



Universiti Utara Malaysia

# RISKNEWS

Issue 5 Jan, 2008



Malaysian Association of Risk & Insurance Management

Happy New Year! The year 2008 offers new opportunities and challenges. As the market is expanding in tandem with the globalization and the organizations are growing in size with the mergers and acquisition, the risk facing the organization also intensifies. The traditional approach of dealing with risk on a silo basis is no longer relevant as risk management becomes integrated and needs to be treated in enterprise-wide basis.

The idea sounds simple but the implementation may require an expert. MARIM, being the only association representing risk managers in Malaysia, is a good platform for members to change ideas and get updates on current issues and trends in risk management practices. Of course it's easier said than done. As a non-profit organization, organizing an event is a struggle for its Exco. But somehow, something has been done despite the busy schedules.

Let's look at the journey and the milestone MARIM has achieved along the way.

- Seminar 1/2007: Crisis Management During Major Incident
- Seminar 2/2007: Fraud Risk Management
- Risk Management Conference 2007
- Social Visit to KLIA
- Establishment of the MARIM Student Chapter
- MARIM-MNRB Student Award

Aside from the above list, we can be proud of the RiskNews. In this issue, I've managed to get the experts in the risk management & insurance field to be in the editorial board. Of course, there is lots of room for improvement. I'd like to call for comments and suggestions to upgrade our newsletter. I hope that you enjoy this 5<sup>th</sup> Issue of RiskNews and find that this issue makes for interesting reading.

*Chief Editor*

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## UPCOMING EVENTS

Event	Date	Venue
1. Seminar 1/2008 : Effective Lightning Protection	Jan 17	TNB PJ
2. Seminar 2/2008 : The Need for Business Continuity Management	Feb 20	TBA
3. MARIM's 17 <sup>th</sup> AGM	May 20	TBA
4. The Risk Management Conference + Golf Tournament	Aug 17-19	Genting Highlands

## FEATURE ARTICLE

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

### MANAGING FINANCIAL RISKS

In 1997, Asian markets were hit badly by the so called "Asian Financial Crisis". The magnitude of the crisis hit five Asian countries, namely, Indonesia, Thailand, Korea, Malaysia, and Philippines hardest. According to a report by Radelet & Sachs (1998), these countries did not anticipate such financial crisis. They thought that the continued growth of economies would remain. Consequently, many major corporations in those countries experienced major financial losses. It is believed that these losses were due to complacent and poor management of financial risks (International Monetary Fund, 1998).

Financial risks can be categorised as company's exposures to interest rate, foreign exchange rate and commodity price risks. During the Asian Financial Crisis, Malaysian ringgit was devalued tremendously against major currencies such as the US dollars and British Sterling. Since many of major corporations in Malaysia involved in international trades, they suffered badly due to this devaluation of the ringgit.

For example, in the case of the Malaysian Airlines System (MAS), the national air carriers had engaged in an ambitious fleet expansion programme, ordering 72 Boeing aircrafts over the 1991 to 1996 period costing a total of M\$10.6 billion (Financial Times, January 11, 1995). Most of its debt in 1998 was in foreign currencies, whereby 81% was in US dollars and 12% in Japanese yen (The Edge, June 8, 1998). Due to this heavy leverage in foreign currencies, for the financial year ending March 31, 1998, MAS suffered a substantial foreign currency loss of M\$718.4 million, of which M\$620.9 million was translation loss and the rest resulted from operating transactions (Business Times, May 30, 1998).

Prior to the crisis, major corporations paid less attention to the management of financial risks especially foreign exchange (forex) risk. They were quite complacent and passive in managing foreign exchange and interest rate risks. Some of them used natural approach in mitigating forex risk. They borrowed in foreign currencies to match with foreign revenues. Even though this technique is acceptable to be used to manage forex risk, however, this is not the most efficient technique.

