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Risk Management Strategy

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Introductions

- Name?
- Number of Years in Customs?
- Current Position?
- Previous Positions?
- Why are you here today?
- Tell us what you want from this workshop?

Our Approach for this training

- We want to build on any previous training
- We will look at the latest trends in risk management
- First, we will talk about applying risk management to cargo selectivity
- Then, we will select the best strategy for Yemen
- By the end of the training, you will have developed a risk management strategy for Yemen Customs

Our Agenda for next two days

- Day 1 – The Risk Management Process and Risk Identification
- Day 2 – Drafting a Yemen Customs Risk Management Strategy

Objectives of First Day of Workshop

- Determine where Yemen Customs risk management currently stands.
- Discuss the challenges facing all Customs administrations today
- Discuss the concept of risk as it applies to Customs
- Review the WCO SAFE Standards

Customs Challenges

- Collect revenue
- Protect society by ensuring compliance with Customs laws
- Facilitate the flow of legitimate goods
- Ensure trade chain security
- Do all this with the same or fewer resources

Foundation – Three Rules

- For business – where the cost of compliance is lower than the cost of non-compliance, good businesses will be compliant
- For government – Voluntary compliance is more effective and economical than involuntary compliance
- For government and business – you can't enforce or comply with regulations if you don't know the regulations

First, Let's Define Some Terms

- Risk
- Risk Management
- Shared Responsibility
- Due Diligence
- Border Trade Information Systems
- WCO SAFE Standards
- Authorized Economic Operator
- Cargo Selectivity

What are the Characteristics of Risk?

- Risk is at least partially unknown
- Risk changes with time
- Risk can be anticipated
- Risk can be managed

Defining Risk

- The combination of the probability of an event and its consequences. (ISO definition)
- The chance of something happening that will impact on objectives
- It is measured in terms of likelihood and consequences
- To Customs, risk is the potential for non-compliance with Customs laws. (WCO definition)

Continuing to Define Risk

- Risk is the chance of an event occurring that will adversely affect compliance with import and export laws in either the travelers and commercial environments. Risk is measured in terms of probability, magnitude and the materiality of the loss or injury. (Canadian Border Services Agency Definition)

Defining Risk Management

- Risk Management is the systematic application of management procedures and practices providing Customs with the necessary information to address movements or consignments which present a risk

WCO Risk Management Guide

ISO Risk Management Definition

- Risk management is the identification, analysis, evaluation, treatment (control), monitoring, review and communication of risk

International Organization for Standards (ISO)

Key Points of Risk Management

- Operational Philosophy
- Wide application in private industry
- Wide application in Customs
- Provides quantifiable improvements
- Can be applied to almost every decision making situation

Risk Management Helps Us To:

- Identify and address important risks
- Make decisions about how to handle them
- Monitor progress in managing them
- Learn how to constantly improve the way we deal with them

Benefits of Risk Management

- Achieving organizational objectives
- Improved management processes
- Improved public/business profile
- Dedicated resources to the greatest risk areas
- More intelligent approach
- Increased professionalism
- Increased facilitation, flow of goods and inward investment

Applying RM to Customs

- The goal of Risk Management is to encourage & predict with confidence low risk shipments, then target those Customs transactions that are most likely non-compliant and direct inspection resources toward those targets
- Our focus is on applying risk management to cargo declarations
 - Identify traditional methods of measurement
 - Identify the increasing emphasis on authorized economic operator programs and Customs to Customs interconnectivity

WCO Risk Management Guide

- “For Customs administrations, adoption of risk management as an operational philosophy is essential since it provides quantifiable improvements in effectiveness and efficiency of the administration as a whole. Risk management can operate in any organization with manual or automated application ranging from tactical to strategic approaches. It can be applied to nearly every decision-making situation.”

The Role of Business

- “There is a growing realization that this degree of change can only be achieved with the active participation of legitimate business. This partnership... provides for greater efficiency and more effective controls which are based on knowledge of commercial operations.”

