, despite the huge opportunities on offer in the country, major investment was likely to remain on hold until after the election.

In fact, Indonesia has held two major polls this year: the legislative members election and the presidential election. Members of the major political parties did well in the former and, out of the process, came the two presidential candidates. Joko Widodo (popularly known as Jokowi), with his non-military background, and Prabowo Subianto, with his military experience, both had strong support. One of the election campaign's biggest issues was whether, if Widodo won, Subianto would stage a coup.

Duma Irene Mitalevanie, risk consultant at Astra International, says the situation became tense. "One of the possibilities was the chaos that occurred in [the May riots of] 1998," she says. Elections usually have a negative effect on Indonesia's national economy, she adds. "Political risk faced by firms could be defined as strategic, financial or personal for a company owing to non-market factors such as macroeconomic and social policies (fiscal, monetary, trade, investment, industrial, income, and labour) or events related to political instability (terrorism, riots, coups, and rebellion)."

In the end, Widodo won the election. The president director of Willis Indonesia Simon McCrum believes that, from the business community's point of view at least, the right candidate prevailed – but a great deal of uncertainty still remains about what the future holds. "Much remains to be done and to achieve this, Jokowi will need the support of the parliament, something that is far from guaranteed," he says. "Major questions remain to be answered. Will Widodo be able to push forward his ambitious plans and initiatives? How will this be handled? What will the effect be of the very large budget deficit he is inheriting?"

McCrum says a 'wait and see' attitude prevails at present. "The next few months taking us towards the end of 2014 will be interesting and, I am sure, revealing," he says. (For more in-depth analysis of political risk in Indonesia, see 'A breath of fresh air?' on pp8-9.)

> **'Will Widido be able to push forward his ambitious plans and initiatives? What will the effect be of the very large deficit?'**
>
> **Simon McCrum**, Willis Indonesia

Education and training, skills shortages and retention of talent all feature heavily on the radars of Indonesia's risk professionals, together with regulatory change and challenging economic conditions. The latter is best viewed in the context of the country's recent economic performance. The Asian Development Bank (ADB) states that Indonesia's economic growth fundamentals remain robust, with the economy expanding by 5.8% in 2013. GDP growth is forecast at 5.7% in 2014, picking up to 6.0% in 2015.

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"Moderating investment and sluggish external demand curtailed growth in South-East Asia's biggest economy in 2013," the ADB's *Asian Development Outlook 2014* states. "The authorities took steps to dampen domestic demand after inflation spiked, the rupiah

Is Indonesia on the road to stability or ruin?

weakened and the current account deficit widened. Growth is forecast to dip slightly in 2014 before recovering next year."

Buying power

Rachmadi Gustrian, project manager at the Indonesia Port Corporation, sees economic threats to Indonesian businesses taking the form of higher bank interest rates, increasing electricity and gas prices and decreasing commodity prices. "Those three risks lead to lower buying power, thus heading to lower trading activities," he explains.

Mitalevanie says that significant declines in the prices of nickel, gold, coal and palm oil in 2013 continued in 2014. These declines occurred owing to weak demand caused by a global economic slowdown and the increasing level of world commodity reserves. "Some companies in Indonesia whose business are affected by the price of these commodities should mitigate risks so their business can survive and not weaken their competitiveness in gaining market share," she says. She notes that the global economic slowdown has also led to increased inflation in Indonesia, while the value of its exports to China and India are declining as a result of their policies to reduce imports.

McCrum sees foreign exchange risk as an ongoing challenge, with rupiah exchange rates fluctuating considerably in the past 18 months. "Weakening rates have seen significant price increases locally. Strengthening rates have not seen corresponding price reductions," he says. "This is a major business risk and one that is difficult to plan and budget for."

Fadjar Proboseno, Astra International's risk advisory department head and vice president of the Indonesian Risk Management Professional Association, agrees, adding that the rupiah is likely to weaken further against the major currencies. "This will also weaken buying power, which may lead to slower economic growth," he cautions.

Proboseno adds that the government's aim of eliminating fuel subsidies would raise the price of fuel, leading to increases in production, distribution, maintenance and labour costs. "For those companies that are not strong enough and price-sensitive, it will give significant affect and can create a serious problem," he warns. However, the flip side of this risk is opportunity, he says. "Because the fuel subsidy costs the government a great fortune, the money [saved] can be used for something more productive and can give more value."