During the crisis, the management behaviour of managing financial risks started to embark into a more structured approach. Financial risk management was given much attention by the management of major corporations. As defined by many authors (e.g., Santomero, 1995; Eales, 1995; Shapiro *et al.*, 1985) financial risk management is a strategic way of identifying and quantifying financial risk exposures, and using financial instruments like forwards, futures, options and swaps to mitigate these exposures. It is argued that financial risk management can be used to mitigate financial risks which in turn, can enhance shareholders' value. Therefore, there is an urgent need for corporations to enhance their financial risk management capabilities in order to protect themselves against volatile market conditions.

#### References:

- Business Times (1998) MAS Posts RM257M Net Loss As Forex Losses Cost Mount, *Business Times*. Singapore.
- Eales, B. A. (1995) *Financial Risk Management*. London, McGraw-Hill Book Company.
- Financial Times (1995) Malaysian Airlines Aims To Be A High Flyer, *Financial Times*. London.
- IMF (1998) IMF Concludes Article IV Consultation With Malaysia. *International Monetary Fund Report*.
- Radelet, S. and J. Sachs (1998) The East Asian Financial Crisis: Diagnosis, Remedies, Prospects. *Harvard Institute for International Development*.
- Santomero, A. M. (1995) Financial Risk Management: The Whys And Hows, *Journal Of Financial Markets, Institutions And Investment*, 4(5): 1 - 14.
- Shapiro, A. C. and S. Titman (1985) An Integrated Approach To Corporate Risk Management, *Midland Corporate Finance Journal*, 13(Summer): 41 - 56.
- The Edge (1998) Big Money: Tajuddin Tricky Juggling Act, *The Edge*. Malaysia.



# SPECIAL REPORT

By: Noorismizaira, MARIM

## THE 16<sup>TH</sup> ANNUAL GENERAL MEETING

22<sup>nd</sup> August 2007

TNB Theatre, Wisma TNB Jalan Timur, Petaling Jaya.

MARIM's 16<sup>th</sup> AGM was held at TNB Theatre, Wisma TNB Jalan Timur, Petaling Jaya. One of the main agenda was to elect and appoint the Office Bearers for the year 2007-2008 and 2008-2009. The AGM was organized together with a half-day seminar on 'Fraud Risk Management'.

The AGM was chaired by Tn Hj Kamal Ariffin bin Abdullah, Chairman of MARIM. He reported events organized by MARIM in 2006. MARIM has managed to organize 2 half-day seminars and a bowling tournament. Besides, MARIM has assisted the MARIM Student Chapter to host a seminar and a technical visit among its members. The Exco members have tried their best to organize events for members despite their busy schedules.

In this AGM, 5 Exco members were re-elected. The 2 new members are Malaysia Airports Holdings Berhad and Indah Water Konsortium Sdn. Bhd. As agreed in MARIM's 14<sup>th</sup> AGM, the new office bearers shall be in office for a two-year term. Below is the full list of new office bearers.

MARIM would like to record its thanks to Tenaga Nasional Berhad (TNB) for the use of its facilities and to all Exco who have worked hard to make the event a success.

### NEW OFFICE BEARER FOR 2007-2008

#### CHAIRMAN

Tenaga Nasional Berhad  
*Tn Hj Kamal Ariffin Abdullah*

#### DEPUTY CHAIRMAN

Malaysia Airports Berhad  
*Zalina Jaflus*

#### HONORARY SECRETARY

Universiti Utara Malaysia  
*Arpah Abu Bakar*  
*Zairol Azhar Auzzir*

#### HONORARY TREASURER

Maxis Communication Berhad  
*Bernard Lee Teck Meng*  
*Raja Amir Raja Hedar*

#### ORDINARY COMMITTEE MEMBER

Telekom Malaysia Berhad  
*Muhammad Muhamad Zain*  
*Nuril Annuar Sakir*

#### Indah Water Konsortium Sdn Berhad

*Yuhaizar Mohd Yusof*  
*Norhalawiah Abd Rahman*

#### Tan Chong & Sons Motor Company Sdn Berhad

*Chan Yuet Sang*  
*Ng Siew Wah*



By: Arpah Abu Bakar, Universiti Utara Malaysia (UUM)

