Regional risk

THE LATEST ACT MIDDLE EAST BREAKFAST BRIEFING, THIS TIME ON RISK STRATEGY IN A CHANGING WORLD, TOOK PLACE AT THE END OF MAY IN DUBAI. **PETER MATZA** REPORTS.

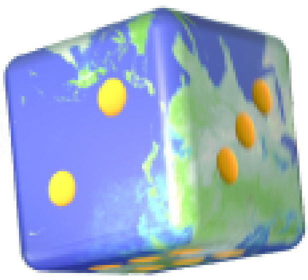
The breakfast briefing was chaired by Brendan Boucher, group head of treasury at oil and gas facilities provider Petrofac. As always, delegates ranged from those eager to learn and widen their knowledge to those looking for that extra mile of peer experience. In the current regional environment where the effects of the recent political upheavals in the Middle East have been felt far and wide, today's treasurer is dealing with a range of new challenges. Understanding how these external risk factors and uncertain market conditions affect the dynamics of any organisation is essential to protect their organisation.

The tone of the briefing was set by Dr Dayanand Pandey, head of finance and banking at the British University in Dubai. The global economic slowdown clearly affected the region through reduced tourism and tightened credit conditions. Until late 2010, however, the region was on track for a recovery from the global crisis. Growth had accelerated to 3.9% in 2010 from 2.1% in 2009, mainly driven by the region's oil exporters. As a pointer to some aspects of the social unrest, the slow growth equilibrium of the past years has not generated enough jobs for the growing labour force.

The economic outlook for 2011 is upbeat and the vast investment programmes in oil-producing countries (Qatar and Saudi Arabia) will be the main driver of growth. That said, lingering real estate and financial instability will continue to sap growth prospects in Kuwait and the UAE; the sluggishness of exports, foreign direct investment, remittances and tourism spend are likely to soften the pace of recovery in oil-poor economies. Worryingly, the risks from deteriorating political, security and commercial environments will remain critical.

Sayed Sajjid Sadiq, head of treasury sales and structuring at briefing sponsor Emirates NBD, gave a presentation on the need for a structured approach to risk management and hedging. In Sadiq's view corporates need to identify risk (types, duration and so on), develop their strategy (how much and when to hedge, measuring and monitoring), create a tailor-made solution to suit the business requirement, and then identify the best available tools and techniques for managing the risks.

Dilip Sanghavi, manager of treasury risk at Emirates Airlines, looked at the topic from a corporate's perspective. Corporate treasurers want to deliver sustainable financial performance and growth, be agile and strike a fine balance between risk and opportunities. They also need to manage expectations at the top of their organisations, help to communicate risk to stakeholders and keep it simple.



The panel discussion on adding value to the business through effective risk management saw Sanghavi joined by Toby Shore, corporate treasurer of Dubai Aluminium, and Shaun Brook, managing director of insurance and risk management service provider Kane Middle East. In the panel's view, any risk management hedging strategy had to be fully aligned with the business strategy. Although looking at what peers are doing is worthwhile, ultimately policies need to be tailored to the specific corporate situation. Delegate questions included how to determine appropriate hedging ratios (how much interest rate risk exposure to hedge, for example). The panel's view was that it all depended on company circumstances; a highly leveraged business, for example, would expect a higher proportion to be fixed rate, so policies need to give some flexibility.

It was also thought sensible to keep things as simple as possible, i.e. to use simple hedging products extensively to minimise the risk of any unintended consequences from more exotic instruments, particularly given IAS 39 requirements. It was noted that there was a trend for entities to retain certain operational risks internally where the risks are predictable and understood. The panel view was that boards are very active in setting risk policies but more work may be required to communicate the results (such as the efficiency of the hedging undertaken) back to the board and more widely to stakeholders. This is perhaps the effect of an understandable trend: when looking at operational risks over and above pure financial market risks, companies typically seek to identify, understand and focus on the top 10 risks (usually as defined in annual reports).

Treasurers and financial managers in the region are becoming more appreciative of risk management and how they can address the financial and operational risks. This will be increasingly important as development gathers pace in the region and the disruption of recent years fades.

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