The president director of Howden Indonesia, Willy Ignatius, calls the current economic climate "static". "We are yet to see significant improvement after the election," he says. Ignatius sees increasing wages as a major issue for employers. "This will continue as inflation goes up, not to mention the implementation of regulations that require deductions from employees' wages."

Human capital risks in Indonesia go beyond this, with McCrum citing the lack of qualified and experienced staff as "one of the biggest hurdles and barriers to really growing and developing a business in Indonesia".

"Government spending on education remains among the lowest in the world despite many pledges that this would be improved," he says. "Finding and retaining qualified, able and professional staff is difficult and certainly one of the biggest challenges faced by corporations locally. I feel strongly that the legacy of the foreign companies operating in Indonesia must be to help improve and develop the human capital in each of our fields of industry."

> **'The war to attract local talent is unavoidable, sadly, and expatriates can't replace them. Our company has started nurturing internal potential candidates'**
> **Rachmadi Gustrian**, Indonesia Port Corporation

Ignatius says Howden employs many graduates but "most of them are unskilled". He says: "Education and training needs to be put in place to produce more skilled people according to their occupation. As a corporate, we are required to set 5% of our staff cost for training, so it is up to the corporate to actually spend this for improving their own staff talent."

Gustrian points out that the Indonesia Port Corporation is also acting on this. "The war to attract local talent is unavoidable, sadly, and expatriates can't replace them," he says. "Therefore our company has started nurturing internal potential candidates."

Retention of key staff is the main challenge in Indonesia, according to Arman Juffry, president director of JLT Indonesia. "At the same time, obtaining an increase in employee productivity to offset the rising minimum wage is another problem that needs creative solutions from companies," he says.

Shark in the tank

Aon Risk Solutions' head of specialty in Indonesia Cameron Sheild sees people risk reducing with ASEAN Economic Community (AEC) integration. "I recently attended a seminar where the speaker used the example of a large fishing boat that keeps live fish in an interior tank within the boat," he says. "They then put a shark into the tank to keep the rest of the fish alert and alive. Effectively, Indonesia needs to compete with the other 360 million people in ASEAN and, with the AEC, one might think that the people risk will reduce."

Sutanto says AEC integration will mean companies will need to review their employee benefits to retain key staff, "otherwise their important employees may relocate to other countries for better remuneration and benefits".

Regional changes mean that the market opportunities for Indonesia-based companies will increase and production costs will decrease,

TROUBLE IN PARADISE

Indonesia is sometimes called a 'supermarket of disaster' because of its exposure to everything from storms, winds and floods to earthquakes, tsunamis and volcanic eruptions. Given the country's geographical position within the Pacific's 'Ring of Fire', it is inevitable that it will experience another significant natural catastrophe.

Aon Risk Solutions' head of specialty in Indonesia Cameron Sheild says natural catastrophe will always be in his list of top risks faced by Indonesian corporates. "This tropical paradise has it all, it is just a matter of timing when a corporation rolls the dice on executing its business plans," he says. "Thankfully, a corporation can transfer these risks off its balance sheet."

The Indonesian financial services authority (OJK) recently implemented a tariff system that incorporates the major natural catastrophes of flood and earthquake, something Sheild says is "a positive move from the point of view of upskilling the local industry to properly underwrite risk and strengthen local market capital". But he adds:

"Unfortunately, not all insurance buyers have received the good intentions of the OJK positively, with some experiencing significant price uplift in both premium costs and retained risk, by way of increased deductibles. In some instances, some corporations have opted not to purchase cover, which then brings into question risk mitigation and tolerance questions."

Willis Indonesia's president director Simon McCrum says that one of the unforeseen and, to his mind, disastrous knock-on effects of the new insurance tariff regulations is the number of insureds now "opting out of buying earthquake cover to lessen the impact of their premium increases". He adds: "Given Indonesia's geographical and geological composition, this trend is extremely bad news for the country's industry and economy."

However, the president director of JLT Indonesia Arman Juffry says more companies are becoming aware of potential natural catastrophe losses and so there is increased demand for relevant insurance products.

Mitalevanie says, especially for companies that need capital goods and raw materials from ASEAN countries. "Marketing costs are getting lower, consumer choices on type of products available in the domestic market are more diverse, and business co-operation opportunities with other companies in other ASEAN countries are more open," she says.

