

## Issue 6: July, 2008

Dear readers,

The year 2008 brings many opportunities and new challenges to organization across industries throughout the globe. In April, Lloyds of London published an article that reported 25 new risks for industry to worry about ([www.lloyds.com](http://www.lloyds.com)). The top on the list is the risk from nanotechnologies. Other exposures to be concerned are increased fire risk (12) and increasing demand for biofuel and biomass (13) - certainly true with the recent drastic increase in oil price.

Above all, organization must manage its risk holistically. A risk manager should not only be able to manage current risk but also predict future risk affecting his or her business entity.

As the only organization representing risk managers in Malaysia, MARIM has been active in providing various platforms for members to exchange ideas and views on current issues and strategies via seminars, tea talks and visit. MARIM wants its members to be alert on critical areas that risk managers need to focus on and be prepared for. In achieving this agenda, MARIM shall gather the risk professionals around the globe to the 2008 International Risk Management Conference (IRMC 2008) in Kuala Lumpur.

This year, MARIM works hand in hand with the Malaysian Insurance Institute (MII) to organize the conference. The collaboration is hoped to bring in more professionals involving in risk management and insurance to participate in the intellectual discourse surrounding the topics proposed. The theme – Enhancing Shareholders' Value Through ERM – shall guide the discussion to further strengthen the current risk management program at organization across industries. We believe that members shall gain from the speakers' expertise and sharing of experience. Certainly, the networking opportunities are endless.

For MARIM, the first of the year has been busy and interesting. Thus, in this issue, we present you the activities we had. We shared the enjoyment and excitement with our members who supported the events. The next one that calls for members' full support is our 1<sup>st</sup> Golf Tournament. We are currently inviting sponsorship towards prizes and gifts. Your contribution will certainly ensure the success of the event.

Happy reading!

*Chief Editor*

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## UPCOMING EVENTS

Event	Date	Venue
1. MARIM's 17 <sup>th</sup> AGM	Jul 25	TNB PJ
2. RM Roundtable Discussion: Risk Management Best Practices	Jul 25	TNB PJ
3. Tea Talk 2: Financing Employees Health Benefits	Jul 31	TNB PJ
4. Golf Tournament	Aug 24	TBA
5. The International Risk Management Conference (IRMC) 2008	Aug 25-26	Equatorial Hotel, Bangi

# FEATURE ARTICLE

## MANAGING FOREX...PART 1

By: Dr. Ahmad Shukri Yazid, Universiti Darul Iman Malaysia (UDM)

### Introduction

Many firms are confronted with some risk such as market risk, credit risk, operational risk and strategic risk. Coping with these risks has always been an important managerial function. In recent years, however, risk management has become increasingly importance in both corporate practice and research. In particular, the management of foreign exchange risk and interest rate risk is given more attention by corporate sectors.

The abolishment of the fixed exchange rate regime i.e. Bretton Woods in 1971 marked the beginning of foreign exchange risk management. The fixed exchange rate system was replaced by a floating exchange rate system whereby the exchange rate is depending on the market supply and demand of money. If a particular currency has a strong market demand, its value increases. On the other hand, if a currency has a weak demand, its value decreases. These fluctuations of currency expose firms to foreign exchange risk. Thus, firms must know how to mitigate this risk effectively to ensure their objective to enhance shareholders' value could be achieved.

Firms involved in international trade are always subject to foreign exchange risk. This is due to transaction risk arising from foreign receivables and payables. At the same time, firms with subsidiary(s) overseas are exposed to translation risk when they consolidate subsidiary's assets and liabilities to the parent firms' account.

This article will provide discussions on the types of foreign exchange risk exposure and

hedging as one of the methods used to manage the risk.

### Types of Foreign Exchange Risk Exposure

Before attempting to manage foreign exchange risk, we need to know the types of currency exposure. Generally speaking, the concept of currency exposure refers to the degree which a company's income is affected by foreign exchange rate. Theoretically, currency exposure could be divided into three, namely, transaction, translation and economic.