WCO Risk Management Guide

Shared Responsibility

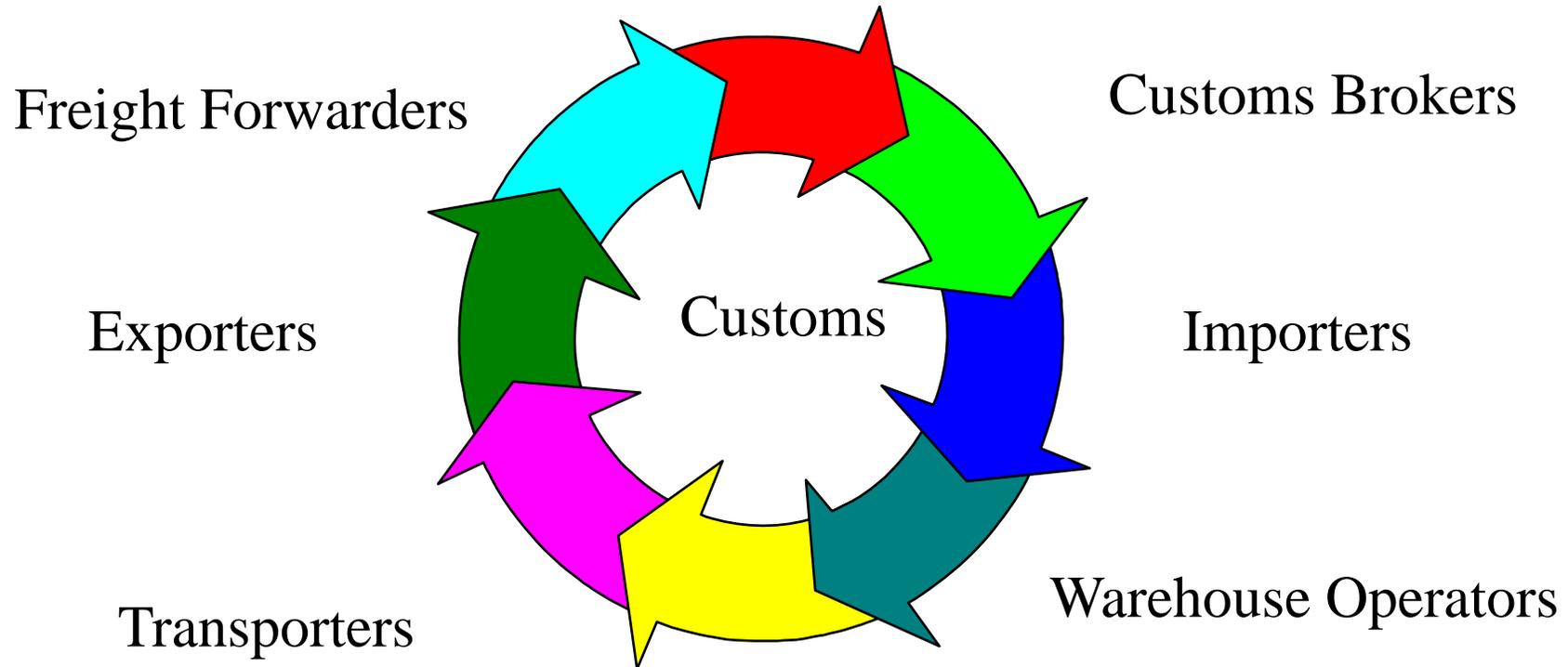


Customs – Trade Interaction

- Risk Management will work best if:
 - Customs engages with legitimate traders
 - Customs uses trader’s knowledge
 - Customs uses trader’s resources
- Everyone should understand that RM:
 - helps Customs
 - helps traders
 - can provide major benefits to both

Full circle due diligence

International Trade Community



Informed Compliance

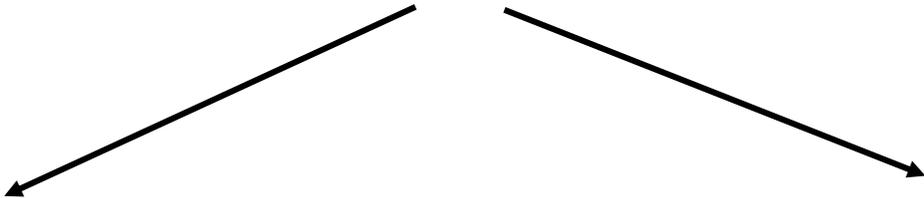
- It's easier to figure out who the bad guys are when you've weeded out the good guys
- Voluntary compliance makes Customs job easier
- Legitimate traders want to know the rules and comply
- Highly compliant traders can be rewarded
- Non-compliant traders who want to comply should be helped to improve

Informed vs. Enforced Compliance

- Informed Compliance
 - Local problem – inform customs post
 - Broker Errors – broker information sessions
 - Importer negligence – contact importer
- Enforced Compliance
 - Penalties & Seizures
 - Management Directives
- Take the nature, scope, and impact of the non-compliance into consideration