"However, Indonesia-based companies will need to improve their ability to conduct business professionally and competitively to compete with companies from other ASEAN countries. For example, the development and use of technology applications, services or new standards in the future will require a change in business models, product development, provision of additional services and new investments."

This need for innovation is highlighted by figures that indicate that, by 2015, Indonesia will have more people with mobile device access than electricity at home, with data traffic from wireless and mobile devices exceeding wired data traffic as early as 2018.

> **'A study of more than 12,000 businesses found that in eastern Indonesia, companies coped with an average of four power outages a week. Water service dried up twice a week'**
> **Cameron Shield**, Aon Risk Solutions

Indonesia's infrastructure status is a major obstacle to economic growth, Sheild says, making it is a top risk for corporations operating in the country. "For example, Indonesia is one of the most populous countries in the world made up of entirely of islands, yet the World Economic Forum ranks its port infrastructure 104th out 139 countries," he says.

"Indonesia scored similarly in terms of roads, air transport and electricity. A study of more than 12,000 businesses found that in eastern Indonesia, companies coped with an average of four power outages a week and water service dried up twice a week."

Sheild says there are huge opportunities for corporations willing to "do their homework" and compete within the sector of private investment. "Decentralisation has made it difficult to reverse the years of underinvestment in infrastructure, mainly owing to the impact of investment decisions made at the district level," he adds.

Ignatius agrees that transport infrastructure needs to be better to support business growth. "This, however, does not seem to happen," he says. "The roads are congested in the city – although this may change in next three or four years when Jakarta Mass Rapid Transit construction is completed – the airport and seaport are full and congested, and it takes a longer time to get goods in and out. Transportation between islands is also not adequate to support business as it has not changed for the past decade or two."

As McCrum says wryly: "We couldn't complete this list without a nod to Jakarta's infamous infrastructure issues." **SR**

THOUGHT LEADERSHIP

WIRAHADI SURYANA
Director of Zurich's corporate/commercial business in Indonesia

FIGHTING THE FLOODS

Businesses are becoming increasingly aware of the need to adopt a proactive risk management approach to assess and mitigate risks associated with the increasing impact of natural catastrophes.

Two underlying developments are responsible for this increasing awareness. First, owing to increased density in property values and concentration within the value chain, property and business interruption losses have become a significant part of natural hazards losses. Second, recent events have demonstrated that in today's interconnected world, it is not sufficient to manage the exposure of a company's or community's own assets to severe weather. For example, the 2011 floods in Thailand revealed that businesses are exposed to such risk along their entire supply chain, including contractors and subcontractors.

Because of this interconnectedness, building resilience to natural hazards such as flooding requires the development of new forms of collaboration stretching from local to global. Challenges such as climate change cannot be solved by any one party. The private sector therefore has a significant role to play that goes beyond merely funding disaster relief. It should actively share its skills and expertise to benefit communities, thereby helping to build resilience before an event.

At Zurich, we believe that resilience to natural disaster needs to be built from the bottom up to truly protect individuals, households, communities and business from disaster risk. This is why we have entered into a long-term strategic alliance with the International Federation of Red Cross and Red Crescent Societies, Practical Action (a UK-based non-government organisation) and two academic institutions, the International Institute for Applied Systems Analysis (IIASA, based in Austria) and the Wharton School, to strengthen the resilience of communities against floods. The alliance builds on the complementary strengths of these institutions. It brings an interdisciplinary approach to flood research, community-based programmes and risk expertise with the aim of creating a comprehensive approach that will help to promote community flood resilience.

Last year, Zurich Insurance Indonesia and the Indonesian Red Cross Society (Palang Merah Indonesia, or PMI) signed a memorandum of co-operation in the field of community-based flood disaster risk reduction. The agreement, covering a five-year commitment with a total budget of up to about US$5.5m, aims to enhance flood resilience by finding innovative ways to enhance the effectiveness of disaster risk reduction solutions. It also aims to develop and promote knowledge and expertise around floods, as well as influence policymakers and donors on disaster risk reduction policies.

Our early experience shows that much can be gained from enhancing community programming by adding in risk assessments and impact measurement, techniques borrowed from the insurance industry. This collaborative approach in river basins on the island of Java serves as a model to not only support resilience building on a community level, but to also provide guidance to support development of a national policy.

POLITICAL RISK

A breath of fresh air?