#### *Transaction exposure*

Transaction exposure arises when firm is involved in import or export activities. It is a contractual binding future foreign currencies denominated cash revenues (cash inflows) or expenses (outflows). For example, when a firm enters into an agreement to buy raw materials from the United States, the firm is exposed to transaction exposure. This is due to currency exchange rate between the two countries. If the Dollar weaken, the firm pay less in terms of the Ringgit to the US or vice-versa. Since transaction exposure involve directly with firm's operation, it is not surprising that most firms pay more attention to managing transaction exposure.

#### *Translation Exposure*

Translation exposure is also known as "accounting exposure". Firms with subsidiary(s) overseas will have foreign-currency denominated assets, liabilities, revenues and expenses. However, their shareholders are interested to see all these values in terms of home-currency. In particular, the financial statement of subsidiary(s) must be translated from local currency to home currency before consolidation with parent's company financial

statement. Therefore, if currency value change, translation exposure loss or gain may arise.

Translation exposure is not as popular as transaction exposure because the translation exposure only appears in firms' financial statement.

#### *Economic Exposure*

Economic exposure focuses on the impact of foreign exchange rate change on future cash flows. In particular, the economic exposure is referred to the extent to which the value of a firm as measured by the present value of its expected future cash flows will change when currency rates change. Ideally, a firm has to incorporate economic exposure into its strategic decision making. However, it is quite difficult to measure economic exposure because firm should be able to forecast its future cash flows.

#### **Methods of Managing Foreign Exchange Risk Exposure**

Hedging is one of the methods which could be used to manage currency risk. As stated in many text books, hedging can be defined as method(s) to change the exposed currency positions of a firm in one currency or in multiple currencies. The main aim of hedging is to minimise the impact of potential currency exchange rate. The different types of hedging are discussed below.

#### *Exposure Netting*

Exposure netting is to offset exposure in one currency with exposures in the same currency or other currency, where the movement of the exchange rate is the same. For example, an importer that has to pay USD\$1 million can offset the exposure with USD\$1 million which it expects to receive. Exposure netting involves one of the following three possibilities.

a) A firm can offset receivable in one currency with payable in the same currency;

b) A firm can also offset receivable in one currency by payable in a different currency which is positively correlated; and

c) A firm can offset receivable in one currency by receivable in a different currency which is negatively correlated.

#### *Leading and Lagging*

Leading is a situation where a firm attempting to collect foreign currency receivables early when a foreign currency is expected to depreciate. For example, an exporter of computer chips to the United States. If the exporter predicts the US dollar is going to depreciate in value, the firm is better off to collect the foreign currency receivables early. Thus, increasing its earning potential.

On the other hand, if a firm expects the foreign currency to appreciate in value, it can delay the receipt of the foreign currency receivables. This is referred to as lagging strategy. For example, if an exporter expects to receive USD\$1 million in the near future, the exporter will earn more money in local currency by delaying receipt of payment.

#### *Prepayment*

This technique requires an importer to pay in full before shipment is made. This technique will secure the importer in the case that the foreign currency appreciates in value before payment is made. Normally, this arrangement is required when the importer is a first time buyer and has no track on credit worthiness. However, the main disadvantage of this method is that it can limit exporter's business potential because most firms would like to defer payments.

*To be continued...*

# International Risk Management Conference 2008

"Enhancing Shareholder's Value Through Enterprise Risk Management"

25 - 26 August 2008

Hotel Equatorial Bangi-Putrajaya, Selangor, Malaysia



The conference will focus on the up-dates and development of ERM in the global markets as well as the local. The speakers to be invited are key industry practitioners and leaders who have extensive practical expertise and experience in the industry. We hope this conference will gather all senior professionals from various economic sectors across the international borders. Don't miss the golden opportunity to meet other senior professionals and expand your network of co-operation across sectors.

