



Information is the Key in Tsunami Recovery

The importance of correct information is vital for economic recovery in tsunami affected areas. These are some of the findings from the Post-Tsunami Global Travel Intentions Research conducted by Visa Asia Pacific for the World Tourism Organisation (WTO) Emergency Task Force that was specially convened in January to assist the tourism industries of countries ravaged by the tsunami. The Visa research was designed and conducted by AC Nielsen in February 2005. Visa conducted the research as it felt the urgent need for better understanding of travel intentions to Asia among travellers from key markets, and of the barriers that may be keeping them away.

In March 2005, James Murray, Visa Asia Pacific Executive Vice President said, "Since the tsunami disaster, there has been a significant drop in international travel to affected tourist destinations such as Phuket in Thailand, Sri Lanka and the Maldives, severely damaging the livelihood of many local communities dependent on

continues on next page

Information is the Key in Tsunami Recovery
P1

Credit Report and Borrowers
P3

8 Cornerstones for Credible Risk Management
P7

Operational Risk Management and Basel II
P10

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continued from page 1

Information is the Key in Tsunami Recovery

tourism revenues. This has happened in spite of the significant success the various countries have had in restoring facilities and infrastructure".

Given the scale of the tsunami and the extensive media coverage of its aftermath, international travellers are understandably concerned about the state of destinations in Asia. Tourism industries and authorities across South and Southeast Asia are therefore faced not only with the task of reconstruction, but also the formidable challenge of enhancing tourist confidence around the world regarding the affected destinations.

"Equipped with this information, we hope that national tourism organisations, policy makers, tourism operators and merchants in the tsunami-affected countries will be better able to address the most salient issues and concerns among global travellers, restore tourist confidence and stimulate travel back to their countries more effectively," added Murray.

For WTO Secretary General, Mr Frangialli, "this report contains essential information about consumers' perceptions in the main generating markets regarding the affected areas and will constitute a valuable contribution to the design and implementation of communication and marketing recovery plans".

Tsunami's Impact on Travel to Asia Varies By Source Market

According to the research findings, among travellers who are planning to visit Asia, a majority of 65 percent said the tsunami had no impact on their travel plans to the region as a

whole. Fifty two percent also felt the tsunami had not impacted their travel plans specifically to the affected areas. However, 30 percent said the tsunami's aftermath is deterring them from visiting these destinations.

The tsunami's impact is most severe on Japanese and Korean travellers compared with all other visitors, dampening their travel intentions not only to tsunami-affected countries, but to the rest of Asia. Forty-nine percent of Japanese and 60 percent of Korean travellers said that they are less likely to travel in the Asian region because of the tsunami, while 54 percent of Japanese and 63 percent of Korean travellers will be less likely to visit the tsunami-affected countries in 2005.

On the other hand, the tsunami had the least impact on the travel plans to affected countries among Canadian travellers (69 percent claimed it had no impact), followed by the French (65 percent), Germans (60 percent) and Australians (60 percent).

In some countries, the tsunami actually had a positive impact on travel to Asia. Around one-fifth of travellers said the tsunami has made it more likely for them to visit affected countries, especially those from China (20 percent), UK (19 percent), Canada (18 percent) and Sweden (18 percent). This is a reflection of altruistic sentiments and a show of support for the local communities, especially among Canadian, British, Swedish and Australian travellers. They expressed a strong belief that taking a holiday in the affected countries is an excellent way to help the communities and economies recover from the disaster. However,

continues on next page

continued from previous page

Information is the Key in Tsunami Recovery

this is also tempered to some extent by feelings that they found it inappropriate to holiday while the local people are having a tough time.

Murray said, "The Visa research clearly shows that the tsunami's impact on travel to Asia varies considerably by source market. Travelers from some countries have higher levels of apprehension and resistance to visiting tsunami-affected countries, while others seem much more impervious and supportive. Tourism industries across Asia may need to adopt a varied approach in communicating and marketing to different traveller source markets to address their main concerns".

Information Needs: Health and Sanitation are Top of Mind

The majority of those planning to travel to Asia said that they would like more information about the affected areas, mainly relating to health and sanitation, followed by progress on the clean-up and on the impact the tsunami has had on infrastructure and tourist facilities.

Most of the barriers to travel seem to be based on inadequate perceptions about the infrastructural readiness and safety of the destinations. These are issues that can be addressed with a targeted information and communications strategy which

highlights the recovery of the tourism destinations. Increased awareness of the health of the Asian tourism industry, in terms of infrastructure, service and ambience is critical to speed up the recovery and minimize further risks of slowdown.

*Excerpts with courtesy of
Visa International Asia Pacific
And World Tourism Organisation*



Credit Report and Borrowers

by Lee Khee Joo

As Malaysia moves towards an increasingly sophisticated and market-oriented financial system, consumers need to be equipped with the necessary knowledge and understanding of financial products and services in order to make discerning choices as well as manage their finances effectively. Expectedly, well-informed consumers will be able to make good and wise decisions for their benefit. This in turn will help to shape a more conducive business environment for the country. It is envisioned that with better consumer education programmes, the following equation will be realised, "Better Consumers = Better Decisions = Better Financial System" The

following article is written with the view to inform "borrowers" on the role and objectives of the Credit Bureau as well as various types of credit reports it issues by to individuals and financial institutions.