**PROFESSIONAL DESIGNATION IN RISK MANAGEMENT**

A professional certification usually indicates that the members uphold certain standards in their practices including ethical standards and that he or she continues updating her knowledge in the field. Many professionals belong to a professional body that endorses or administers a certain certification. The accountants have to be a member of the Malaysian Institute of Accountants (MIA) or the Malaysian Institute of Certified Public Accountants (MICPA). The holders carry CA(M) and CPA(M) respectively. The actuarial profession has a different style. Currently, the Actuarial Society of Malaysia is the only body that represents the actuary in Malaysia. The society endorses certification from overseas bodies among which are Societies of Actuaries (SOA) of the United States (US) and Institute of Actuaries of the United Kingdom (UK). These two professions require them to have professional certification to allow them to practice. What about the risk managers?

Currently, there is no certification in the field of risk management that is endorsed for the Malaysian practitioners. Contrary to the accountants and the actuary, risk managers do not need a professional certification to practice. However, many risk managers carry certain professional designations. For examples, in the US, risk managers become a member of Risk and Insurance Management Society (RIMS) which endorses Associate of Risk Management (ARM). The certification is administered by a different body which is the Insurance Institute of America. Some risk managers in Malaysia hold a Certified Practicing Risk Management (CPRM) designation, a certification from the Risk Management Institute of Australia.

So, what's for Malaysia? Who should give the endorsement or probably the enforcement? Should it be the Central Bank? And on who should be the certification body? Should it be the Malaysian Insurance Institute (MII)? Why not MARIM itself be the certification body? Then, what's the role of MII?

All these questions need to be answered. There is no doubt that a professional designation in the field of risk management is demanded. But we need to agree on what is best for the Malaysian. The relevant organizations need to sit down on and discuss as it will save recourses on research and it will provide support once an agreement is reached.

But, what do we have now? MII has been on the lead. Up-to-date, MII has collaborated with the Institute of Risk Management (IRM) of United Kingdom to provide certification. One of the benefits is that the certification is international thus members may get recognition internationally.

What are the alternatives? Practitioners in Malaysia can get a certification by the Asian Risk Management Institute (ARIMI) which is based in Singapore. The educational provider in Malaysia is a local consultancy company, the Columbus Circle Governance Sdn Bhd. The holder will carry Certified Professional Risk Manager (CPRM).

For further updates, please log on to [www.insurance.com.my](http://www.insurance.com.my) and [www.cct-global.com](http://www.cct-global.com)

**EVENTS ENDORSED BY MARIM**

	1 <sup>st</sup> IFRIMA International Risk Management Summit	Workshop on Fire Safety and Risk Management
<i>Date &amp; Venue</i>	Jun 27-29, 2007 Hong Kong	Nov 14-15, 2007 Kuala Lumpur
<i>Organizer</i>	Asia Insurance Review	Comfori Sdn Bhd
	Global Credit and Operational Risk Forum 2007	4 <sup>th</sup> Asian Conference on Retirement and Planning
<i>Date &amp; Venue</i>	Nov 19-21, 2007 Singapore	Nov 26-27, 2007 Kuala Lumpur
<i>Organizer</i>	Marcus Evan	Asia Insurance Review

# MARIM @ A GLANCE

## HALF DAY SEMINAR 2/2007 FRAUD RISK MANAGEMENT

Aug 22, 2007

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



Even prior to the enhanced regulatory requirements of the past few years, it was expected that executives, managers and employees could prevent wrongdoing and fraud as part of their daily responsibilities. But the criminals are getting smarter and internal control systems and procedures, while helpful, can just make the criminals become more creative in their schemes. When prevention efforts failed or are circumvented, we must be ready to catch the wrongful act immediately and handle the incidents effectively.