Organised by:



The Malaysian Insurance Institute  
www.insurance.com.my



Professional Service Provider  
of the year 2007



Malaysian Association of  
Risk and Insurance Management

## Objectives

- Obtain information and up-dates on the trend, development, challenges, best practices, standards and benchmark in enterprise risk management
- Gauge some perspectives on the emerging risks affecting the performance of the organization and how ERM can be used to monitor and control these risks
- Interact and exchange ideas with other delegates and field experts and strengthen co-operation among players of various economic sectors

## Who Should Attend

- |                            |                              |
|----------------------------|------------------------------|
| 1) Senior Professionals    | 2) Chief Executive Officers  |
| 3) Chief Financial Officer | 4) Chief Operating Officer   |
| 5) Chief Risk Officers     | 6) Chief Information Officer |
| 7) Board of Directors      | 8) Risk Managers             |
| 9) Auditors                | 10) Company Secretaries      |
| 11) Insurance Buyers       | 12) Insurers                 |
| 13) Brokers                | 14) Regulators               |
| 15) Academicians           | 16) Other interested parties |

## Registration Fees

	MARIM and MII members	Non MII / MARIM members	* University students / Local government officials/ NGO/Non-profit Organisations <small>* (letter from university required / Institutions incorporated in Malaysia only)</small>
Register (before 15 August 2008)	<input type="checkbox"/> USD 630 / RM 1,800	<input type="checkbox"/> USD 830 / RM 2,400	<input type="checkbox"/> RM 900
Register (after 15 August 2008)	<input type="checkbox"/> USD 696 / RM 2,000	<input type="checkbox"/> USD 963 / RM 2,800	<input type="checkbox"/> RM 1,200
<b>Group discount for 3 pax and above from same company</b>	<input type="checkbox"/> 10% off for each participant		

## Conference Unit

The Malaysian Insurance Institute  
No. 5, Jalan Sri Semantan Satu, Damansara Heights  
50490 Kuala Lumpur, Malaysia

Tel No: 03-2087 8882 Fax No: 03-2092 1501 or 603 2093 9794

## Contact Us

Azizi Rashidi (ext. 215: azizi@mii.org.my)

Evangeline Lourdes (ext. 332: evangeline@mii.org.my)

Badrul Hisham (ext. 337: badrul@mii.org.my)

Please visit <http://www.miielibrary.com/riskmanagement2008> for latest up-date

# Export and Trade Finance Conference

Constructing successful export objectives for long-term risk management and export competitiveness

Prince Hotel & Residence,  
Kuala Lumpur

21st & 22nd July 2008

**\* Exclusive 10% DISCOUNT for MARIM members when they register with Ms. Lee Chew Wan. Please Quote "MARIM" to get the discount**

"Nothing is permanent but change"

Heraditus

It is essential to acknowledge the increasing sophistication of the export and trade finance market as the foremost challenge facing exporters and traders. Organisations regionally are striving to ensure they meet the evolving export needs of tomorrow and adopt a more proactive approach to international trading strategies

## Attend this informative event and gain cost saving insights into:

- Analysing the fast growing trade corridors in and out of the South East Asia region
- Forecasting the macro-economic situation to build a long-term export and trade strategy
- Improving your trading contract negotiation, structure agency and distributor agreements
- Reviewing comprehensively the UCP 600 and how it affects the Letters of Credit
- Interpreting accurately the key issues surrounding international trade transactions to avoid the risks posed by improper documentation, while simultaneously enhancing receipt of payment
- Capitalising on foreign exchange exposure in cross border international trade
- Identifying the importance of communication between factory, sales, logistic and end users.
- Structuring agency and distributor trade negotiation agreements
- Establishing a strategic approach in international trading

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conferences

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Tel: +603 2723 6748  
Email: [lcw@marousevans.com](mailto:lcw@marousevans.com)  
[www.marousevans.com](http://www.marousevans.com)

# SPECIAL REPORT

By Arpah Abu Bakar, MARIM

## SEMINAR 2/2008 RISK BASED CAPITAL FRAMEWORK – THE IMPACT TO INSURANCE BUYERS

17<sup>th</sup> April 2008

TNB Theatre, Wisma TNB Jalan Timur, Petaling Jaya.



Zainal Abidin Mohd Kassim, BSc, FIA, ASA  
Principal Actuary, Zainal Mercer Consulting Sdn Bhd



Vijayam Nadarajah, RA(Mal.), FCPA(Aus), FIIA(Mal), B.Econs,  
MBA, LLB  
Head of Finance, Oriental Capital Assurance Berhad

For the first time, MARIM co-organize the half-day seminar with the Malaysian Insurance and Takaful Brokers Associations (MITBA). The seminar received overwhelming responses from the industry. About 50 people have signed for the seminar to listen to two prominent speakers.