Linkage With All Financial Institutions

The main business of financial institutions is to grant loans and other credit facilities to customers for business ventures as well as personal purposes. As custodians of the public's money, it is expected that financial institutions promote a prudent credit culture and

professionalism at all times including adopting of best business practices in credit risk management. In lending, some people have many bad experiences with banks over loan applications. They talk of banks being too slow in giving their approval, asking too many questions, requesting too many documents as well as insisting on too much security or collateral. Some say that it is the "who you know" syndrome that matters. The reality, according to a banker, is whether the bank knows you enough. For example, it is easier for Mr Ok who has been banking with a bank for 5 years to get a loan from that bank than Mr Not-Ok who opened an account

continues on next page

Credit Report and Borrowers

just one month ago. The reason is simple – in the case of Mr Ok, the bank knows his track record, character, business and integrity, which make the difference. In short, to be successful in loan applications, it is a question of whether the bank knows enough about you or your business.

With the establishment of the credit bureau, financial institutions furnish the Credit Bureau with credit information. At the same time, they can also conduct background checks on all prospective borrowers at the Credit Bureau before making any prudent lending decisions. Normally, background checks may involve various different sources both within and outside the financial institutions. The purpose is to secure up-to-date and accurate information about the potential borrower's credit-worthiness. Having considered all the information provided by the customer in the credit application form and other supporting documents as well as credit reports furnished both by internal and external sources, lenders will then make their own lending decisions. In this regard, one piece of useful information which may have a significant impact on the loan application's success or failure with a financial institution in Malaysia is the credit report provided by the Credit Bureau administered by Bank Negara Malaysia.

The Role of the Credit Bureau

The Credit Bureau was established by Bank Negara Malaysia pursuant to Section 30(1) (mmm) of the Central Bank of Malaysia Act 1958. It has been in operation since 1982. The main function of the Credit Bureau is to collect credit information on borrowers (not depositors) from various financial institutions and furnish personnel the credit

information collected back to these institutions in the form of Customer Credit Reports. The factual information contained in the credit report helps financial institutions make informed lending decisions in a more timely manner. In other words, if you have borrowed money from a financial institution or hold a credit card issued by a financial institution in Malaysia, related information on your borrowing or credit card will be kept by the Credit Bureau. All financial institutions are required by the law to report all your borrowings including credit card information to the Credit Bureau.

The main objective of setting up the Credit Bureau is to strengthen the area of credit risk management as well as to promote a sound credit culture in the Malaysian financial system. Obviously, any checking with the Credit Bureau will assist financial institutions to guard against serious problems of fraud by fraudsters in the financial system. Moreover, the Credit Bureau will also help tremendously in checking the growth of potential non-performing loans.

What is CCRIS?

All the credit information collected by the Credit Bureau is housed in a computerised database system known as CCRIS. It is pronounced as 'C-kris'. CCRIS is an acronym for the Central Credit Reference Information System. It is a computerised database system developed and maintained by the Credit Bureau to collect, process, store, maintain and generate credit information on borrowers. It processes and collates credit information from more than 50 financial institutions. The financial institutions comprise all commercial banks (inclusive of Islamic banks), finance companies, merchant banks and several other financial institutions

as stipulated below:

- Bank Industri & Teknologi Malaysia Berhad
- Bank Pembangunan & Infrastruktur Malaysia Berhad
- Bank Pembangunan Sabah Berhad
- Borneo Development Corporation (Sabah) Berhad
- Borneo Development Corporation (Sarawak) Berhad
- Pengurusan Danaharta Nasional Berhad
- Export-Import Bank Malaysia Berhad
- Malaysian Industrial Development Finance Berhad

The CCRIS database system presently contains credit information of about 5 million borrowers in Malaysia. It is one of the sources of reference used by financial institutions to help them establish a view of the credit histories of potential or current borrowers. If you are a "customer" of the financial institutions listed above, all the relevant information on your borrowings will be made available to the Credit Bureau. In this case, 'customer' is defined as any person who has been granted a credit facility by a financial institution or who has submitted a new credit application to a financial institution.

Types of Credit Reports

Basically, financial institutions will report the following:

- Personal particulars such as essential identification data of their borrowers such as name, identification number and address
- Details of their credit accounts such as type of credit facilities,

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continued from previous page

Credit Report and Borrowers

their limit, outstanding balance, conduct of account and status of legal action, if any.

It should be noted that the information above would reveal the full details and operations of one's borrowings. In spite of this, the Credit Bureau is required to operate within the limits set out under the Central Bank of Malaysia Act, 1958. Besides, it will take all possible measures to ensure that the data it stores is accurate at all times. For example, critical particulars like identity card numbers and the name supplied by the financial institutions are verified against the official records of the National Registration Department and the Companies Commission of Malaysia.

There are four types of credit reports that can be obtained from the Credit Bureau. They are as follows:

Types of Reports and Description of Contents

1. **Summary of Credit Report**
Information on the total credit exposure of a borrower from all financial institutions.
2. **Detailed Credit Report**
Information on specific outstanding credit facilities including payment history and a borrower's new credit applications.
3. **Motor Vehicle Report**
Information of motor vehicles that are financed.
4. **Customer Supplementary Information Report**
Information on the customer's addresses, telephone numbers, employers' names and occupations for the last three years.

Source : General Information : Credit Bureau - A consumer education programme by Bank Negara Malaysia and the Association of Banks in Malaysia.

Let us take an example – the Credit Bureau may furnish credit reports on a customer to a financial institution say Maybank Berhad upon a request made by Maybank. This credit report will be used by Maybank, together with information obtained from other sources (including the applicant) to make an assessment of the loan application. It is normally a requirement for Maybank to inform the customer that a credit check will be made with the Credit Bureau.

It should be emphasised that the credit information contained in the credit report is entirely factual and historical. If your borrowing has turned non-performing, it will be reported so to the Credit Bureau. However, the Credit Bureau does not blacklist anyone as it does not express any opinion or give any credit rating or opinion on the credit-worthiness of any credit applicant in the credit report. Therefore, the lending decision will ultimately be made by the lenders themselves as different lenders have different lending policies depending on their risk appetites. In other words, it is suffice to say that the information provided by the Credit Bureau is only a part of the entire lending decision process and not the only process conducted by a financial institution.