Many Indonesians see the election of president Joko Widodo as a turning point. However, with the country mired in problems, politicians at loggerheads and the business community unsure which way to turn, nothing is guaranteed

Slamet Riyad/REX

Joko Widodo campaigning in Yogyakarta, Indonesia, in 2 June 2014

As mentioned in 'Top Risks' (pp4-7), Indonesia has held two major polls this year: the legislative members' and the presidential elections. The latter was particularly tight and heavily contested, but Joko Widodo – also known as Jokowi – prevailed.

Nevertheless, political uncertainty remains a key concern as Jokowi will have to overcome a multitude of challenges to rule the country effectively. These include parliamentary blockages, major budgetary concerns, bureaucratic corruption and issues relating to labour and infrastructure.

Aon Risk Solutions' head of specialty in Indonesia Cameron Sheild says that although it is still early days, the general feeling is that the new president is a change for the better. "He is not linked by history to the politics of the past and has proven himself in previous roles to be honest and hardworking, with a logical approach to problem solving," he says. "The challenge will be leading and forming a coalition that is willing to accept his leadership."

President director of Willis Indonesia Simon McCrum puts it this way: "Much remains to be done and to achieve this, Jokowi will need the support of the parliament, something that is far from guaranteed."

Indeed, as this report was going to press, Indonesia's outgoing parliament voted to scrap direct elections for local officials and return to the electoral system in place under the former dictator Suharto, in what was widely regarded as a setback to the country's democracy. The vote represents an early defeat for Jokowi, whose party had voted against the change, and suggests he will face a struggle to govern effectively. The bill was supported by a coalition of right-wing parties that are vowing to disrupt the Widodo administration. A network of pro-democracy activists has promised to challenge the change in the constitutional court, which has the power to overrule parliament. Several independent opinion polls have shown a clear majority of Indonesians are in favour of keeping the direct elections.

Demonstrations

President director of Howden Indonesia Willy Ignatius believes "how democracy is interpreted in Indonesia" is now the central issue. "We all hope that this process of democracy should be acceptable by those who won and those who lost, but business remains stagnant, waiting for the day when eventually the newly elected president rules," he says.

He worries that many of the issues that divided the country during the presidential election remain unresolved. "More and more people are throwing themselves on the street for demonstrations of any kind, which most of the time put business activities on hold for a moment," he says.

Risk consultant at Astra International Duma Irene Mitalevanie points out that, based on data from the Indonesia Investment Co-ordinating Board in the beginning of the second quarter of 2014, foreign investment fell by US$500m to US$6.9bn, compared to the previous quarter, whereas foreign investment has shown an upward trend since 2010. Foreign investment experienced a peak in the fourth quarter of 2013 of US$7.4bn. "Intense political competition towards the presidential elections caused some foreign investors to withdraw their investments from the Indonesian market," she says. "The rupiah becomes a sensitive commodity during elections because it has long been controlled by big players who ironically come from foreign speculators."

> **'Business is stagnant, waiting for the day when eventually the newly elected president rules'**
>
> **Willy Ignatius**, Howden

Mitalevanie says investors have been worried about heightened regulatory and economic risks. "Uncertainty makes some investors worried, so most of the existing companies, both owned by government or private, take a 'wait and see' approach," she says. "Even global investors worry about it and reduce placement of funds in countries considered at risk."

Sheild says that expectations are high that political change can help Indonesia move on from the

mistakes of the past. However, "the transition of change brings uncertainty and, with it, an increase in risk owing to the unknown", he cautions. "We need to take a step back and consider that in the space of only 18 months from 1999 to 2001, one of the world's most centralised nations burst apart to become one of the most decentralised," he says. "Effectively, when Indonesia experienced this rampant decentralisation, it began devolving power from the federal government to hundreds of sub-provincial units."

Catching up

The big issue is that the link between local and national interests was weakened, Sheild points out. "As a result, although locally elected politicians may be delivering to the people who voted them in, they may not collectively be thinking of national interests and needs," he explains. "Over time, this has accumulated to the current status of the country, particularly infrastructure, and catching up becomes more challenging as time progresses."

Sheild says nationalisation continues to remain a risk concern for foreign corporations. "Again, the risk rating is linked to the unknown, where the new administration may offer better governance and policy/legislation – however, change of official policy for foreign direct investment remains questionable," he says.

