



Original Research Article

## The Dynamics of Risk Management in Malaysian Remittance Services

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### ABSTRACT

In the contemporary era, a lot of people moves many part of countries in the modern world, the developing countries people also move for the better earning. Malaysia is one of the host countries to allow the foreign workers to work and providing financial facility for them such as banking, financing and remittance. The government of Malaysia is providing remittance licensing to help the foreign employees with right way. Therefore, a lot of money transfer companies are able to serve them with act of “Anti Money Laundering and Counter Financing of Terrorism” (AML/CFT) Bank Negara Malaysia. The enterprise and mid-level companies are having few risks to do this service in the market it will discuss below.

**Keywords:** *Internal Risk, External Risk, Operational Risk, Internal Management Risk and Reputational Risk.*

### INTRODUCTION

There are many types of risk in the (remittance) services sectors firstly, internal risk, external risk and both. At the internal level the operational risk is the most important. The operational level, after serve the customers need to process for the first delivery for the beneficiary. Therefore, assessment in both (remitter and beneficiary) is important. Secondly, the external risk in remittance business are legal risk and strong competitors and many known as systematic risk according to George Shultz (2009) founded in the government level, frequently monitoring is the most problem that can be closed the

business. So it is considered as a systemic risk.

Operation level of enterprise level remittance are having few stages such as using computer technology, depending on other companies who gives the remittance services for example Western Union, Money Gram, IME, Instant Cash, Etc. So, the risk can be happen in technological or from service providers companies as a consequence of risk in potential loss (S. Habib *et al.*: 2014).

The legal risk of remittance is normally Anti Money Laundering and Counter Financing of Terrorism (AML/CFT) and strong competitors. Sometimes the beneficiary faces difficulty to

withdraw the money in the local bank due to the similar name in OPAC list. On the other hand the strong competitors proved the better conversion rate and fewer service charges as a result less transaction. The less transaction also a not big issue but the remittance company needs to follow the anti-money laundering and anti-terrorism financing Act 2001. Which is providing by the central bank of the country like Bank Negara Malaysia. (R. Arthur, F, Tumiwa *et al*: 2013).

**Problem Statement**

Currently the remittance companies are (enterprise level) having difficulty to achieve the target goals due to the internal and external risk. The internal risk is refers to the operational management and external risk refers to the legal and strong competitors and others.

**Identify the Risk Point in Operational Stage**

In the operational activities the customer’s service is one of the most important stage and delivery the payments. Normally the customers complained that my receiver did not receive the money one time, the cashier did not talk to me nicely or did not ask me about seatrain things and he or she did not said to me thanks etc.

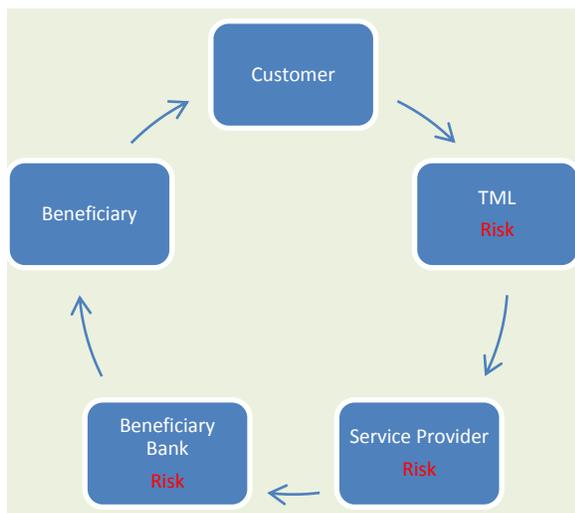


Figure 1: Shows the possibility stages of risk in total process.

The customer’s service is depending on employee and computer technology if it does not work simultaneously then it becoming a risk. These types of risk can be happen at any time anywhere. To protect this types risk the operational manager must be ready for alternative. If he or she unable to do as result it has negative impact on this business (FSB Australia 2014).

The operational risk in Remittance Company must be recognition before taking any action, after clear identification with level of risk such as is it high risk or low risk. The operational manager will find the protection about the risk (S. Habib *et al*: 2014).

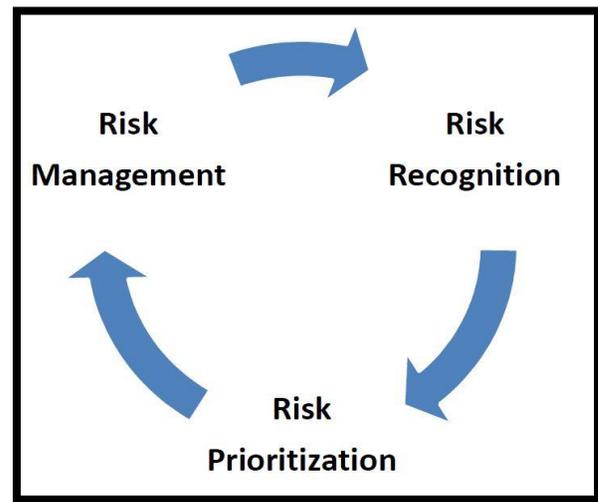


Figure 2: Shows the risk management element in operational stages.