Informed vs. Enforced Compliance

Two directions of ACTION



Informed Compliance

- Visit Importer
- Develop an Action Plan
- Initiate an Intervention
- Other

Enforced Compliance

- Refer case for Investigation
- Recommend Penalties
- Seize items
- Other

Border Trade Information Systems

- Need for increased coordination between border mandate agencies
- Need to provide all customs and associated regulatory requirements relevant to the importation, exportation or transit of goods in a “single window” of information
- Have a single reference point for all tariff and non-tariff measures to be applied to goods entering, exiting or transiting a country, including all governmental requirements regarding a specific commodity.

Border Trade Information System Benefits

- Easy to access single window for all regulatory requirements to goods moving across border
- Administrative and legal requirements are recorded and continuously updated
- Registered users receive electronic notification of regulatory amendments of their interest
- Other Government Agencies Coordinate with Customs to meet objectives

WCO SAFE Standards

- Risk management is a shared responsibility with clients
- Standards application follows ISO approach to conformance
- Customs to Customs exchange of information simplifies and improves risk management

Authorized Economic Operators

- Change in focus to reduce pool for examination
- Increased confidence by Customs
- Shared responsibility with private sector
- Basis for international exchange of customs to customs risk management

Defining Cargo Selectivity

- A process that uses risk profiles to apply different treatments to import, export and transit goods
- Applied through ASYCUDA Selectivity Module, called MODSEL
- Managed by a dedicated Risk Management Team and founded is an organizational risk strategy
- ASYCUDA has both strengths and weaknesses – what are they?

How Is Cargo Selectivity Different?

- Cargo is not physically examined as a matter of routine
 - Criteria based examinations
 - Random examinations for measurement
 - Document Review
 - Post Release Verifications
 - Improved Compliance
- Examinations are thorough
- Results are reported and analyzed

Expectations

- Staff will be deployed to encourage and support voluntary compliance and address the greatest risks (both positive and negative)
- Customs will achieve measurable increases in productivity
- Legitimate (or low risk) trade will be allowed to flow freely
- As compliance rates increase, trade costs will decrease

Exercise – Yemen Customs Definition of Risk

- Models
 - ISO - The combination of the probability of an event and its consequences.
 - WCO - To Customs, risk is the potential for non-compliance with Customs laws.
- Yemen Customs Modern Definition of Risk - ?

End Day One – Second Day Objectives

- Define Yemen Customs Approach to Risk Management
 - Identify Risk Management Process
 - Identify Risk Management Strategy Contents
 - Write Yemen Customs Risk Management Strategy
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- Assignment – Review materials from Day One and prepare individual comments on internal risks in Yemen Customs

Day Two

- Review of day one materials
- Review Yemen Customs Definition of Risk
- Discussion – What are our internal risks?

