



Risk Management – From SARs to Cryptocurrency



By
Jane Lo
ASM Correspondent

What do SARS and Cryptocurrency have in common?

SARs (Severe Acute Respiratory Syndrome), is a viral respiratory illness caused by a coronavirus. According to the World Health Organization (WHO) a total of 8,098 people worldwide became sick with SARs during the 2003 outbreak. Of these 774 died.

The first case in Hong Kong was reported on 22th Feb 2003. It took another 2.5 weeks before a WHO worldwide alert was sent, and another 2 weeks for schools in Hong Kong to be closed. By the end of March, house containments were in place, but that did not stop the spreading of the disease which peaked on 20th April, when 12 deaths in a single day were reported.

“History is a tough teacher”, said Peter R. Morgan (VP, Clement Shield; former Assistant Commissioner (Ret.), Hong Kong Police) at the Asia Risk & Resilience Conference 2018, (ARRC 2018, www.arrconference.com, Singapore Hilton, 29th August – 31st August 2018).

The SARs outbreak taught the need for “Improved Preparedness”. This included, according to Mr Morgan, “increased Awareness”, “Effective Plans & SOPs”, “Organisation capacity and readiness”.

Dr. Attila Hertelendy (Professor, Georgetown University), speaking on “Leadership Lessons Learned in Managing Risk and Resilience from the Global Health Security Perspective”, emphasized that “we should embrace a culture of forward-leaning proactivity and the benefits that can be derived from deliberate planning”.

He also clarified that “plans are useless, planning is everything!”. This meant “exercises & drills” to put in practice the plans, which was echoed by Mr Morgan in his talk.

But what does “Improved Preparedness”, “Deliberate Planning” lessons learned from Health Security and SARs have to do with Cryptocurrency?

Cryptocurrency

The stratospheric rise of BitCoin, from its humble beginning when 10,000 bought a developer 2 pizzas, to trade as high as USD19,000, set off skepticisms amidst a flurry of responses from regulators.

Banking titans, Jamie Dimon of JPMorgan famously said he would “fire in a second” any JPMorgan trader who was trading BitCoin; Some countries have outright banned BitCoin trading; others see it as a solution to its struggling economy, such as Venezuela.

But the most cited reason for disparaging BitCoin is its role in facilitating criminal activities. This is not surprising given that ransomware, illegal drugs, or stolen plastic demand payments in BitCoin. The seizure of 110,00 + BitCoin from the takedown of SilkRoad further linked BitCoin to illicit activities.

In his talk “What has ERM got to do with Anti-Money Laundering & Cryptocurrency”, Mr. Dennis Lee (Risk and Compliance Director, Amicorp Trustees (Singapore) Limited), highlighted that these concerns require a robust enterprise-wide risk management approach.

That is, a consolidated assessment of risks across business lines, products and locations.

Under this approach, identifying the role of cryptocurrency and the activities surrounding cryptocurrency trading and investment is but one of the many vulnerabilities and risks that need to be managed.

An understanding of risks faced by the organization is a key aspect of planning – reflecting the theme of the ARRC 2018 “Corporate Governance, Risk & Resilience - Planning in Action.”

Risk Management – the ISO 31000 framework

International organization for Standardization notes that “Risks affecting organizations can have consequences in terms of economic performance and professional reputation, as well as environmental, safety and societal outcomes. Therefore, managing risk effectively helps organizations to perform well in an environment full of uncertainty”.

ISO 31000:2018, Risk management – Guidelines, provides principles, framework and a



Dr. Attila Hertelendy (Professor, Georgetown University), speaking on "Leading Lessons Learned in Risk and Resilience from the Global Health Security Perspective", Photo Credit: ARRC 2018. www.rrconference.com



Peter R. Morgan, (Assistant Commissioner (Ret.), Hong Kong Police) speaking on "15 years on – Lessons Learnt from Hong Kong SARS outbreak in 2003". Photo Credit: ARRC 2018. www.rrconference.com



"What has ERM got to do with Anti-Money Laundering & Cryptocurrency", Mr. Dennis Lee (Risk and Compliance Director, Amicorp Trustees (Singapore) Limited), Photo Credit: ARRC 2018. www.rrconference.com

process for managing risk – "can help organizations increase the likelihood of achieving objectives, improve the identification of opportunities and threats and effectively allocate and use resources for risk treatment".

This is demonstrated by Er Lee Chuen Fei (Certification Lead, Council member, RIMAS) at "Workshop D: Implementation of the ISO31000:2018 – All you need to know".

The key themes of a risk management framework, starting with setting the "Scope/Context and Criteria", followed by "Risk Assessment", and determining appropriate "Risk Treatment", with regular "Monitoring & Review" are not unfamiliar to risk specialists.

Ultimately, articulating the aims of the organization and linking to risks it faces means "effectively understood, treated and managed" risks.

"Reducing the likelihood" of an event or "reducing the consequence" in risk management are standard approaches – other options for consideration include accepting the risk, or transferring the risks through contract or insurance, or avoiding the risk altogether.

Risk – opportunities and potential positive effects

Notably, ISO31000 defines risk as "effect of uncertainty on objectives", which is a significant shift in paradigm from the previous definition of "chance or probability of loss".

This new definition is a reference to positive consequences, or opportunities of uncertainty, as well as the negative ones viewed from the traditional prudent perspective.

So, managing risks associated with developments that may contribute to more frequent health pandemic (e.g. denser cities spreading SARs and other diseases more rapidly), or, enabling more advanced cyber crimes (e.g. innovations underpinning cryptocurrencies) also means addressing the opportunities.

One is "blockchain" which power the cryptocurrencies. This technology is being applied in logistics management to validate and track supplies, and in digital currencies such as the Singapore government's issuance of a digital Singapore dollar on the blockchain for interbank payments that bypass the central bank.

Indeed, Singapore's central bank head said he hoped the technologies underpinning cryptocurrencies such as blockchain would not be undermined by an eventual crash in the virtual currency.

In other words, while cryptocurrencies may face risks limiting its expansion, the exciting opportunities to leverage off the blockchain ground breaking technology should not be overlooked.