Source: (S. Habib *et al*: 2014).

**The list of risk for remittance business**

Internal and external Risk:

1. Bribery
2. Changing Expertise
3. Credit
4. Cyber crime
5. Exchange rate fall
6. Interest
7. Legal (AML/CFT)
8. Less employee motivation
9. Liquidity
10. Natural disaster

11. Operational mistakes ( by staff)
12. Poor Management
13. Poor services (for customers)
14. Reputational
15. Strong competitor
16. Technological error (Data loss, no power etc.)
17. Weak employee relation
18. Controlling power
19. ML/TF Risk
20. Software Risk
21. Staff Competency
22. Staff Integration

## METHODOLOGY

The method is an investigation in the real field to pursue what is the happening; the researcher must have a plan to find the new knowledge with few stages the total techniques are known as applied research method. Such as quantitative, qualitative and both call mix methods of data collection.

### The Quantitative Method

The quantitative method used extensively in business and management research to distinguish both in data collection methods and data analysis processes which is normally focus on the numerical data (numbers). The quantitative research method is a collecting of evidences to develop a truth fact.

### The benefits of quantitative research method

The advantages of quantitative research method are much cleared first of all it brings the result of research in statistical way that is easier to understand. The quantitative research method takes a habitation to maximise the confidence to prove the research finding from the statistical data exploration. It is easier to present the expected findings from the quantitative research method. Some of The benefits of quantitative research method as follows:

- The data collection using quantitative methods by e-mail.
- The data collection using quantitative methods by telephone.
- The judgments of research can present in a graphs, charts and tables.
- Using statistical software (SPSS).

### The prioritization of risk in remittance services.

There is few listed risk among them this study found the high risk event to give the priority to solve to run the business with right way in a branch of TML money Transfer Company in Sabah Malaysia (R&D TML 2014).

### The top five risk found for TML

One the above mentioned listed risk, this study found top five risk for TML which are 1, Strong competitors 2, the risky customers 3, AML/CFT controlling power 4, risk on the way to do the banking 5, the staff competency it means we need increase the working skill.

### Definition of strong competitors.

The competitors refers to any individual person or a group of people or an individual / group of organization practicing same characteristic business activities in the same area to achieve the profit by providing product or services to target customers based on demand known as business competitor (Katlor 2009). The business or a company in the similar industry which offers a similar product or service. The presence of one or more competitors can reduce the prices of goods and services as the companies attempt to gain the target goals from the large market share. Competition also requires companies to become more efficient in order to reduce costs values for customers. For example the fast-food restaurants McDonald's and Burger King are competitors, as are Coca-Cola and Pepsi, and Wal-Mart and Target. In the remittance

services in Malaysia IME, Prabhu, Xpress money, Money Gram, 1World Cash and so on.

**The TML Competitors**

The research shows the TML’s most of the branches having the challenge with competitors. It has the negative impact on TML business in daily transaction history and monthly will verify the impact level.

**Definition of risky customers**

The number of customer and the transaction quantity is increasing is the very good sign but it is increasing with few risk as well. The graph shows when the AML/CFT controlling is not so strong as a result the customer’s number is increasing on the other hand few branches can controlled the AML/CFT as result number of customer are decreasing. Therefore it is very cleared the AML/CFT controlling and risky customers having a logical correlation. It can be identify from the transaction history and compare the customer’s signature, monthly income and remittance, location, address, contact number, beneficiary name, beneficiary location, relation between sender and receiver, remittance purpose and religion. If the majority information is similar and there is no any contradictory we cannot say this customer is risky one the other hand the majority information is dissimilar then we may conclude this customer is suspicious.

**Definition of customer services**

The customer services in the remittance services organization are very important in the current era. The customer services could be in the internal and external, the internal means the services until customers pay the money. After receive the money from the customer, TML have to serve again by the selected services provider companies until the service provider received and make sure that they will deliver the payment for the beneficiary on time. Before getting the confirmation

from the service provider is the known as internal services. After the internal service the external services is start, the TML cannot control this external services. But the TML is the responsible about the payment until deliver.

