RISK MANAGEMENT

The risk management process is a systematic approach to identifying, assessing, and mitigating potential risks. It typically involves five key steps: identifying risks, analyzing risks, evaluating risks, treating risks, and monitoring and reviewing the process. This process helps organizations make informed decisions, minimize negative impacts, and achieve their objectives.

Detailed Steps:

1. Risk Identification:

This initial step involves identifying potential risks that could impact the organization or project. This can be done through various methods, such as brainstorming, checklists, and reviewing past incidents.

Relocation Examples:

- **Transportation Delays:** Loss or damage of belongings during transit.
- **Housing Issues:** Difficulty finding suitable accommodation, lease disputes, or unexpected maintenance problems.
- **Immigration and Visa Problems:** Delays or rejections in visa applications, impacting the employee's start date.
- **Cultural and Language Barriers:** Difficulty adapting to the new environment, leading to social isolation or communication issues.
- **Financial Risks:** Unexpected costs related to relocation, such as higher-than-expected living expenses or taxes.
- **Health and Safety:** Concerns about the new location's healthcare system or safety standards.
- **Employee Morale:** Stress and anxiety related to the relocation process, impacting productivity and job satisfaction.
- **Data Security:** Potential for data breaches during the transfer of information or equipment.

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2. Risk Analysis:

Once risks are identified, they need to be analyzed to understand their potential impact and likelihood of occurrence. This can be done qualitatively (using subjective assessments) or quantitatively (using statistical data).

Relocation Examples:

- **High Impact/High Likelihood:** A visa rejection could significantly delay the employee's start date, impacting project timelines.
- **Low Impact/High Likelihood:** Minor delays in finding housing could cause some inconvenience but not major disruption.
- **High Impact/Low Likelihood:** A major accident during transportation could cause significant damage or loss of belongings.

3. Risk Evaluation:

This step involves prioritizing risks based on their potential impact and likelihood. This helps determine which risks require immediate attention and which can be addressed later.

- **Tracking transportation progress:** Regularly checking the status of shipments and addressing any delays promptly.
- **Gathering feedback on housing:** Checking in with employees to ensure their housing is suitable and addressing any issues.
- **Monitoring visa application status:** Keeping track of visa applications and providing support to employees.
- **Collecting feedback on cultural adjustment:** Assessing how well employees are adapting to the new environment and providing additional support if needed.
- **Reviewing expenses:** Tracking relocation costs and ensuring they are within budget.
- **Regular check-ins with employees:** Providing ongoing support and addressing any concerns that arise during the relocation process.

4. Risk Treatment:

Based on the evaluation, appropriate risk treatment strategies are developed and implemented. These strategies can include avoiding the risk, mitigating it, transferring it, or accepting it.

Each relocation has its unique set of challenges. Conducting a detailed risk assessment tailored to individual relocations can preempt many issues. This involves understanding the destination country's specific risks, from cultural barriers to housing challenges.

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5. Monitoring and Review:

The final step involves continuously monitoring the effectiveness of risk treatment strategies and reviewing the entire risk management process. This ensures that the process remains relevant and effective over time.

Relocation Examples:

- **Transportation:** Partnering with reputable moving companies, using GPS tracking, and securing insurance.
- **Housing:** Providing housing allowances, connecting employees with real estate agents, and offering temporary accommodation.
- **Immigration:** Working with immigration specialists, providing detailed guidance on the visa application process, and offering support during the application period.
- **Cultural and Language:** Providing cross-cultural training, language lessons, and access to local support networks.
- **Financial:** Providing financial counseling, offering relocation stipends, and outlining potential tax implications.
- **Health and Safety:** Providing information on local healthcare providers and safety guidelines, and offering access to emergency services.
- **Employee Morale:** Offering employee assistance programs, providing access to counseling services, and facilitating social activities.
- **Data Security:** Implementing secure data transfer protocols, encrypting sensitive information, and providing training on data protection.

Keeping all stakeholders informed about the risk management process and any potential issues.

Operational Risk - Definition

► **Risk** is the possibility of losing something of value.
► **Operational risk** is defined as the risk of loss, resulting from:
► inadequate or failed internal processes;

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► people and systems;
► or external events.

Operational Risk - Event type categories

Internal Fraud - Misappropriation of assets, tax evasion, intentional mismarking of positions, bribery.

External Fraud - Theft of information, hacking damage, third-party theft and forgery.

Employment Practices and Workplace Safety
Discrimination, workers compensation, employee health and safety.

Clients, Products, and Business Practice
Market manipulation, antitrust, improper trade, product defects, fiduciary breaches, account churning.

Damage to Physical Assets - Natural disasters, terrorism, vandalism

Business Disruption and Systems Failures - Utility disruptions, software failures, hardware failures

Execution, Delivery, and Process Management - Data entry errors, accounting errors, failed mandatory reporting, negligent loss of client assets.