Many managers find these expectations often exceed the skills and experience needed to fulfill those responsibilities. Thus, it is indeed utmost importance for organizations to know the best practices in fighting and mitigating fraud risk.

MARIM has invited two prominent speakers to share their views in this field - Mr Carl Rajendram and Tuan Hj Tajul Ariffin. Mr Carl is the CEO of ISM Berhad and is currently the local Director of Training for the Association of Certified Fraud Examiners. Mr Rajendram has more than 13 years industry experience in both life and general insurance.



The second speaker, Tuan Hj Tajul , is the GM of Fraud Management Division, Group Business Assurance, Telekom Malaysia. He pioneered the establishment of TM Fraud Management Division in TM in 1996 and has been the head of the department since then. He is a representative of TM and one of the members of the international anti fraud organization known as Fraud International Irregular Network Access (FIINA) since 1996.

Mr Carl presented a topic on Fraud Risk Assessment: What you need to know? while Tuan Hj Tajol shared his view on Telecommunication Fraud Risk Evolution in Global Perspectives. The feedback we received from the participants was most positive and encouraging with many found the presentations and discussions at the seminar extremely useful.

MARIM would like to record its thanks to both Mr Carl and Tuan Hj Tajol for their excellent presentation. Members 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.

*“Life is inherently risky. There is only one big risk you should avoid at all costs, and that is the risk of doing nothing.” ~ Denis Waitley 1933*

# RISK @ INFO

Compiled by: Diara Md Jadi, U of Bradford, UK

## PRINCIPLES OF SENSIBLE RISK MANAGEMENT IN THE WORKPLACE

1. Sensible risk management is about:
  - √ Ensuring that workers and the public are properly protected
  - √ Providing overall benefit to society by balancing benefits and risks, with a focus on reducing real risks – both those which arise more often and those with serious consequences
  - √ Enabling innovation and learning not stifling them
  - √ Ensuring that those who create risks manage them responsibly and understand that failure to manage real risks responsibly is likely to lead to robust action
  - √ Enabling individuals to understand that as well as the right to protection, they also have to exercise responsibility
2. Sensible risk management is not about:
  - x Creating a totally risk free society
  - x Generating useless paperwork mountains
  - x Scaring people by exaggerating or publicizing trivial risks
  - x Stopping important recreational and learning activities for individuals where the risks are managed
  - x Reducing protection of people from risks that cause real harm and suffering

*The principles were launched by Bill Callaghan, Chair of the Health and Safety Commission UK, in Aug 2006*

### Reference:

<http://www.hse.gov.uk>. Download on 22 Dec 2007.

## Myth of The Month – “Every possible risk needs a safety design”

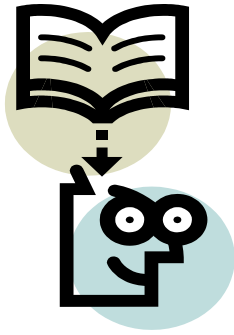


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## MARIM LIBRARY

MEMBERS ONLY!

Conference papers available in our library:

Members may request copies of the conference papers from our Secretary, Cik Mimi at 03-79550284 or administrator@marim.org. There will be minimal charges for printing, postage & handling.

### Risk Management Conference Apr 2007

- A Changing World of Risk Management: A Market Perspective
- Enterprise Risk Management – The Foundation of Effective Corporate Governance
- Flu Diligence – How Prepared Are You For A Pandemic?
- The New Climate –Weather Worries
- Environmental Risk Management In The 21<sup>st</sup> Century
- Achieving KPIs Through Risk Management: The Challenges Ahead
- Product Recall Losses – How Can I Prepare? If I Take It Back, Who Pays?
- Differing Roles of Internal Auditor and Risk Management in ERM
- How High Is Up? A Risk Manager’s Guide to Selecting Policy Limits
- Road Safety Management: The Way Forward for Malaysians
- Mission Impossible – Aligning Safety, Risk Management and Operations
- Top Ten Mistakes Insureds Make After A Loss and Other Strategies
- Terrorism & Security Issues: New Dilemmas For Risk Managers
- Audit Pricing and Risk Management
- Brand Risk Management: Are Brands Becoming More Valuable or More Vulnerable?
- Due Diligence In Acquisition

