Profiling Importers: 
By using Risk Management Techniques to Identify their Level of Risk

Emmanuel G Anton
Deputy Director of Customs
Sri Lanka Customs

PICARD ’2019 Conference
• Risk profiling of importers
• Categorization according to the level of risk
• Effectively enhancing facilitation and enforcement
• **Risk assessment** is the overall process of determining risk identification, risk analysis, risk evaluation and prioritization.

• **Analysis** is the process by which information is evaluated, integrated and interpreted.

• The importers / Traders will be identified according to the associated risks and prioritized.
LEARNING CIRCLE

Identification → Analysis → Evaluation & Prioritization → Profiling & Targetting → Implementation / Prevention → Review & Monitoring → Identification
• Risk Identification consists of identifying when, where, why, how and by whom risks can arise as the basis for further analysis. The identified risks are under-valuation, wrong classification, mis-description, smuggling of contrabands. etc.

• Uncertain future events may be identified by the senior officers with their knowledge and experience.

• Periodically review and monitoring of the system will help to update the system.
RISK ANALYSIS

• Risk analysis is about developing an understanding of the risk and consists of determining the consequences and their probabilities for the same.

EVALUATION AND PRIORITIZATION

• The consequences and their probabilities are then combined to determine a level of risk (high, medium, low).
RISK SIGNIFICANCE MATRIX WITH RESPONSE CRITERIA

Consequence

Medium
Considerable Management Required

High
Must Manage and Monitor Risks

High
Extensive Management Required

Low
Risk May be worth accepting with Monitoring

Medium
Management effort worthwhile

High
Management effort required

Low
Accept Risk

Low
Accept, but monitor Risk

Medium
Manage and monitor risks
Risk profile is the description of any set of risks, including a predetermined combination of risk indicators, based on information which has been gathered, analyzed and categorized.

The development of the risk profile can be done as following steps:

- Step 1: Collect Available Data
- Step 2: Structure the Data (Chart, Matrix, etc.)
- Step 3: Analyze the Data
- Step 4: Establish and Disseminate the Profile
- Step 5: Obtain Feedback
- Step 6: Modify the Profile Based on Results and Continuing Research

Targeting is the selection of the highest risk passengers and goods for examination using Risk Profiling.
• Specific measures (means of control) or combination of measures on how to detect a certain identified risk will be identified at this stage and also prevention of future occurrences of same kind of scenario has to be established.

• Risk profiles are evaluated regularly and the effectiveness of the risk profiles monitored.
CATEGORIZATION OF IMPORTERS AND EXPORTERS

- Importers and exporters can be divided into four categories according to their level of compliance:
  - Voluntarily compliant
  - Those that try to be compliant but do not necessarily always succeed in their endeavors
  - Avoid complying if possible
  - Those that deliberately do not comply
The aim of the effective risk management technique is to increase the volume of importers/exporters those who are voluntarily compliant and identify and minimize the volume of those that deliberately do not comply.

- Identify criteria – number of different criteria will be developed and each criterion will be given a score and weighted depending on the level of significance desired.
• Following criteria will be considered in this method

  ➢ Identification of the Importer / Exporter
  ➢ Record Maintenance
  ➢ Level of Internal Control
  ➢ Compliance History
  ➢ Capital Amount Invested
  ➢ Active Period
<table>
<thead>
<tr>
<th>Risk Indicator</th>
<th>Criteria</th>
<th>score</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identity of Trader</td>
<td>Difficult to locate the Company</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New Entrant</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New Entrant with Minimum Transaction History</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>An entity with established place of business with less frequent transaction history</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>An entity with established place of business with frequent transaction history</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Compliance History</td>
<td>Severely Penalized</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Moderately Penalized</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Occasional infringements with no fraud</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Minor unintentional infringements / errors</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Good record of compliance</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk Indicator</th>
<th>Criteria</th>
<th>score</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of Internal Control</td>
<td>No internal controls</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Minimal Controls with Records</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Satisfactory level of internal controls</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Formal risk management and internal control system</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Certified risk management and internal control system</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Record Keeping</td>
<td>No Record keeping System</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No satisfactory system of record keeping</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manual records with audit trails</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Partial computerization with high level of audit trails</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Computerized with clear audit trails</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital Amount Invested (Rs. Mn)</th>
<th>Criteria</th>
<th>score</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1</td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>1-10</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>&gt;10</td>
<td></td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Active Period</th>
<th>Criteria</th>
<th>score</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1 Year</td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>1 - 9 Years</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>&gt;10 Years</td>
<td></td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>
• Above variables will be weighted appropriately.

• The model score range - 15 to 67

• Risk level is defined as **Low**, **Medium** and **High** as per the score range 15-32, 33-50, 51-67 respectively.
ACTION PLAN

• **Step 01** – Developing the methodology for the identification and categorization process.

• **Step 02** – Operational procedure
  
  • Preliminary investigation. (Asycuda, Case Register etc.).
  
  • All the required data from the importer/ exporter will be collected.
    
    • a detailed questionnaire has to be answered and other relevant data such as Audited financial statements, Banking Information, Inventory Report, etc. will be collected.

  • Field visit will be done to gather other relevant information to develop and assess the above risk criteria.
• **Step 03 – Assessment of Risk Level**
  
  • The risk level will be assessed using the above data and the outcome will be updated.

• **Step 04 – Review and Monitoring**
  
  • The system will be monitored regularly and updated accordingly with the case register. When an importer / Exporter requests to enhance his level, above assessment is again done and assessed.
• This system should be operated simultaneously with the ASYCUDA system where the selection of Risk Level of the Importer / Exporter automated when the declaration is submitted.

• The above system should immediately be followed by an advanced risk management system which will be developed and identified as **Trader Pattern Identification (TPI)** system.
TRADER PATTERN IDENTIFICATION (TPI)

• This system analyzes the history of the trader

• Several parameters will be analyzed with time and other factors

• Any significant different will be investigated

• Pre- cargo arrival risk assessment

• Once the successful completion of one year, the results will be analyzed statistically
• HS Vs Unit Price
• HS Vs Country of Origin
• Weight Vs Time, for HS
• HS Vs Declarant
• Pattern of the Transshipment over the time
• Any other combination
CHALLENGES AND LIMITATIONS

• The compatibility of the e-manifest system

• The Trader Pattern Identification (TPI) facility may be provided only to the Customs officials depending on the hierarchy.

• This proposed system should be developed within the present operating system (ASYCUDA)

• The operating capacity might have to be increased as huge amount of data has to be processed and presented.
Thank You...

E-mail: eganton@hotmail.com