The physical aspect of moving goods across borders is fraught with potential hazards. Delays, damage, and loss of goods are common issues. A study by the International Association of Movers highlights that approximately 30% of international relocations face challenges related to customs clearance and handling.

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Risk assessment

Risk assessment:

► Identify, evaluate, and estimate the levels of risks involved in a situation;
► Comparison against benchmarks or standards;
► Determination of an acceptable level of risk.
► Risk assessment is the first step in risk management
► Risk assessments are based on business

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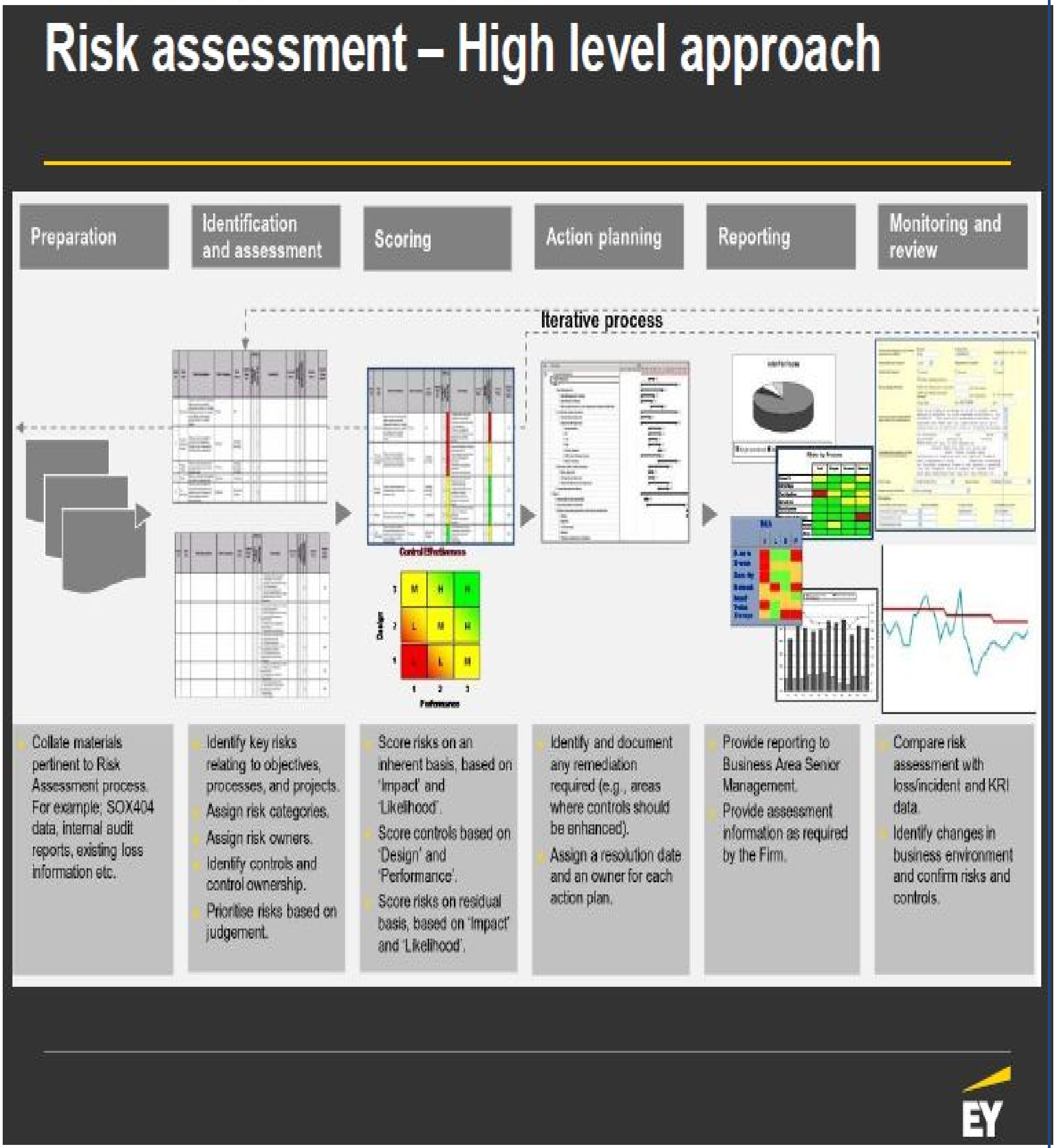
managers expert knowledge and are usually done on annual or bi-annual basis.