There is "a lot of hope for a new and different era", according to Fadjar Proboseno, risk advisory department head at Astra International and vice-president of the Indonesian Risk Management Professional Association. "The Indonesian people are expecting a dramatic change in the new government and are hoping for a better and clean Indonesia," he says. "If the new president fails to fulfil these expectations, a great risk awaits. Hopefully, this will never happen." **SR**

CORRUPTION

Despite major improvements, clean-up campaigners still have a long way to go

Corruption is "stealing the rights of Indonesian people to have a better life", according to Fadjar Proboseno, risk advisory department head at Astra International. "Corruption badly influences the economic growth and stability of Indonesia – the damage is huge," he says. "The quality and amount of infrastructure that we have currently is far from sufficient. If only corruption could have been minimised in the first place, we could have built better infrastructure to support and boost all kinds of industries and local businesses."

President director of Howden Indonesia Willy Ignatius says that many politicians are trapped in a corrupt system, creating a negative sentiment towards government officials. "Indeed, corruption does not help the growth of the economy," he says. "KPK [Indonesia's Corruption Eradication Commission] has been doing an excellent job to create more awareness for appropriate dealings towards government officials. It is now also promoting clean business dealings with private corporations. But there is still a long route to go." President director of JLT Indonesia Arman Juffry agrees that the KPK is making an "extensive effort to battle against corruption". He says: "We have seen an improvement in this area and we are expecting it will get better with the newly elected president. Many companies now require their business partners to sign non-bribery and anti-corruption statements before starting a business contract."

Major strides have indeed been made in Indonesia in respect of corruption, agrees president director of Willis Indonesia, Simon McCrum. "Ten-plus years ago, it was endemic," he says. "Today, it is much less so. It still exists, of course, but the consumer class is rallying against it and won't accept it as a status quo any longer." McCrum points out that foreign companies with strict regulatory and compliance governance have proven that you can build and grow a significant business in Indonesia without recourse to unacceptable practices. "In my experience, business here is being conducted in an increasingly transparent manner and I believe that ingrained corruption will continue to be chipped away at and eroded," he adds.

Astra International risk consultant Duma Irene Mitalevanie says that there is still a long reform road ahead. "Corruption hinders the country from realising its economic potential and causes significant injustice in Indonesia's society, as some people are disproportionally benefiting from a corrupt society," she says. "But credit has to be given to Indonesia's free media and the KPK, as both play a vital role in the reduction of corruption."

Sheild sees Indonesia as a "young, vibrant, growing democracy with huge potential that is negatively influenced by corruption". He says: "No society can claim to be corruption-free, but for Indonesia the risk is the endemic nature of corruption. The new president will have his work cut out in tackling this seemingly massive task. In the interim, corporations will have to face it and decide how to deal with it in line with their values and their risk identification, rating and mitigation mechanisms. "

RISK MANAGEMENT

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Sometimes you just can't get the staff

Job candidates with risk management experience and passion are highly sought after in Indonesia. With the financial sector undergoing regulatory reform and large corporations showing an interest in the discipline, some maintain its time has finally come

The risk management process is being viewed by Indonesia-based corporates as "more important every day", according to enterprise risk management specialist at XL Axiata Johan Candra. "The discipline of risk management is new in Indonesia, especially for the non-financial markets," he says. "However, many large corporations are now seeking risk management professionals to help the management achieve robust processes and procedures, so the company can have good corporate governance and sustainable business growth."

But good risk professionals are proving hard to find, says Putri Perdana Sari, risk management manager at Aerofood Indonesia. "It is not easy to find people with risk management experience and passion," she says. "Although it is rarely found in older employees, the energy and enthusiasm for risk management will be embraced by this generation of young people." The issue is education, she adds: "Basic risk management training is easy to find, but advanced training is rarely available."

Candra agrees: "At the moment, there is not much training and education about risk management in Indonesia, but there will be more."

Duma Irene Mitalevanie, risk consultant at Astra International, sees a strengthening of risk management on the back of stronger engagement from Indonesian boards. "This is supported by the enactment of several regulations related to implementation of risk management in organisations, as well as Bank Indonesia regulations," she says.

The president director of JLT Indonesia, Arman Juffry, also believes risk management culture is strengthening, mainly following regulatory reform in the financial sector. "Good corporate governance has been comprehensively regulated among financial institutions," he says.

"Risk management and audit committees have to be created separately from other divisions and the commissioner directly reports to the board of the organisation."

