WCO Customs Risk Management Compendium


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FOREWORD

We live in an extremely fast moving world where 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 and the way people live.

Customs plays a significant role in ensuring that global trade meets regulatory requirements and conforms to national laws. Changes in the strategic landscape of Customs' operating environment and long-term growth in trade and travel volumes have affected the way Customs administrations are managed and approach their tasks.

New government priorities, along with emerging challenges at the border, have led many administrations to seek a more structured and systematic way to manage risk. Today, Customs is required to address risk wherever it is found and increasingly as early in the supply chain as possible.

Together with other key buildings blocks outlined in the WCO's Customs in the 21st Century strategic vision, and standards and guidelines contained in the revised Kyoto Convention and the SAFE Framework of Standards, the application of risk management is a critical element that underpins all modern Customs administration.

Increased automation and the submission of more comprehensive information earlier in the supply chain has enabled Customs to improve risk assessment and deployment of targeted Customs controls concentrated on the high-risk end of the risk continuum.

Corresponding effective and efficient controls in turn give Customs the opportunity to facilitate low-risk movements and promote key government goals relating to the facilitation of trade and travel.

The Members and Secretariat of the WCO, in partnership with their private sector and academic partners, have worked hard to gather and consolidate the latest knowledge on risk into this new WCO Customs Risk Management Compendium; a practitioners guide that includes best practices, useful case studies and real-life examples from around the world.

Being a living document, the Compendium will be continuously updated to reflect the latest developments in risk management and WCO Members' best practices. This will ensure that it remains relevant and indispensable to the global Customs community.

We hope that widespread use of this reference tool will lead to improved Customs controls and enhanced facilitation of cross-border flows of goods, people and conveyances.

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Secretary General
World Customs Organization

EXECUTIVE SUMMARY

Customs administrations should aim for a reasonable and equitable balance between ensuring compliance, and minimizing disruption and cost to legitimate trade and the public. Through the adoption of a holistic risk-based compliance management approach, optimal levels of both facilitation and control can be achieved. A key feature of this approach is to actively "steer" the client population towards voluntary compliance (low risk) leaving more scarce control resources to be deployed towards the high-risk end of the risk continuum.

A robust organizational risk management framework is one of the preconditions for a risk-based compliance management approach. The framework provides the foundation and organizational arrangements for risk management, allowing 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.

For risk management to be effective, it needs to be embedded as an organizational culture and be part of the way Customs runs its business. Anecdotal experience provided by Members indicates that it may take several years, and requires strong ongoing commitment from managers and staff at all levels. Administrations should monitor, review and assess their risk management practices and continuously develop them.

At the operational level, Customs administrations are encouraged to implement risk-based control procedures that are informed by intelligence and information holdings. The aim of these procedures is to identify reliable operators/persons and low-risk consignments/transactions which may benefit from greater facilitation as opposed to those that require higher levels of control. The Compendium includes practical and operational tools that allow Customs to assess, profile and target the flows of goods, people and means of conveyance that cross international borders and to determine what levels of intervention may or may not be required.


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I. INTRODUCTION

International trade is a key driver of economic growth and development. It raises living standards in both developed and developing countries, contributes to the reduction of poverty as well as creating a more stable, secure and peaceful world[1]. Customs administrations play an integral role in world commerce. They have the essential task of enforcing the law, collecting duties and taxes, providing prompt clearance of goods and ensuring compliance.[2]

Recently the increased complexity and volume of international trade, fueled by technological advances that have revolutionized global trading practices, have significantly affected the way Customs administrations carry out their responsibilities and organize their business operations. Today Customs is required to provide extensive facilitation of trade while maintaining control over the international movement of goods, persons and means of transport. In seeking to achieve a balance between these goals, Customs has been moving away from traditional control methods and adopting new thinking and approaches to its tasks.

Customs administrations are increasingly adopting risk management techniques to determine where the greatest areas of exposure to risk exist and how to effectively allocate scarce resources to manage these risks. This enables the objectives set for Customs by government to be achieved and the expectations of the trading community and citizens alike to be met.

Risk management is by no means a new invention for Customs and it would be true to say that all administrations apply some form of risk management, either formal or informal, in their activities. However, research carried out by the WCO Secretariat indicates that risk management is sometimes progressed in an ad hoc or intuitive manner and is not necessarily always practised in a systematic and structured way[3]. To overcome the pitfalls of a siloed approach, many administrations are implementing new business models and pursuing a more disciplined and structured approach to managing risk.

This Compendium provides a common reference document for the concepts associated with risk management in Customs, and will assist Members in their efforts to develop and implement an all encompassing administration-wide approach to risk management. The Compendium builds on the wide range of risk management-related Customs instruments and tools, and updates and consolidates the work by the WCO, enabling the international Customs community to speak as one in relation to the methodology it uses when managing risk.