Risk assessment – High level approach
Preparation
Identification and assessment
Scoring
Action planning
Reporting
Monitoring and review
Iterative process
Control Effectiveness
Design
Performance
Collate materials pertinent to Risk Assessment process. For example; SOX404 data, internal audit reports, existing loss information etc.
Identify key risks relating to objectives, processes, and projects.
Assign risk categories.
Assign risk owners.
Identify controls and control ownership.
Prioritise risks based on judgement.
Score risks on an inherent basis, based on 'Impact' and 'Likelihood'.
Score controls based on 'Design' and 'Performance'.
Score risks on residual basis, based on 'Impact' and 'Likelihood'.
Identify and document any remediation required (e.g., areas where controls should be enhanced).
Assign a resolution date and an owner for each action plan.
Provide reporting to Business Area Senior Management.
Provide assessment information as required by the Firm.
Compare risk assessment with loss/incident and KRI data.
Identify changes in business environment and confirm risks and controls.
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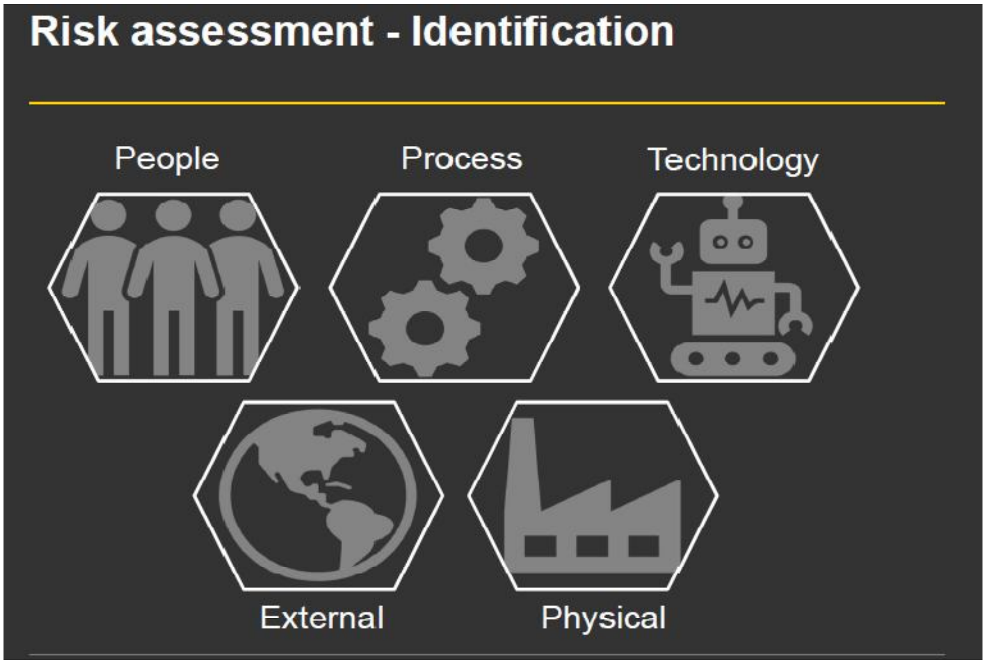

Risk assessment - Evaluation

► Criteria to assess risk:
- Likelihood/probability — The probability of a risk occurring over a predefined time period.
- Impact — The extent to which the risk, if realized, would impact the organization.
- Factors that may help define the impact rating may include:
- Financial effect;
- Damage to assets;
- Reputation impacts;
- Ability to achieve key objectives; etc.

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Risk assessment – Action planning

► Risk responses:

► Avoid: eliminate cause (prevent)

► Mitigate: reduce probability or impact

► Transfer: third party

► Accept: contingency plans

Financial Assessment – Approved pilot (FIDI FAIM 3.2 program)

► Demonstrate your business is in good financial health

► EY Credit Risk Barometer (EY CRB)

► The EY CRB takes into account both long term and short term financial ratios, in order to assess the risk of a FIDI Affiliate not being credit worthy.

Ratio 1: Solvency

► Solvency: Ability of a company to meet its long-term financial obligations

► Debt/Equity Ratio: Medium and Long term debt divided by owners equity

► Source: Balance Sheet

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Ratio 2: Liquidity

► Liquidity: Ability of a company to meet its short-term financial obligations

► Operating Cash Flow Ratio: Cash flow from operations divided by current liabilities

► Source: Cash Flow Statement and Balance Sheet

Ratio 3: Profitability

► Profitability: Ability of a company to generate earnings compared to its relevant costs

► Operating Profit Ratio: Operating profit divided by net sales

► Source: P&L Statement

EY Credit Risk Barometer

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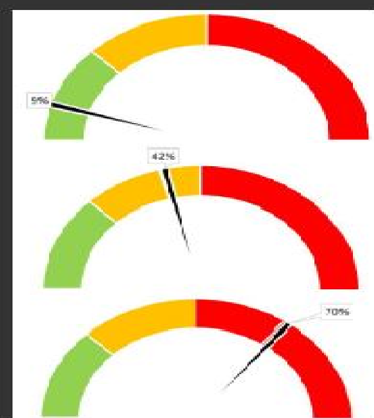
EY Credit Risk Barometer