Verify Your Credit Report

Let's say you do not know, as a borrower or a prospective borrower, you too can obtain a copy of the credit report on yourself from the Credit Bureau. The Central Bank of Malaysia Act, 1958 allows the Credit Bureau to disclose credit information on a person to himself or herself for the purpose of verifying the accuracy of information reported by the financial institutions to the Credit Bureau. If you need a copy of your credit report, you may follow the following steps as described in the booklet on "General Information: Credit Bureau":

- a. Download the Credit Report Request (CRR) Form from the Credit Bureau Website – creditbureau.bnm.gov.my or you may obtain it directly from the Credit Bureau either in person or by mail.
- b. Submit the completed CRR Form to the Credit Bureau.
 - The CRR form can be submitted by post, facsimile, or hand delivered
 - The CRR form must be submitted together with your copy of personal identity card or passport (if you are a non-Malaysian), and two other documents such as your driving licence, utility bills among others, for identification purposes.

Upon receiving your completed CRR Form, the Credit Bureau will retrieve the credit report from CCRIS and deliver it to you either through a branch of Bank Negara Malaysia or through a financial institution. Alternatively, you can also collect the credit report personally from the Credit Bureau office.

If you have noted that there is inaccurate information in the credit report obtained, you should bring the inaccurate information to the Credit Bureau's attention. You may seek clarification from the Credit Bureau by following the steps below:

- a. Download the Request for Data Review (RDR) Form or obtain it directly from the Credit Bureau in person or by mail.
- b. Complete the RDR Form by clearly identifying the disputed items in the credit report. State the facts and explain why the information is disputed.

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Credit Report and Borrowers

c. Submit the completed RDR Form together with a copy of the disputed credit report and copies of documents that support the position to the Credit Bureau. Again, these should be submitted by post, facsimile, or hand delivered.

Upon receipt of the RDR, the Credit Bureau will investigate and notify the financial institution that had provided the disputed information together with all relevant data as provided by yourself. If the financial institution finds the disputed information to be true, it must immediately send an amendment to the Credit Bureau to rectify the inaccurate or incomplete information. It is worthy to note that investigation and remedial process will normally take not more than a month to complete and you will be notified of the outcome of the investigation.

Ways to Improve Your Credit Standing

In the event that you have an outstanding debt, say a credit card advance issued by a bank which has not being serviced on time, the repayment record on outstanding credit card debt will be highlighted in the customer credit report. If you are worried that there may be a possibility that your new loan application with another financial institution may be jeopardised owing to a poor credit card record, what must you do to improve your credit standing?

In this connection, you should liaise and discuss with the bank concerned and work out a repayment programme to regularise your credit card debt. Once your credit card account has been regularised, your

credit record will reflect the improved position.

Needless to say, all potential borrowers should have good credit reports as all financial institutions use the CCRIS as one of the sources to check on borrowers' credit reports. The Bank Negara Credit Card Guidelines issued in March 2003 also stipulate the requirement for all credit card issuers to undertake prudent credit assessment and verification of the card applicant's credit-worthiness using CCRIS. In other words, the poor conduct of your credit card advance will be reflected in your credit report which may be used for reference in any subsequent application for credit facilities within the financial system.

Conclusion

One of the functions of Bank Negara Malaysia is to regulate and supervise all financial institutions to ensure that the Malaysian financial system is sound and stable. In line with this objective, the setting up of CCRIS is a step in the right direction. By providing the credit bureau services to all financial institutions, they can make faster and better informed lending decisions. In addition, with the wisdom of hindsight, many defaulters within the financial system who wish to try their luck on new borrowings will not be able to obtain clean credit reports. Through this system, financial discipline among the Malaysian borrowers can be further enhanced.

However, it should be noted that the Credit Bureau is guided by the banking secrecy provisions under Banking and Financial Institutions Act 1989 and the Islamic Banking Act 1983 governing the access to the information on the borrowers. Besides

being confined to its role of collecting credit information on borrowers from financial institutions and furnishing the credit information collected back to these institutions, any disclosure of credit reports to third parties for example, to business associates or guarantors other than the borrowers is strictly prohibited. As a borrower, you have the right to verify your own credit report with the Credit Bureau. More importantly, it is vital that you maintain a good credit report at all times with all financial institutions.

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Lee Khee Joo previously served in Bank Negara Malaysia as the Chief Internal Auditor. Upon retirement in 1997, he joined the private sector and served two banks. Currently, Lee is a Senior Vice-President with Malayan Banking Berhad. An avid reader and writer, Lee has also written books entitled "So You Want To Be An Accountant" and "Credit Facilities for Small and Medium Industries".



8 Cornerstones for Credible Risk Management

by Dr Joseph Eby Ruin

The oriental belief is that the number “8” is an auspicious or a lucky number. I would like to advocate that there are also eight cornerstones for effective risk management. It may be coincidental that the following cornerstones for credible management of risks in organisations also happen to be ‘eight’. This, hopefully, augurs well for good risk management. These cornerstones apply equally well to the proper management of all four groups of risks in any organisation like in a banking and financial institution. They are:

- (i) Credit risk;
- (ii) Market/Treasury risk;
- (iii) Operational risk; and
- (iv) IS/IT risk.

The cornerstones that I am going to talk a little about are: Philosophy, Environment, Policy, Structure, Process Framework, Reporting Systems, Human Resources and, Quality Checking and Benchmarking.

Cornerstone 1: Philosophy

The focus is on an organisation’s intended strategy for its risk management. The general perspective is an important consideration. Risk philosophy is about the mindset that doing business and being one notch above competitors is about managing risks effectively and efficiently to bring in the ideal returns on investment and earnings on equity.