Mr Zainal, from Zainal Mercer Consulting Sdn Bhd, is currently the Head of Risk, Finance and Insurance Practice of Mercer Asia. With his 22 years of consulting experience, he is certainly the expert to talk about the newly hot topic in the insurance industry – Risk-Based Capital (RBC) Framework. The framework, issued by Bank Negara Malaysia, is scheduled to be fully adopted by insurance companies in Malaysia by 1<sup>st</sup> January 2009. With less than one year time frame, there is a lot that need to be learned. In his presentation, Mr Zainal talked about the insurer's capital, how it relates to risk and the premium determination. He then discussed on the impact of the implementation to the insurers as well as the challenges to be faced.

The topic was further deliberated by Madam Vijayam who has over 17 years of experience in internal audit, risk, compliance and finance in financial institutions including banks and insurance companies. She is also an active trainer for the Institute of Internal Auditors Malaysia (IIAM). In her presentation, Madam Vijayam started with the basics by introducing the Capital Adequacy Ratio (CAR). Then she discussed the topics by segregating the challenges to be dealt with in several journeys. The detailed discussion certainly enlightens the participants on the issues surrounding the topic.

MARIM would like to record its thanks to both Mr Zainal and Madam Vijayam for their excellent presentation. You may request a copy of the presentation papers from our Secretary, Cik Mimi at 03-79550284 or [administrator@marim.org](mailto:administrator@marim.org). There will be minimal charges for printing, postage & handling.

For MARIM members  
Please register with  
[administrator@marim.org](mailto:administrator@marim.org)



**MITBA Launch**

*Wednesday, 23rd July, 2008*

*10.30 a.m.*

*Nirwana Ballroom 2, Lower Lobby*

*CROWNE PLAZA MUTIARA KUALA LUMPUR*

*Jalan Sultan Ismail, Kuala Lumpur.*

# MARIM @ A GLANCE

## SEMINAR 1/2008 LIGHTNING PROTECTION

Jan 17, 2008

TNB Theatre, 20<sup>th</sup> Floor, Wisma TNB, PJ



Mr. Z. A. Hartono received his BSc. Engineering (Hons) degree from the Loughborough University of Technology, United Kingdom, in 1979. He was involved in the development and maintenance of various telecommunication projects in Malaysia from 1979 to 1999 and was personally involved in the analysis of damages to various IT, communication and electrical systems and also conducted research on lightning damaged buildings in Klang Valley during this period. Prior to starting his own consultancy firm to provide lightning protection expertise to local and international clients in 1999, he acted as expert consultant in many lightning related projects in Malaysia, Taiwan and the USA.

In this talk, our speaker shared his views on:

- Brief introduction to the revised Malaysian Standard (MS) on lightning protection: MS-IEC 62305
- How the use of the non-standard lightning protection system can impact on the insurance industry.
- Lightning risk exposure faced in Malaysia.

## TEA TALK 1/2008

### HOLISTIC ORGANIZATIONAL SURVIVAL PLANNING 'A Vision and Program for Surviving the Unexpected'

Feb 20, 2008

TNB Theatre, 20<sup>th</sup> Floor, Wisma TNB, PJ



Steve Timmons joined Marsh Risk Consulting in 2007 as a Practice Leader for Business Continuity and Crisis Risk consulting services. He is responsible for designing and delivering customized solutions in the areas of BCP strategy & vision, BCP program viability assessment, operational impact and risk analysis, plan design & alignment across emergency response, mission-critical process continuity, disaster recovery, & business resumption planning, BCP program office design & deployment, pandemic preparation, supply chain crisis viability analysis, crisis communications modeling, organizational awareness & training, executive crisis support and succession planning, and the proactive preparation of people to effectively survive through and recover from a major

Some of the topics covered in the seminar:

- What components must be addressed to design and deploy a holistic and viable crisis program?
- What are the most common points of failure in responding to a crisis event, and how can they be avoided?
- The evolution of "event-neutral" planning.
- What are the emerging risks in 2008, and what should organizations be focused on?
- Crisis psychology and the proactive preparation of people for crisis.