Exercise – Yemen Customs Risk Management Approach

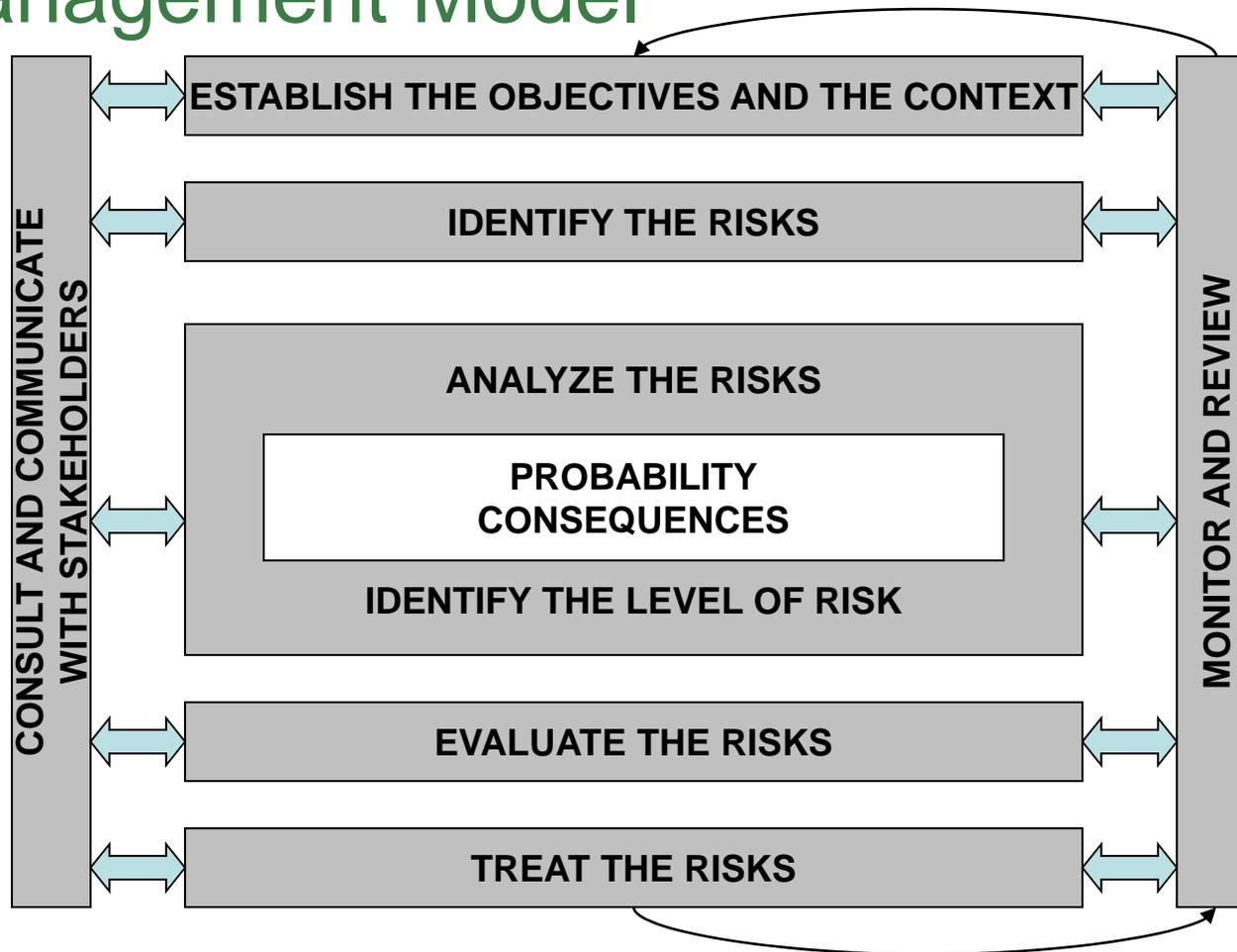
- Risk Management Models:
 - WCO - Risk Management is the systematic application of management procedures and practices providing Customs with the necessary information to address movements or consignments which present a risk
 - ISO - Risk management is the identification, analysis, evaluation, treatment (control), monitoring, review and communication of risk