Cornerstone 2: Environment

The working environment and working culture have to be conducive and right for a good risk management function to thrive. Many people

advocate that risk training and awareness are the *sine quo non* or starting block for credible risk management. Like the cliché goes, “you cannot carve a statue from rotten wood” and “what good or how credible you would be talking about hygiene and health if the cleanliness in your house is lacking”. The full commitment and support of the top (board and senior management) is paramount. These commitments have to be in substance, and not just rhetoric.

Cornerstone 3: Policy and Procedures

The risk policy statement of an organisation sets the risk appetite, tolerance limits, thresholds or caps for risk. For credit risk, there will be the credit policy manuals, approval processes for new credits, update mechanisms for policy changes, and product approval procedures. For operational risk, the policy often contains comprehensive operational guidelines and procedures, with effective tools or mechanisms for update and tracking. The policy also requires risk awareness at all levels of employees. In as far as market/treasury risk is concerned, the risk policy would spell out new treasury product programme guides, pricing policies, management triggers and threshold limits, treasury and market control procedures and manuals on the work-flows and treasury/market process maps.

Cornerstone 4: Structure

When addressing risk structure, roles and responsibilities of the Board, management, and staff are laid down.

Reporting principles, risk escalation guides and risk information and communication are also defined.

Pertaining to credit risk, there will be the Chief Credit Officer, independent credit units aligned with business divisions to do the marketing and credit processing, an independent credit administration unit, and also another independent credit monitoring and credit quality assurance review function. There should also be industry and economic research and credible management information system (MIS) systems to generate credit quality reports.

For operational risk, the risk structure will need to reflect the overall organisational risk strategy. There should be clearly defined responsibilities and lines of authority of all parties involved. Also, efficient communication flows like top-down for strategy and awareness; bottom-up for risk causes, events; across business lines.

In the case of market/treasury risk, the structure will spell out the integrated asset and liability management framework, clear terms of reference for the ALCO (asset liability committee), the independent role of ALCO, adequate treasury support units, the independent treasury risk control unit, proper segregation of duties among the front-line dealers, the middle office processing unit, and the back-office control and monitoring unit. The structure will also state the efficient reporting lines, responsibilities and lines of authority of vested parties in management, periodical ALCO as well as treasury management reports for risk adjusted performance reporting, treasury and

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continued from previous page

8 Cornerstones for Credible Risk Management

ALCO limit structures, stress/scenario analysis, risk exposure aggregation, income attribution, and the availability of relevant business information.

Cornerstone 5: Process (Framework and Methodologies)

Organisations should practise at least six generic frameworks:

- (i) awareness and identification;
- (ii) assessment and evaluation;
- (iii) measure and quantify;
- (iv) controlling and improving;
- (v) reporting and monitoring; and
- (vi) follow-up.

For credit risk, the six frameworks above would encompass credit approvals along business and product lines, the 4-eye principle or segregation of critical controls and approvals, sectorial and portfolio management and capping or limits, credit provisioning, proper managing of non-performing loans, and establishing credit risk scoring system for each business division.

For operational risk, the above frameworks will define, document and streamline the implementation of the operational risk management (ORM) process of mapping an organisation's operational risks (ORs) dash-board or key risk matrices since the key risk indicators and operational risk self-assessment models would require identifying, assessing, deciding, monitoring, reporting and re-assessing of the ORs.

In the case of Asset Liability Management or market/treasury risk, the six framework stated above will ensure the completeness of the following tools and standards that an organisation needs to manage its

market /treasury risk. These tools and standard documents are (a) mark-to-market process, (b) market risk modeling process, (c) integrity of valuation models, (d) integrity of risk measurement models, (e) back testing, (f) model assumptions like VaR or value at risk, (g) stress testing, and (h) model description and documentation.

Cornerstone 6: Systems Reporting

Efficient use of IT and IS support is the key to systems reporting. For a credible, accurate, timely, integral and effective reporting of credit risks for the consumption of the decision-makers like the management and the Board, there ought to be efficient IT and processing systems to support the credit risk management function.

For operational risk, the IT and processing for an automated operational risk measurement system shall cover loss events, key risk indicators (KRIs), near misses and other operational risk exposures. There should also be the implementation of the organisation's business contingency planning process.

For the market/treasury risk, the IT and processing systems must be available for the levels of detail in transactions and deals captured. Good asset/liability management systems solution is also necessary, as well as treasury risk management systems solution, portfolio and market database/technology platform, and historical as well as real-time data and market information.

Cornerstone 7: Human Resources

In the case of human resources as a risk-pillar or cornerstone, the following features are crucial to ensure effective risk management function. Staffing has to be adequate and the required skill sets for key employees have to be in place. There should be constant training and development of employees' career while the reward-system should be based on risk-management incentives. There ought to be appropriate compensation and incentive schemes, with emphasis on achievement and performance along the lines of good risk management. Qualified and experienced staff should be developed and retained. There should also be the notion among all staff that change has to be managed properly so that 'if it does not break, fix it', instead of 'fix it only when it breaks'.

Cornerstone 8: Quality Check and Benchmarking

Always ensuring quality in risk management should become the foremost (though last) cornerstone in an organisation's dogma. How can this be achieved? Simple. Use or follow the global standards and practices and you will not go wrong. This is because such global practices are universally applicable, wherever or in whatever country one may be in. The global practices are:

- *For credit risk management: Be guided by the 17 sound principles for the management of credit risk produced by the Basel II Accord.*

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continued from previous page

8 Cornerstones for Credible Risk Management

- For operational risk management: Use Basle II's 10 sound practices for the management and supervision of operational risk, and also the COSO framework.
- For market and treasury risk management: Adopt Basel II's 15 sound principles for the management and supervision of interest rate risk.
- For Information System and Information Technology risk management: Follow COBIT's framework, and also the ISO17799: 2000 standard pertaining to the information security management standard.