The internal services have few stages each stage can be excused by experienced employee. The first stage is choose the appropriate service provider for appropriate country, then began the customer service with the right way. During the customer services the tiller must have few things to follow and few things not to follow. According to M. Walton CEO Wal-Mart (2006) mentioned

Helpful Reminders for Polite and Friendly Responses Wrong Approach	Polite and Friendly Alternative Approach.
“I don’t know.”	“I’ll find out.”
“No.”	“What I can do is...”
“That’s not my job.”	“Let me find the right person who can help you with ...”
“You’re right – this is bad.”	“I understand your frustrations.”
“That’s not my fault.”	“Let’s see what we can do about this.”
“You want it by when?”	“I’ll try my best.”
“Calm down.”	“I’m sorry.”
“I’m busy right now.”	“I’ll be with you in just a moment.”
“Call me back.”	“I will call you back, what

**Definition of risk on the way for banking**

The word risk on the way it makes a clear sense that the problems can occur on the road when the fellow carry cash money to the bank. There are many cases in not only Malaysia but also all over the world. So this risk is not a new it is an old problems and this problem will be exist for ever. The solution is self-defense when carry the cash money such as it could be an advisable to keep with a “safe guard pepper spray” which may bring the minimum secure on the way.

**Definition of staff competency**

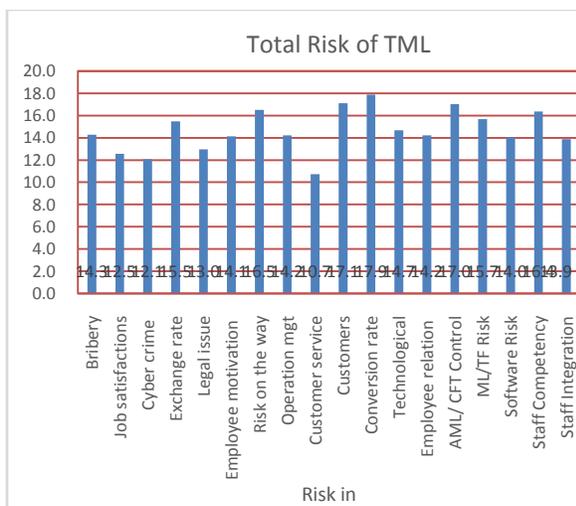
The staff competency refers to the staff working skill, knowledge about legal issue, AML/CFT, customer’s right, technical issue, computer operating, software issue,

intellectual and utilize the experience to solve the any problems and serve better with confidence known as staff competency. The overall TML staff competency level is not satisfied. Therefore, the TML must try to train them to improve the working skill, knowledge and confidence.

**Research Parameter**

The Pei Lee (2010) mentioned about the research parameter in financial research related and other quantitative research parameter must be consider based on level of pointing. For example if the five point scale and how many research questions are in one title. (Number (4) of question X 5 = 20) the 20 is the total parameter of scale. Some of the researcher wants to see the parameter in 100% if in the case the 20 will be in 100% means (20 X 5 = 100) so the total calculation will be in 100%.

In the TML risk management research has used the five point scale to identify the level of risk in the particular matters that has been elaborate on the above.



Graph: 1 Shows the top five risk for TML. Source: TML- ( R & D2014).

**The management team solves the risk**

Primarily the operation management must take the staff training event on how to do the safe banking during the working hours and how many times a day with safety

amount among the internal employees. Thomas M. Hoenig (2012) suggests the financial industry should do the financial activities during the office hours with more than one employee.

**Identify the Legal Obligation in (AML/CFT) Stage**

It is a great responsibility to fulfill the both, customer services and keep commitment with legal obligation. Majority of the customers are not facing this problems in reality but it is true that few customers are having AML/CFT problems. In United Kingdom the remittance companies keep the both, prove of identity and prove of address. For the prove of identity they keep any photo identity like passport or driving license and prove of address the keep the any bill or bank statement, the bank statement is more acceptable. In Malaysia the photo identity is passport or identity card (I/C) and any copy of bill can prove the right address. If incase the remittance is really suspected in AML/CFT then the remittance company must provide prove of identity and address to the authority to take legal action. If the remittance company is unable to provide proof of identity and address to the authority as result of risk and action will take the authority against the remittance company according the act of AML/CFT. Finally all the above mentioned risk can destroy the organizational reputation which is more important than suspicious transactions (Financial Action Task Force 2011).

**Impact on business**

Any types of risk having the negative impact on the remittance business. To minimize the negative impact from the branches the management team must take the employee training or motivational activities to increase the staff knowledge and work performance sill. After the training or any motivational activities observe the consequence. If the improve try to continue

on the other hand if it is not at all take the better option to improve based on situation. So, the careful business management must be find the potential risk and take the management defense with strategically.

## CONCLUSION

It is much cleared different branch having different risks in different level and few branches are not in the high risk level. However, the level of risk parameter must guide us what need to do for the high level risky branch. One the other hand the low level risky branch needs to be maintained in risk free with internal control.

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