



Introduction to Risk Management

Module 1: Unit 1



Chapter Aim:



Describes the concept of, the planning of and the implementation of a Risk Management Framework in a Customs context



Chapter Objectives:

You will be able to:

- Describe and understand the purpose of Risk Management
- Describe the Customs operating context and the modern challenges
- Describe why intervention and facilitation are mutually reinforcing objectives



Chapter at a Glance

Overview:

1.1 Introduction to the Compendium

**1.2 Risk Management in the Customs
context**



Introduction to Risk Management

Global trade is fundamental to economic growth and social development.

A stable trading environment enables economies to reap many benefits which can impact positively on society.

Customs plays a significant role in ensuring that global trade meets regulatory requirements and conforms to national laws



Introduction to Risk Management

Risk Management underpins all modern
Customs Administrations

Risks must be addressed and met
wherever they are found and as early in
the supply chain as possible

Effective risk management occurs
when it is embedded as
organizational culture and part of the way
Customs runs its business



Introduction to Risk Management

With adoption of a holistic risk-based compliance management approach optimal levels of both facilitation and control can be achieved





Increased automation and submission of information earlier in the supply chain has enabled:

- Improved risk assessment
- Deployment of targeted controls on high risk movements
- Facilitation of low-risk movements
- Promotion of key government objectives relating to facilitation of trade and travel



Customs Administrations should aim for:

A balance between compliance
and
minimizing disruption and cost to
legitimate trade and the public



Key features of this approach are:

To 'steer' the client population towards voluntary compliance (low risk) allowing scarce resources to be deployed towards the high-risk end of the risk continuum

And

A robust organizational risk management framework



A robust organizational risk management framework allows:

Individual risks to be identified, assessed and managed across the organization by empowering officers at all levels to make risk-based decisions in a structured and systematic manner



A key feature of this approach is:

To 'steer' the client population towards voluntary compliance (low risk) allowing scarce resources to be deployed towards the high-risk end of the risk continuum



**The methodology of Risk Management
is outlined in the
World Customs Organization (WCO)
Risk Management Compendium**



The Compendium:

- Is a living document
- Will be continuously updated
- Provides a common reference document
- Includes practical and operational tools that allow Customs to assess, profile and target and determine what levels of intervention may or may not be required



The compendium is comprised of 2 separate but interlinked volumes

- Volume 1

Sets out the organizational framework and outlines the process

- Volume 2

Deals with assessment, profiling and targeting tools for identifying high-risk consignments, passengers and conveyances for Customs intervention



The compendium has 5 purposes:

- Defines some key terminology
- Outlines the Customs context for managing risk
- Presents key components of a holistic organizational risk management approach
- Including a systematic methodology for managing risk
- Sets out various techniques and tools for managing risk in practice
- Presents Members' experiences in risk management in the form of case studies



Customs are responsible for:

- Revenue collection
- Trade and traveller compliance
- Protection of society
- Cultural heritage
- Intellectual property
- Collection of statistics
- Environmental protection



Risk Management in the Customs Context

- Customs conduct some responsibilities on behalf of other government ministries and authorities
- Customs are responsible for the administration and enforcement of relevant regulatory requirements at the point of importation and exportation



Risk Management in the Customs Context

The trading environment has changed dramatically in relation to:

- The manner and speed in which goods carried and traded
- The sheer volume of goods that are traded around the globe



Risk Management in the Customs Context

To maintain operational effectiveness Customs have adapted their methods due to:

- The emergence of wide-bodied aircraft, shipping containers and e-commerce
- The increased complexities of international trade agreements



Risk Management in the Customs Context

'Business as usual' is no longer sustainable

Customs administrations need to make a fundamental reassessment of their mission, roles and methods of operation



Risk Management in the Customs Context

Modern risk-based compliance management has 4 main categories:

- A country's legislative framework
- The administrative
- The risk management
- Technological frameworks



Risk Management in the Customs Context

Robust legislation such as:

- Acknowledgement of individual responsibilities of government and industry
- Regulations for electronic communication
- Sanctions for non-compliance
- Provisions to break the nexus between physical movements and processing
- Reporting
- Revenue liability
- Allowances for flexible and tailored business solutions



Administrative arrangements such as:

- Introduction of a client service approach
- Education and awareness raising
- Technical assistance and advice
- Consultation and cooperation
- Publishing of formal rulings
- Formal appeal mechanisms



Risk Management in the Customs Context

Intervention (control) and facilitation are mutually reinforcing objectives and it is possible to achieve optimum levels of both

A risk management framework provides risk-based decision making and procedures into an organization enabling a balance between control, facilitation and supply chain security



Risk Management in the Customs Context

Risk-based procedures include:

- Early and accurate lodgement of information for risk assessment
- Intervention as early as possible in the supply chain for high-risk transactions
- Self-assessment and post-entry verification for lower risk
- Investigative capability where non-compliance or fraud is detected



Automation enables:

- Processing of vast amounts of information in reduced timeframes
- Effective and efficient screening of information against predetermined risk criteria
- Assists decision making on both high and low risk criteria
- Non-intrusive inspection (NII) technologies can reduce delays and improve effective inspection activity



Risk Management in the Customs Context

Customs clients can be divided into 4 categories:

- Voluntarily compliant (low risk)
- Those attempting to be compliant but do not necessarily always succeed
- Those avoiding compliance if possible
- Those deliberately non compliant (high risk)