Recognising Risk Management Basic Fundamentals

We now understand that Credit Risk focuses on the probability of default, asset quality, and independent checking. The customer's risk factor is the risk of borrower's default, while the exposure risk factor takes into account specific transactions and industry risk. For Asset/Liability Management (ALM) or Market/Treasury risk, the task is to juggle the 'Balance Sheet's fluidness well. Market Risk has four elements or what I would call the 'ICCE' factors. These are Interest rate risk (bonds, Private Debt Securities or PDs, government papers, etc.), Currency exchange risk, Commodity risk, and the Equity risk (e.g.: stock, market investment).

Operational Risk also has four elemental drivers of PEPS: People, Environment, Processes and Systems. As advocated by the Basel II document, included in operational risk would be reputation and legal risk, but strategic risk is excluded. The 1Basel II guidelines also

recommend that we need to be mindful of the 7 loss-events surrounding operational risk and they are internal fraud, employment practice and workplace safety, execution delivery and process management, client products and business practices, business disruptions and systems failures, damage to physical assets, and external fraud. Simply put, operational risk revolves in the domain of your product and customer services, your human resources, the legal and regulatory requirements, your IT systems, various frauds and all forms of operational errors. These loss-events can stem from any of the four operational risk drivers of people, systems, external events (operational environment), and processes.

For IS/IT Risk, the common issues of concern would be inadequate policy/strategy, security, data integrity, vendors and external party support, systems capability, obsolescence, human resources, inadequate training and awareness, and failed or untested disaster recovery procedures or DRPs.

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Operational Risk Management and Basel II

by Hansruedi Schütter

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Operational Risk Management and Basel II – read it again and think about it! I hope you are confused. If you are, you have just scored top marks. If you are not, let's look at it pragmatically and systematically:

Basel II is all about capital adequacy, whereas risk management is all about avoiding losses. So, are we comparing apples and pears? You manage your risks to protect yourself, and your regulator imposes capital adequacy rules on you to protect your clients and the economy at large from potential default on your part. Similar thing – different angle, different interests. Looking at it from a different perspective, you should be the first one to worry about potential illiquidity. You are in the business to make money in the first place; serving the economy is only a means to achieve your business targets. In other words, you are the first to lose your shirt if things turn bad.

So how does holding sufficient capital as required by Basel II help you in your daily business? Capital adequacy is only your comfort cushion against default; it does not help you achieve your business and profitability targets. What you really want is to reduce your daily operational losses, thus reducing your cost of doing business. As a nice side effect, Basel II will offer you lower capital requirements if you have a proven track record of avoiding losses. Basel II measures the result of what you manage. Management and measurement of operational risks are linked, but they are not identical. The Risk Management Group (RMG), chaired by Roger Cole, recognised this when they designed the operational risk framework for Basel II: The RMG introduced Pillar 2, aimed at detecting management weaknesses. In February 2003, The Basel Committee on Banking Supervision published the "Sound Practices for the Management and Supervision of Operational Risk",

widely regarded as the unofficial checklist for Pillar 2 audits.

The Sound Practices Paper does not attempt to quantify any aspect of risk, it purely focuses on sound risk management practices. Quantification belongs to Pillar 1. Principle 5 of the Sound Practices Paper says: "Banks should implement a process to regularly monitor operational risk profiles and material exposures to losses. There should be regular reporting of pertinent information to senior management and the board of directors that supports the proactive management of operational risk." – Mark these words: proactive management of operational risk.

Paragraph 27 continues: "In addition to monitoring operational loss events, banks should identify appropriate indicators that provide early warning of an increased risk of future losses."

Such indicators (often referred to as key risk indicators or early warning indicators) should be forward-looking and could reflect potential sources of operational risk such as rapid growth, the introduction of new products, employee turnover, transaction breaks, system downtime, and so on. When thresholds are directly linked to these indicators, an effective monitoring process can help identify key material risks in a transparent manner and enable the bank to act upon these risks appropriately." How nice and clear! Get your act together and manage your risks before you attempt to quantify them. At the 2002 OpSummit conference in the South of France, central banker Cole disclosed to an amazed audience how as a young chap he was in the US Air Force, handling atomic warheads. "We never once tried to calculate the potential damage of

such a warhead going off", he told the stunned delegates, "but we made double and triple sure that none of them ever went off by accident."

Cole's RMG did put a focus on capital adequacy based on Pillar 1, which is absolutely fair and appropriate for a regulator, but his anecdote illustrates that there is more to risk than its quantification. Risk needs to be managed, and Basel II should not be your excuse for doing so. Many banks feel that unless they opt for an Advanced Measurement Approach (AMA), they do not need to worry about risk management practices such as loss data collection and analysis, or tools such as key risk indicators (KRI). How very wrong! Pillar 2 and regulatory audits are also applicable to banks adopting the Standardised Approach. And KRIs may just be the most commonly used tool to monitor risks. Or, as Lars Hansén, Head of Operational Risk Management at SE Banken, Stockholm, put it once so aptly: "Are you willing to drive your car for a year without any gauges, relying only on the annual inspection?" – I bet you're not. Now replace the phrase "drive your car" with "run your bank" and read Hansén's question again.

Managing your operation is your first duty to your staff, your shareholders and to your stakeholders at large. Become an egoist: Think of your profitability first and avoid or reduce unnecessary losses. Catch the unexpected before it is too late and costly. Manage your operations and worry about quantification of your operational risk only when you have to – irrespective of which approach you subscribe to. Your regulator will support your efforts as a matter of course, rather than a matter of capital adequacy. Your own self-preserving action of managing your risks will suddenly become a matter of national economic interest.