- Yemen Customs Risk Management Approach -

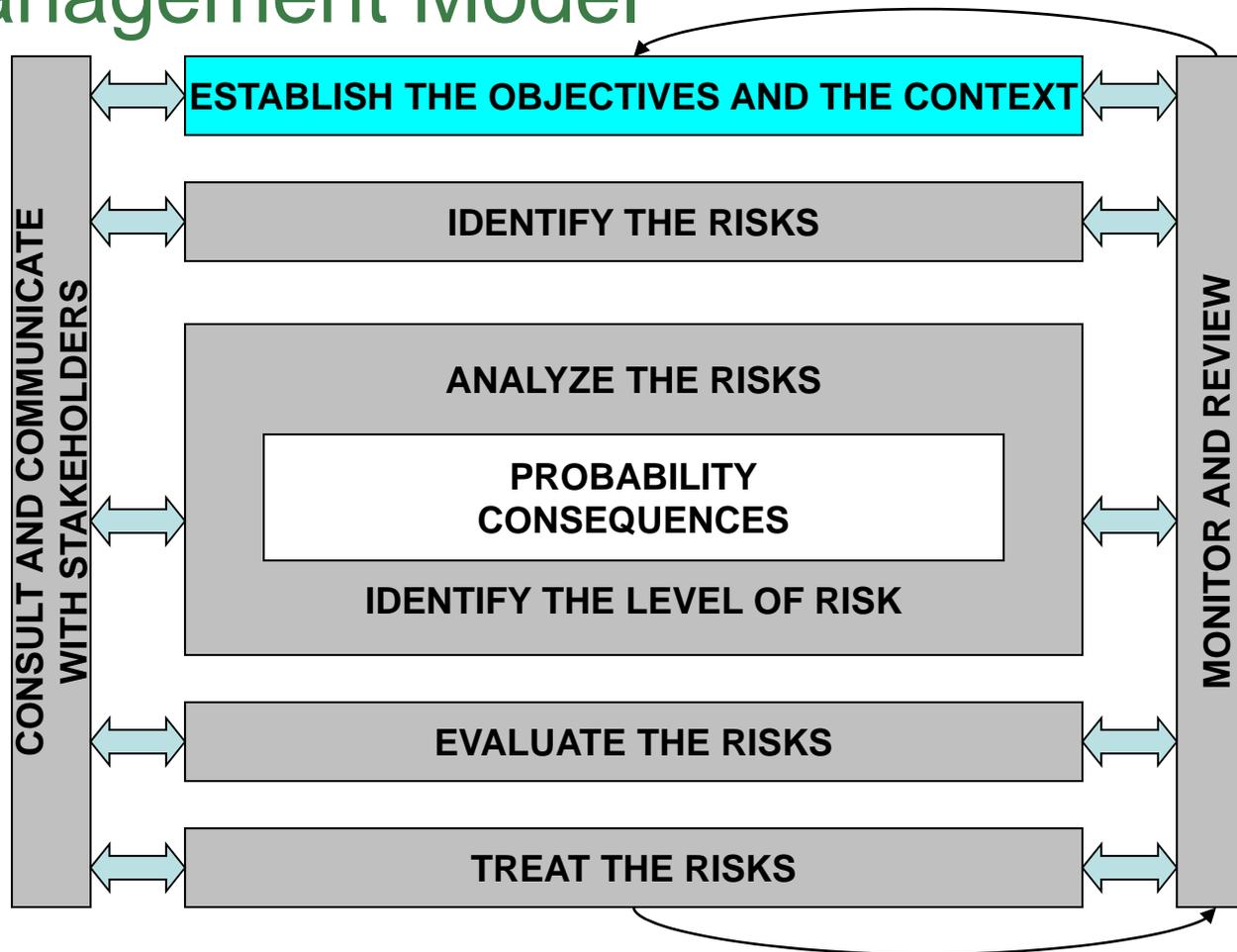
The Traditional Risk Management Process

- Establish the context
- Identify the risk
- Analyze the risk
- Evaluate the risk
- Treat the risk
- Monitor and review
- Communicate and consult

Risk Management Model



Risk Management Model



Risk Management Strategy

- Relation to:
 - Mission Statement
 - Overall Strategic Plan
 - Risk Management Strategy

Strategy perimeters

- What is the Objective?
 - Why have we selected this objective?
 - When do we expect it to be accomplished?
 - Who will be responsible?
-
- **How will we meet the objective?**
 - **How will we know when we are there?**

What is the Objective?

- What do we really want?
 - Stated objectives
 - Unstated objectives
 - Personal objectives
- What is the balance?

Exercise – Write the objective of the Yemen Customs risk management strategy

Why have we selected this objective?

- What is our mission relationship as an agency to:
 - Country
 - Government
 - Other Government Agencies
 - Yemen Businesses
 - Yemen Citizens
 - International Obligations

Exercise – Write the reason for the objective(s) selection for the Yemen Customs risk management strategy

When will we meet our objective?

- Considerations:
 - Nature of Risks
 - Risk is at least partially unknown
 - Risk changes with time
 - Risk can be anticipated
 - Risk can be managed
- When will we meet our milestones and when will we revisit or strategy?

Exercise – Write the timelines for
the Yemen Customs risk
management strategy

Who will be responsible?

- Who – is a person!

Exercise – Identify the owner(s) for the Yemen Customs risk management strategy

How will we meet the objective?

- The builder's dilemma.
- Resources.
 - Resource quality requirements
 - Available Resources
 - Procurement of additional resources
 - Resource allocation.

Resource allocation formula – Available resources minus obligated resources, divided by priority of objective

Exercise – Identify the resource requirements and the apportionment of resources for high and low risk management for the Yemen Customs risk management strategy

How will we know when we are there?

- Project planning
- Measurable milestones

Exercise – Identify the metrics for accessing progress for the Yemen Customs risk management strategy

Final Exercise – Write Yemen Customs Risk Management Strategy for Management Approval

- Combine section drafts
- Re-assess for coordination of sections
- Finalize and sign

Next Steps

- Development of AEO Program to measure and have high confidence in low risk companies and their related shipments
- Identification of Non-compliance risk factors for inspection and validation of assumptions.

Thank You!