### 4<sup>th</sup> International Conference on Retirement and Planning Nov 2007

- Keynote Address: Reinventing Retirement Strategies in the New World of Risks
- The Ongoing Development of Asian Pension Programmes: What Are The New Opportunities, Strategies and Risks?
- Pensions In the Growing Takaful Market
- Retirement Planning: The Islamic Way Incorporating Wealth Management and Islamic Investments
- Learning From Experiences in The Region: *Australia: India Singapore: Taiwan:*
- Issues on Corporate Pension Schemes: One of the Key Recent Developments in China
- Annuities Market: Strategies to Develop the Market in Asia
- Challenges for A Potential Enterprise Annuity Service Provider in China
- Demography As a Predictable Challenge
- Lessons for Asia – Learning from the Experienced Markets: Canada, UK, USA
- How Capital Markets Evaluate Corporate and Social Responsibility
- Risk Management: Analyses and Methods of Managing Mortality and Longevity Risks
- Use of Actuarial Science to Tackle Pensions Challenges and Longevity Risks
- Reaching out to Rural Areas by Providing Micro Pensions
- Mitigating the Risks in Pension Provision – from the Perspective of Government, Employers and Individuals.

# Member gets Member

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



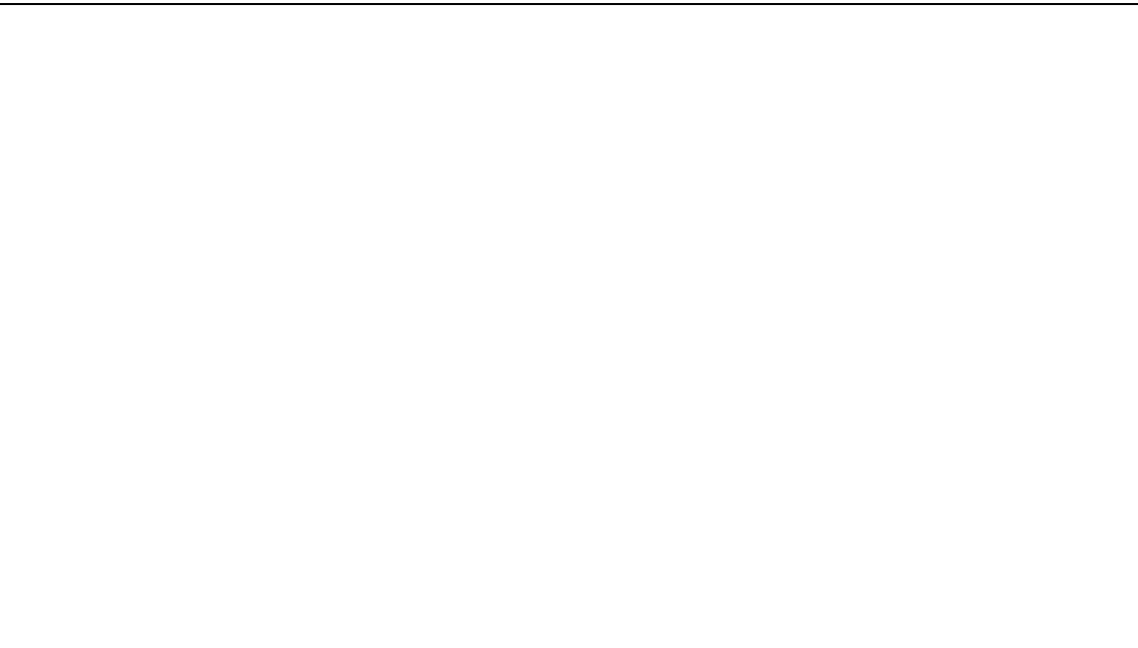
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