Although more non-financial-sector companies in Indonesia are now embracing risk

FOREIGN INTRIGUE

Revisions or interpretations of laws and regulations by the government can have negative and positive effects on Indonesian businesses, says Duma Irene Mitalevanie, risk consultant at Astra International. "For example, the Commerce Law passed by the House of Representatives is considered more pro-foreign rather than pro-national interests; it is more favourable to foreign market players without a strategy of strengthening domestic trade," she says. Foreign investors and local businesses are waiting to see "the next government policy direction", she adds.

President director of Willis Indonesia Simon McCrum says that much noise continues to be raised around percentages of foreign ownership, "which is causing great uncertainty".

According to Arman Juffry, president director of JLT Indonesia, the government is seeking to change regulations to protect Indonesian companies and human resources, while at the same time ensuring a sufficient balance to entice foreign investors. However, Willy Ignatius, president director of Howden Indonesia, says some recently introduced regulations are "contra to the business growing". "Although intended to make a better market, they actually increase costs significantly," he says.

Aon Risk Solutions' head of specialty in Indonesia Cameron Sheild calls it a "regulatory minefield". He cautions Indonesian businesses: "Watch where you step. A foot wrong could be catastrophic."

management, says Mitalevanie, most are not at an advanced stage. "In the implementation of good risk management, the board of directors is responsible for providing commitment and ensuring that risks are managed effectively," she says.

"In Indonesia, most of the implementation of risk management focuses on financial control, compliance standards (audit) and IT risk management. Companies need to integrate and co-ordinate the entire function to improve performance."

Far from strong

Aon Risk Solutions' head of specialty in Indonesia Cameron Sheild agrees that the standard of risk management in the country is improving, but says it is still "far from strong". He adds: "Indonesia is no exception to the rest of Asia in its appetite for risk, which is vast – sometimes not intentionally so."

However, the president director of Willis Indonesia Simon McCrum cannot see risk management in Indonesia gaining much traction in the near future.

> **'At the moment, there is not much training and education about risk management in Indonesia – but there will be more'**
>
> **Johan Candra**, XL Axiata

With no measures in the new regulation to offer price differentials for companies with robust ERM practices, he says there is "little incentive for corporations to adopt these practices". Indeed, he says, there is an oversupply of capacity from too many poorly capitalised insurance firms. "The capital requirements for insurers was recently increased but it did not go nearly far enough," he says. "What I would love to see is much fewer insurers, strongly capitalised, retaining much greater portions of the risks and ceding much less premium outside of the country." **SR**

THOUGHT LEADERSHIP

SIMON DAVIES
Head of talent for Asia-Pacific and the Middle East at Zurich Insurance Company

IF TALENT IS SCARCE, TRY BEING CREATIVE

Attracting, retaining and utilising the right people is critical to an organisation's success. To put it in simple terms, you have to ensure that you do not run out of the people you need to run the business, especially senior leadership and other critical roles in the company.

This is a particularly pressing challenge for companies with a strong Asia-Pacific presence. In the region's emerging economies, demand for talent outstrips supply, especially leaders with technical skills. In Indonesia, this risk is seriously acute. It is a perfect storm of extremely high demand and extremely limited supply. Further, as you cannot easily ship foreign talent in owing to stringent immigration controls, it is a storm without an external solution. Indonesia-based corporates can get to the point where it becomes impossible or very difficult to progress with business plans because critical vacancies remain outstanding for long periods.

Of course, the paradox is that Indonesia is hugely populous, so, in theory, it should be an easy place to find talent. Yet, the opposite is true when it comes to the search for skills and senior leadership capabilities. This is why we see people coming into senior roles in Indonesia at much younger ages than we would expect in most other economies. Many young people's careers are accelerating fast with a minimal amount of experience.

It is incredibly easy to move jobs in Indonesia; it is a candidates' market like no other. To recruit someone, even at a junior level, can be difficult. This means companies have to be careful and creative to hold on to the people they have. One way to do this is through employee value propositions such as corporate social responsibility and valuing diversity. In other words, being clear about what is on offer in addition to the basics of pay and benefits to create a compelling story for existing and prospective employees.

Firms should also be creative about how they utilise talent. Are they fully utilising the talent they have? Are they overlooking some groups? Are they open to increasing the diversity of talent that they have access to? Clever businesses can position themselves as more engaging and attractive as employers, making them places where people might be willing to stay and contribute to even if they receive higher offers from competitors.


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