CPD PROGRAMMES AT A GLANCE – AT KUALA LUMPUR

PROGRAMME NAME	PROGRAMME DATE
<p>Audit</p> <ul style="list-style-type: none"> • Introduction to Internal Auditing: Module II CIAFIN • Best Practices in Credit Audit • AS/400: Security, Audit and Control • Investigating Cybercrime <p><i>CIAFIN</i> • Understanding Trade Finance Practices and Control Issues for Internal Auditors</p> <p><i>This programme will benefit those preparing for IBBM's Certificate in Internal Auditing for Financial Institutions (CIAFIN) examination</i></p>	<ul style="list-style-type: none"> • May 9 – 11 • May 12 – 14 • May 18 – 20 • Jun 6 – 8 • Jun 20 – 22
<p>Compliance</p> <ul style="list-style-type: none"> • Anti-Money Laundering: The Law and Practice • Legal Issues: Electronic Banking 	<ul style="list-style-type: none"> • Jun 6 – 7 • Jul 28 - 30
<p>Credit</p> <ul style="list-style-type: none"> • Lending to SMEs • Practical Credit Aspects of Real Estate Lending • Structuring Trade Finance Facilities+ • Project Financing I: Industrial/ Manufacturing Projects • Project Financing II: Infrastructure Projects <p><i>new</i> • Credit Risk Modelling and Management within the Basel II Framework</p> <ul style="list-style-type: none"> • Effective Credit Writing Skills* ^{CCP (C)} ^{CCP (B)} • Trade Finance for Credit Personnel and Managers+ • Effective Debt Collection • Legal Perspectives of Islamic Financing <p><i>CCP (B)</i> This programme will benefit those preparing for IBBM's CCP (Business) examination</p> <p><i>CCP (C)</i> This programme will benefit those preparing for IBBM's CCP (Consumer) examination</p> <p>+ Registered with the ifs as a course for the Certified Documentary Credit Specialist (CDCS) Re-certification programme</p>	<ul style="list-style-type: none"> • May 4 – 6 • May 9 – 12 • May 25 – 27 • Jun 13 – 14 • Jun 15 – 17 • Jun 20 • Jun 20 – 22 • Jun 20 – 22 • Jun 27 – 28 • Jun 29 – 30
<p>Financial Planning</p> <ul style="list-style-type: none"> • Finding the Right Balance: Meeting an Investor's Asset Allocation Needs 	<ul style="list-style-type: none"> • Jun 8 – 9
<p>Front-line Services</p> <ul style="list-style-type: none"> • Detection and Prevention of Fraud in Front-line Operations 	<ul style="list-style-type: none"> • Jun 14 – 15
<p>Information Technology</p> <ul style="list-style-type: none"> • Assessing Risks and Implementing Security in Information Systems 	<ul style="list-style-type: none"> • Jun 22 – 24
<p>International Trade Finance</p> <ul style="list-style-type: none"> • International Standard Banking Practice for the Examination of Documents under Documentary Credit+ <p>+ Registered with the ifs as a course for the Certified Documentary Credit Specialist (CDCS) Re-certification programme</p>	<ul style="list-style-type: none"> • May 11 – 12

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CPD PROGRAMMES AT A GLANCE – AT KUALA LUMPUR

PROGRAMME NAME	PROGRAMME DATE
Personal Development <ul style="list-style-type: none"> • Managing Interactions and Relationships* • Enhancing Interpersonal Competence at Work* • Branch Performance Management* • Developing Supervisory Skills* • Workplace Motivation for Greater Productivity* • Success in Sales Management* 	<ul style="list-style-type: none"> • May 3 – 5 • May 16 – 17 • May 16 – 18 • May 24 – 26 • Jun 13 – 14 • Jun 20 – 21
Risk Management <ul style="list-style-type: none"> • Operational Risk Management Workshop • ALM Framework and Liquidity Management • Total Risk Management • Credit Risk Management Workshop • Understanding Market Risk new • Operational Risk Management in Compliance with Basel II new • Credit Risk Modelling and Management within the Basel II Framework 	<ul style="list-style-type: none"> • Mar 16 – 17 • May 4 – 6 • May 9 – 11 • May 16 – 18 • Jun 7 – 8 • Jun 14 – 15 • Jun 20
Treasury and Investment <ul style="list-style-type: none"> • Plain Vanilla Interest Rates and Currency Derivatives new • Technical Analysis Workshop new • Advanced Technical Analysis Workshop 	<ul style="list-style-type: none"> • May 30 – Jun 2 • Jul 4 – 5 • Jul 6 – 7
Directors' Programme <ul style="list-style-type: none"> new • A Strategic Approach for Business Continuity Management 	<ul style="list-style-type: none"> • Jun 1
Special Programmes <p>Modul I: Penggunaan Bahasa Melayu dalam Komunikasi Lisan*</p> <p><i>All the above programmes qualify for CPE credit hours for BAI Certified Risk ProfessionalSM (CRP) except for those marked *.</i></p>	<ul style="list-style-type: none"> • Jun 13 – 16

CPD PROGRAMMES AT A GLANCE – OUTSIDE KLANG VALLEY

PROGRAMME NAME	DATE
Kuching <ul style="list-style-type: none"> new • Sales Excellence with Neuro Linguistic Programming * <p><i>All the above programmes qualify for CPE credit hours for BAI Certified Risk ProfessionalSM (CRP) except for those marked *.</i></p>	<ul style="list-style-type: none"> • Jun 14

E-Tutorial Programme for BFSC and DBFS Candidates

October 2005 Examination

The E-Tutorial programme is designed to provide the Institute's examination candidates with an opportunity to get guidance systematically through a guided self-study schedule, assignments and clarification via on-line interaction with the eTutor.