The Compendium has five purposes. First, it defines some of the key terminology associated with risk management. Second, it outlines the Customs context for managing risk. Third, it presents the key components of a holistic organizational risk management approach including a systematic methodology for managing risk. Fourth, it sets out various techniques and tools for managing risk in practice. Fifth, it presents Members' experiences in risk management in the form of case studies.

The Compendium is comprised of two separate but interlinked volumes. Volume 1 starts by outlining the changing operating environment and defines the need to adopt a holistic risk-based compliance management approach that enables administrations to operate more effectively and efficiently and to better meet their objectives (Chapter 1). It then describes the different building blocks of an organizational risk management framework. These building blocks include mandate and commitment, risk governance arrangements, implementation of risk management, monitoring and review, and mechanisms for continuous learning and development of the

1. WCO (2008), Customs in the 21st Century Strategy, p. 2.
2. WCO (1999), RKC GA Guidelines 6 on Customs Controls, p. 5.
3. According to the Consolidated Results of the SAFE Framework Implementation Survey (June 2010, Annex to Doc. SP0329, p. 9) "The survey results clearly indicate that the majority of Members surveyed have generally implemented and invested in automation of risk management. A needs analysis seems, however, to indicate that the quality of risk management could be improved and that many administrations still need to incorporate risk management as part of the organizational culture and of the decision-making process at all levels of the organization."

approach (Chapter 2)[4]. Embedding risk management as an organizational culture and building risk management capacity in gradual steps are discussed in Chapter 3. Finally, Chapter 4 briefly summarizes and draws together the key issues outlined in Volume 1.

Volume 2 deals with operational risk management. It includes "enforcement sensitive" material for "Customs only" purposes, including numerous practical guides and templates for assessing risks in relation to the movement of goods, people, conveyances, economic operators and other parties to international trade. The topics covered in Volume 2 can be categorized into four broad clusters:

- risk assessment, profiling and targeting;
- risk indicators;
- analysis; and
- information and intelligence.

The Compendium is a living document and will be continually updated to reflect the latest developments regarding risk management practices in today's constantly changing Customs operating environment. The responsibility for keeping Volume 1 updated resides with the Permanent Technical Committee (PTC), whereas the Enforcement Committee (EC) will manage the instruments contained in Volume 2.

4. The narrative in this part of the Compendium is closely aligned with International Organization for Standardization (ISO) Standard *"31000:2009 Risk management – Principles and guidelines"*

II. GLOSSARY

Key risk management terms used in the Compendium are listed below.

Information: Any data, whether or not processed or analyzed, and documents, reports, and other communications in any format, including electronic, certified or authenticated copies thereof.

Intelligence: A product, derived from the collection and processing of relevant information, which acts as a basis for user decision-making.

Nominal data: All available data related to an identified or identifiable natural (real) and/or legal person, including but not limited to identification numbers, tax-related numbers (e.g. VAT number), and items related to physical identification.

Risk: Effect of uncertainty on objectives.

Risk analysis: Systematic use of available information to determine how often defined risks may occur and the magnitude of their likely consequences.

Risk appetite: Amount and type of risk that an administration is willing to pursue or retain.

Risk assessment: Overall process of risk identification, risk analysis, risk evaluation and prioritization.

Risk evaluation and prioritization: Process of comparing the results of risk analysis with risk criteria to determine whether the risk and/or its magnitude is acceptable or tolerable.

Risk indicators: Specific criteria which, when taken together, serve as a practical tool to select and target movements that pose a risk of potential non-compliance with Customs laws.

Risk management: Coordinated activities by administrations to direct and control risk.

Risk management framework: Set of components that provide foundation and organizational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization.

Risk management plan: Scheme within the risk management framework specifying the approach, management components and resources to be applied to the management of risk.

Risk management policy: Statement of an administration's overall intentions and direction regarding risk management.

Risk management process: Systematic application of management policies, procedures and practices to the activities of documenting, communicating, consulting, establishing the context, and identifying, analyzing, evaluating, treating, monitoring and reviewing risk.

Risk owner: Person or entity with the accountability and authority to manage a risk.

Risk matrix: Tool for ranking and displaying risks by defining ranges for consequence and likelihood.

Risk profile: Description of any set of risks, including a predetermined combination of risk indicators, based on information which has been gathered, analyzed and categorized.

Risk register: An organizational planning document identifying the administration's risks and allocating risks to risk owners.

Risk tolerance: An administration's or stakeholder's readiness to bear the risk after risk treatment, in order to achieve its objectives.

Risk treatment: Decision or action taken in response to an identified risk.

Targeting: The selection for examination/audit of a certain consignment, passenger, means of transport, transaction or entity based on risk analysis, profiling, document review, observation and questioning techniques.

> **Note:** The term "selectivity" is sometimes used instead of "targeting".