Client categories require different responses:

- Incentives and simplified procedures should be applied to those who are voluntarily compliant
- Assisted compliance to those attempting to be compliant but do not necessarily always succeed
- Directed compliance to those avoiding compliance
- Enforced compliance to those deliberately non-compliant



Risk Management in the Customs Context

'Steering' the client population towards the low-risk category can be achieved by providing incentives for traders and travellers to comply and operating a credible enforcement regime which detects and punishes non-compliance



Risk Management in the Customs Context

Compliance Management Model example

	LOW	RISK LEVEL		HIGH
Client Categories	- Voluntary compliance	- Assisted compliance - Those attempting compliance	- Directed compliance - Those avoiding compliance	- Enforced compliance - Those deliberately non-compliant
Client Behaviour	- Voluntary compliance - Informed clients	- Attempting compliance - Uninformed clients	- Resisting compliance - Will avoid if possible	- Criminal intent - Illegal activity



Risk Management in the Customs Context

CUSTOMS' COMPETENCIES

INTERVENTIONS

Information High quality, timely & accurate information about the arrival & departure of persons, goods & craft	<ul style="list-style-type: none"> - Advanced cargo/passenger/craft information (in/out) - Monitoring of physical movement of persons, goods & craft across (in/out) of the border 	<ul style="list-style-type: none"> - Patterns of non compliance by industry, product, location, ethnicity, destination or port of origin - Type of non compliance (eg. incorrect documentation) 	<ul style="list-style-type: none"> - Profile of individual non compliant traders/travellers - Identification of specific compliance problem (eg. bad systems, poor data entry etc) 	<ul style="list-style-type: none"> - Profile & ongoing intelligence (on & offshore) about offenders/potential offenders & their associates
Assessment Assessment of the level of risk posed by arriving & departing persons, goods & craft	<ul style="list-style-type: none"> - Frontline Pan/Goods staff intuition - Intelligence profiles - Statistically valid random checks 	<ul style="list-style-type: none"> - Compile information on client behaviours - Identify & monitor compliance trends/patterns 	<ul style="list-style-type: none"> - Problem solving approach to specific compliance problems - Investigation 	<ul style="list-style-type: none"> - Assess risk & information needs in relation to seriousness of offence - Investigation
Action Actions required to mitigate identified risks without unduly disrupting legitimate trade & travel	<ul style="list-style-type: none"> - Compliance programmes (eg. Frontline, Call Centre) - Education & advice - Visible deterrence - Cargo & baggage screening 	<ul style="list-style-type: none"> - Targeted compliance guidance - Punitive sanctions - Rolling audit programme - Increased attention 	<ul style="list-style-type: none"> - Deter by detection & surveillance - Comprehensive audits - Prosecution 	<ul style="list-style-type: none"> - Pre & post clearance interventions - Comprehensive audits - Passenger/cargo searches - Prosecution

← Direction that Customs want to move travellers & traders →
 ← Increasing levels of intervention by Customs →



A Compliance Management approach:

- Recognizes risk mitigation strategies should be applied throughout the supply chain
- Recognizes a combination of measures leads to improved results and effective use of resources
- Facilitates risk identification
- Facilitates response coordination
- Facilitates collaboration across and between governments



Risk Management in the Customs Context

At the operational level a risk-based compliance management approach intelligence support brings together information and knowledge for identifying and treating high risks

Intelligence informs decision makers of a recommended priority order for intervention and supports decisions about where resources should be deployed

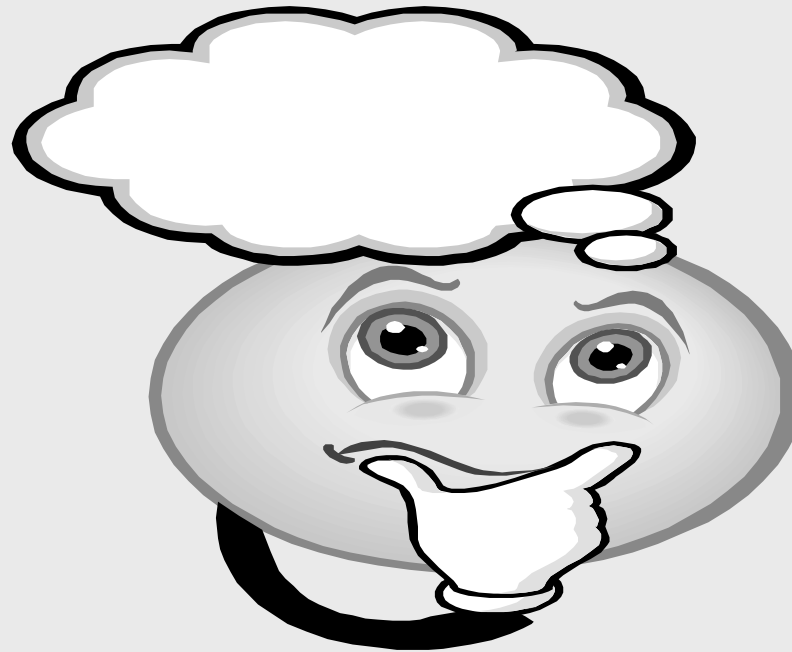


Questions





Activities



Complete Activity 1