This mode of tutorial is suitable for candidates who are not able to attend face-to-face classes. All correspondence in this programme will be done on-line and therefore it is important that programme participants have access to the internet. Learning, examination preparation and clarification with the eTutor can be done at any convenient day or time.

For the October 2005 examinations, the BFSC subjects offered in this programme are CF01, CF02, CF03 and CF04, and the DBFS subjects are DP01, DP02, DP05, DP06 and DP08. The duration of the programme for each subject is 5 months. The programme will commence on 1 May 2005 and end on 30 September 2005. For further information, contact Azah/Rajes/Ann (ext 152/123/122).

Graduation & Award Ceremony 2005

To all Year 2004 graduates and prize winners who have confirmed their attendance at the 8th Graduation & Awards ceremony scheduled on Saturday, May 14, 2005 at the Legend Hotel, letters with the programme agenda and administrative details will be sent to you at end April. Registered graduates or prize winners who do not receive this letter by May 4, 2005 should contact Cheh Lu/Bidhah/Malini (ext. 115/134/156) to check the status.

The ceremony will be graced by the Institute's Chairman, Tan Sri Dato' Sri Dr Zeti Akhtar Aziz, and the Chief Executive Officers and Heads of Human Resources of financial institutions have been invited to the event. We look forward to celebrating the success of IBBM's year 2004 graduates and prize winners.

We are Looking for Trainers

The Institute seeks dedicated and suitably qualified candidates to conduct credit training/ preparatory programmes at the various financial institutions to assist candidates in preparing for the IBBM Certified Credit Professional (CCP) examinations.

Responsibilities

To adequately prepare examination candidates who wish to write the IBBM CCP examinations.

Requirements

- Have a minimum of 10 years' working experience in credit evaluation, approval, documentation and/or monitoring functions in the banking and finance industry.
- Possess a Bachelor's Degree in related discipline
- Fluent in both spoken and written English
- Preferably with some teaching or training experience with good presentation skills
- CCP holders will have an added advantage

In your application, please provide a resume detailing your work experiences.

Applications should be sent to:
Institut Bank-Bank Malaysia
(Attn.: Content Development)
Wisma IBI 5 Jalan Semantan
Damansara Heights
50490 Kuala Lumpur



Recent Additions to the Information Centre Collection

The following are some recent titles acquired by our Information Centre:

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PUBLISHER: Lexis-Nexis, 2004
CALL NUMBER: 346.082 PAG

TITLE: **Law of Guarantees in Singapore and Malaysia**
AUTHOR: Low Kee Yang, Dr
PUBLISHER: Malayan Law Journal, 2003
CALL NUMBER: 346.074 LOW

TITLE: **Fundamentals of Insurance**
AUTHOR: Tena B. Crews
PUBLISHER: Thomson Learning College, 2002
CALL NUMBER: 368.0068 CRE

TITLE: **Personal Financial Planning**
AUTHOR: Lawrence J. Gitman and Michael D. Joehnk
PUBLISHER: Thomson Learning, 2004
CALL NUMBER: 332.024 GIT

TITLE: **Risk Management and Insurance**
AUTHOR: James Trieschmann, Sandra Gustavson and Robert Hoyt
PUBLISHER: Thomson Learning, 2004
CALL NUMBER: 368 TRE

TITLE: **Risk Management in Banking**
AUTHOR: Joel Bessis
PUBLISHER: John Wiley & Sons Inc, 2002
CALL NUMBER: 332.10681 BES

TITLE: **Balance Sheet Recession: Japan's Struggle with Uncharted Economics and its Global Implications**
AUTHOR: Richard C. Koo
PUBLISHER: John Wiley & Sons, 2003
CALL NUMBER: 330.952 KOO

To read up on the synopses and for more details, please log on to: http://www.ibbm.org.my/information-centre/acquis_books.htm



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Please send me the following brochure(s):

- Banking and Financial Services Certificate (BFSC)/Certificate in Offshore Financial Services and Administration (COFSA)
- Diploma in Banking and Financial Services (DBFS)
- Certified Credit Professional (CCP)
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Sun/Public holidays	Closed

Skills and Competencies Required of an Internal Auditor

by Loo Kia Shong, Malayan Banking Berhad

Traditionally, internal auditors are hired from people with an accounting background. This is not surprising as most internal auditors are required to perform financial audits like checking on the accuracy of accounting records and, verification of assets and liabilities. But the boundaries of internal auditors' functions and activities have expanded and, in fact, moved into new and exciting frontiers.

Accounting knowledge is good but not necessarily enough to make a good internal auditor. There is a need to mould the mindset of an accountant to that of an internal auditor who requires different skills and competencies. Nevertheless, having an accounting background is an advantage but there is still a need to enhance accounting knowledge with additional skills and competencies.

Besides internal audit skills, a modern day internal auditor will need the following skills and competencies to be a good internal auditor. Briefly, these skills and competencies can be classified into two main categories: hard skills and soft skills. These skills are as follows but not necessarily in their order of importance:

Hard Skills

- Accounting
- Information technology
- Legal
- Risk management
- Business knowledge

Soft Skills

- Communication
- People
- Organising
- Management

Accounting Knowledge

A strong knowledge of accounting is an important requisite for an internal auditor. Accounting is the knowledge of business and if you have a good grasp of accounting, you have a good grasp on business. That does not mean that you have to go and acquire an accountancy qualification to be an internal auditor. Not necessary, but you should at least understand how accounting information are

churned out, be able to analyse results of accounting reports and understand some important accounting concepts, theories and policies.

The importance of accounting knowledge probably explains why most companies and organisations still employ accountants to head their internal audit function. But I would venture to add that internal audit and accountancy are not a fused profession; they are separate and distinct professions in their own right.