MARIM would like to record its thanks to both Mr Z.A Hartono and Mr Steve Timmons for their excellent presentation. You may request a copy of the presentation papers from our Secretary, Cik Mimi at 03-79550284 or administrator@marim.org. There will be minimal charges for printing, postage & handling.

## EVENTS ENDORSED BY MARIM

	Creating a Behavioral Based Safety Culture Workshop	Export and Trade Finance Conference
<i>Date &amp; Venue</i>	24 & 25 June 2008 Sheraton Hotel, Subang	21 & 22 July 2008 Prince Hotel and Residence
<i>Organizer</i>	Comfori Sdn Bhd	Marcus Evans

# MARIM @ A GLANCE

## BOWLING TOURNAMENT

May 3, 2008  
Cosmic Bowl, Midvalley



Team from Maxis

Congratulations to the Winners!!!

### Team

- 1<sup>st</sup> : Maxis Mobile Sdn Bhd
- 2<sup>nd</sup> : The Pacific Ins (B)
- 3<sup>rd</sup> : Konsortium Abass (A)

### Men-Single

- 1<sup>st</sup> : Yahya Ismail (Konsortium Abass)
- 2<sup>nd</sup> : Shubli Mat Jahari (The Pacific Ins)
- 3<sup>rd</sup> : Collin Loke (Crawford & Co)

### Ladies-Single

- 1<sup>st</sup> : Intan Suria (SD Lockton Ins Brokers)
- 2<sup>nd</sup> : Normah (Maxis Mobile Sdn Bhd)

### Highest Score

Shubli Mat Jahari (The Pacific Ins)

Thanks to our Sponsors:

**TM Berhad, Anika Ins Brokers, Labuan Re, Allianz General Ins, Century Independent Loss Adjusters, CIMB Aviva**

## TECHNICAL VISIT

### TUANKU JA'AFAR POWER STATION (TJPS), PORT DICKSON

May 26, 2008



In the control room

Seventeen people participated in the visit. MARIM provide 2 cars and the rest of the participants went to the power station with their own transportation. The visit was open to members only. It is one of MARIM's efforts to expose members to real life experience in the members' industry.

Members who joined were Powertek, Crawford & Co Adjusters, Labuan Re, Westports, TM, IWK, TNB, MAB, Genting Berhad and UUM.

We arrived at the TJPS at about 10 am and were warmly welcome by Ir Zulkifli and his staff at the main building. Before the briefing starts, we were brought to view the beautiful scenery from the balcony at the main building. The coast side scenery was spectacular.

In the briefing session, Ir Zulkifli explained the general process of power generation and the specific operational activities at the station. We were then divided into 2 groups and were brought to view the state-of-the-art gas-fired combined cycle generation plant. It was a marvelous experience. MARIM would like to thank to Ir Zulkifli and all TJPS's staff for their warm hospitality.

# Member gets Member

Get 3 free seats to our half-day seminars in 2008 when you introduce one new corporate member.

**Hurry!!!**  
Hurry!!!

Get 1 free seat to our half-day seminars in 2008 when you introduce one new individual member.

## FOR MEMBERSHIP INQUIRIES

Please address to:

Malaysian Association of Risk and Insurance  
Management (MARIM)  
No 9B, Lorong 8/1E  
46050 Petaling Jaya  
Selangor

Contact person : Ms Mimi  
Contact No : 03-79550284  
Fax No.: 03-7954 2451  
Email : [administrator@marim.org](mailto:administrator@marim.org)  
Website : <http://www.marim.org>

*Living at risk is jumping off the cliff and building your wings on the way down.*

*~Ray Bradbury*

## FOR CONTRIBUTION OF ARTICLES

You can write on:

- Activities at your company
- Recent promotion
- New products
- Risk issues at your organization
- Your own experience in risk management implementation
- Other related topics

Please address to:

Dept. of Risk Mgmt. & Insurance  
Faculty of Finance & Banking  
Universiti Utara Malaysia  
06010 Sintok, Kedah

Contact person : Arpah Abu Bakar  
Email : [arpahabubakar@gmail.com](mailto:arpahabubakar@gmail.com)