Information Technology Knowledge

It is almost impossible to work in a modern day office without knowledge of information technology – what more to be an internal auditor. All internal auditors should at least have the know-how in some software used to perform their work, be it in writing audit reports or analytical work. To be more effective and efficient, internal auditors would need to be able to use some of the software specially designed for internal auditing like ACL or TeamMate. CAATs, or the acronym for Computer Assisted Auditing Techniques, will play a more profound role for the future internal auditing profession.

Many processes are computerised or automated. Internal auditors need to keep up with knowledge in information technology, in order to be able perform their role both in providing assurance and consulting services to their "clients."

Legal Knowledge

Regulatory compliance continues to be an important aspect of business. The rules pertaining to business and how corporations are to be managed continue to increase. With the increasing number of regulations, a strong knowledge of law would help. Of course as internal auditors, we need not have the knowledge or skills required of an advocate or a solicitor. What is required is that we can understand some of the issues or interpretations pertaining to regulations and statutes. A good knowledge on substantive law rather than procedural law is sufficient. However, if we are also conducting investigations as part of our audit work, then perhaps an understanding of the law of evidence is important to ensure that information and documents that are gathered in the course of our investigation work would be able to

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meet the strict standards pertaining to the admissibility of evidence in courts.

Risk Management

Risk management is probably one of the most often used words in the language of internal auditors in recent years. Yes, internal auditors need to have an understanding of risk management and yes, they need to formulate a risk-based audit approach. However, internal auditors are not risk managers and do not perform the functions required of a risk manager. Risk managers are required to set up the risk management framework to identify, assess and measure the risks faced by the organisations. The internal auditor's role is to audit the adequacy of the risk management framework.

IIA standard – 2110 on Risk Management states that “the internal audit activity should assist the organisation by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems”.

Business Knowledge

Internal auditors cannot separate themselves from the business sectors of their organisation and live in their own ivory tower. At all times, internal auditors must be aware of the business environment and the impact of business scenarios on their organisation. A good understanding of the business processes and functions would be an asset to the organisation in order to be able to give value added recommendations thus ensuring that the recommendations are cost effective.

Soft Skills

The importance of soft skills cannot be underestimated. As internal auditors, we need to meet employees from other business sectors and whether we meet our objectives will depend on our skills in managing our relationships with them. Among the soft skills required of internal auditors are communication, people, organising and management skills.

Our ability to write and speak well is critical. As audit reports are read by auditees, senior management, board members and regulators, the quality of our work would be reflected in how well we write and present our reports. What is the use of our recommendations if we are unable to sell them? To sell our recommendations and ensure that they are accepted, we need to be able to articulate and advocate our recommendations and this requires us to have good spoken and written communication skills.

People are what make an organisation tick. Dealing with people requires tact and emotional intelligence. Unlike

machines, people have feelings and are less predictable. Therefore as internal auditors, it is necessary for us to have people skills.

In our own right as internal auditors, we are managers of our own work. As managers, we need to have organising and managing skills. We need to plan and execute our plans. We need to have strategies to ensure that we can accomplish our goals and objectives. Managing an audit department and organising an audit assignment may be different but both would test our overall skills.

Conclusion

At the end of the day, we need to do a self-assessment of our strengths and weaknesses. Unless we know where our strengths and weaknesses are, we will not be able to take corrective action to address our shortcomings.

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COMING SOON

DIRECTORS' PROGRAMME: A STRATEGIC APPROACH FOR BUSINESS CONTINUITY MANAGEMENT

Rapid changes within the banking and financial services industry have highlighted the importance of knowledge and skills enhancement for members of the boards of directors of financial institutions.

The second directors' programme this year is "A Strategic Approach for Business Continuity Management". This programme aims to provide directors with a better understanding of the key business continuity risks that

financial institutions face today and the critical elements of crisis management as well as the key components that make up an effective business continuity management programme.

We invite you to visit our website, www.ibbm.org.my, for further details of the programme.

Directors' Programme: Operational Risk Management – The Imperatives (March 9, 2005) Kuala Lumpur



"The challenges in managing operational risks..." listed Dr Lee



Gaining an overview of operational risk management



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Dr John Lee, Executive Director, KPMG Business Advisory – Financial



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Anti-Money Laundering (AML) Seminar: Compliance & Audit (March 14, 2005) Kuala Lumpur



Registration of participants in progress

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Mdm Koid Swee Lian, Director, Financial Intelligence Unit, Bank Negara Malaysia

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AML Supervisory Framework elaborated by Ms Komalavalli

.....



Mdm Koid outlining the requirements of the AMLA (Anti-Money Laundering Act) and compliance framework

.....



Ms K Komalavalli K R Gopal, Deputy Director, Bank Supervision II, Bank Negara Malaysia

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Reviewing of AML Compliance and speaking from a practitioner's viewpoint

.....

Ms Tong May Kuan, Regional Head, Legal & Compliance for South-East Asia, Standard Chartered Bank Malaysia Berhad

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Anti-Money Laundering (AML) Seminar: Compliance & Audit



Aub explaining how to construct an AML risk assessment model



Mr Aub Chapman, Former Chief Manager of Operational Control, Westpac Banking Corporation



YBhg Dato' Anuar Bashah presenting, "Financial Institutions as Key Players in the National AML/Counter Financing of Terrorism (CFT) Programme" on behalf of Datuk Zamani Abdul Ghani, Deputy Governor, Bank Negara Malaysia



YBhg Dato' Anuar Bashah, Advisor to the Financial Intelligence Unit, Bank Negara Malaysia

- Taking in the importance of having systems and procedures in place to draw

A moment to relax and share some thoughts