- The credit risk barometer will translate the previous ratios into a global credit risk classification
- Score between 0% and 25%:
  - Low credit risk
- Score between 25% and 50%:
  - Medium credit risk
- Score between 50% and 100%:
  - High credit risk



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https://fidinet.fidi.org/FAIM/Pages/FAIM-Documents.aspx

Company "Futura" - Background

► International moving company with 50+ employees

► Started as family company, original owners retired

► New dedicated warehouse was constructed 2 years ago

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Company "Futura"
Challenges (examples)

- **Political corruption**
- **Heavy investments**
- **New IT implementation**
- **Privacy regulations**

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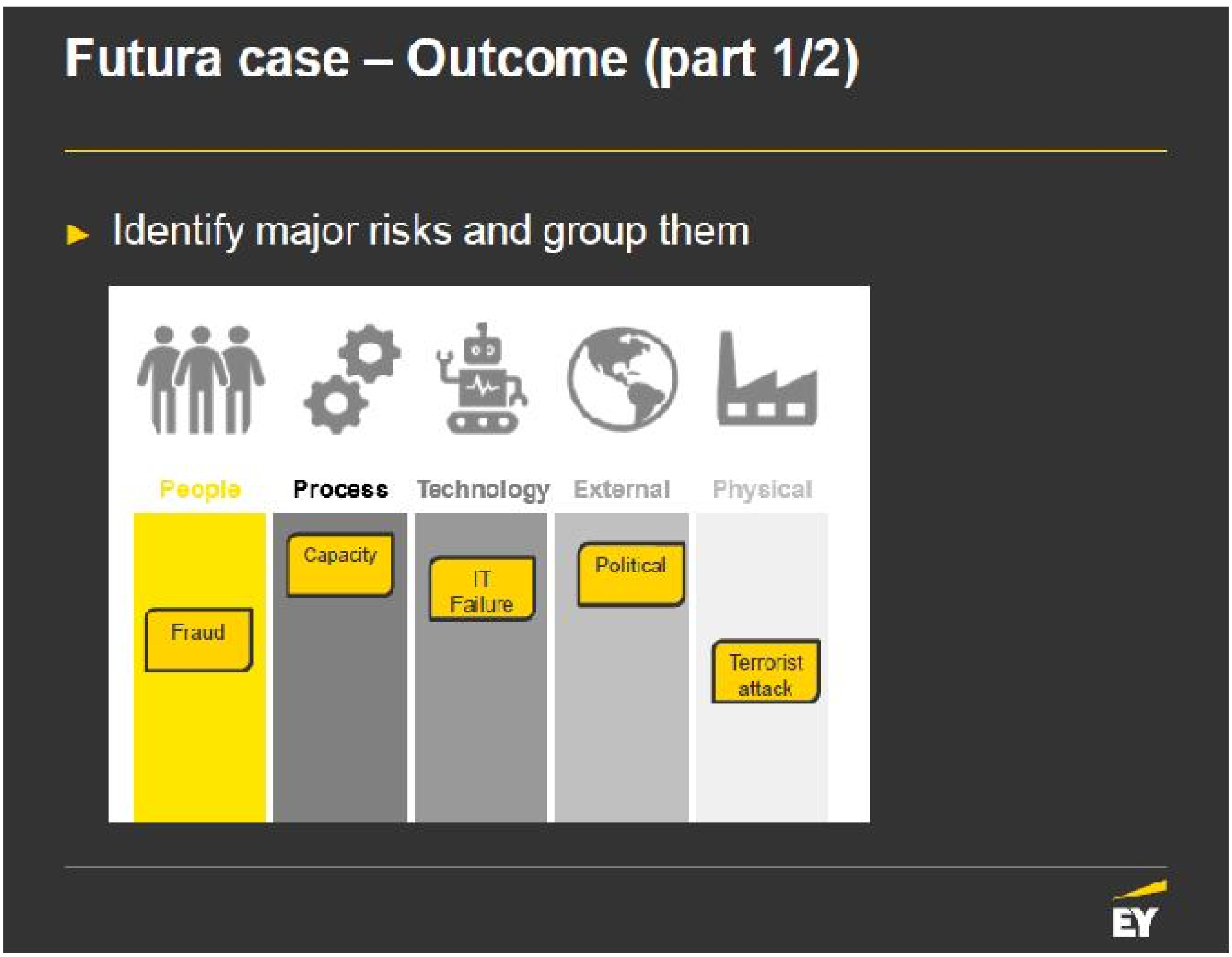

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Futura case – Outcome (part 2/2)

- Evaluate probability & impact
  - Rank top 4 major risks

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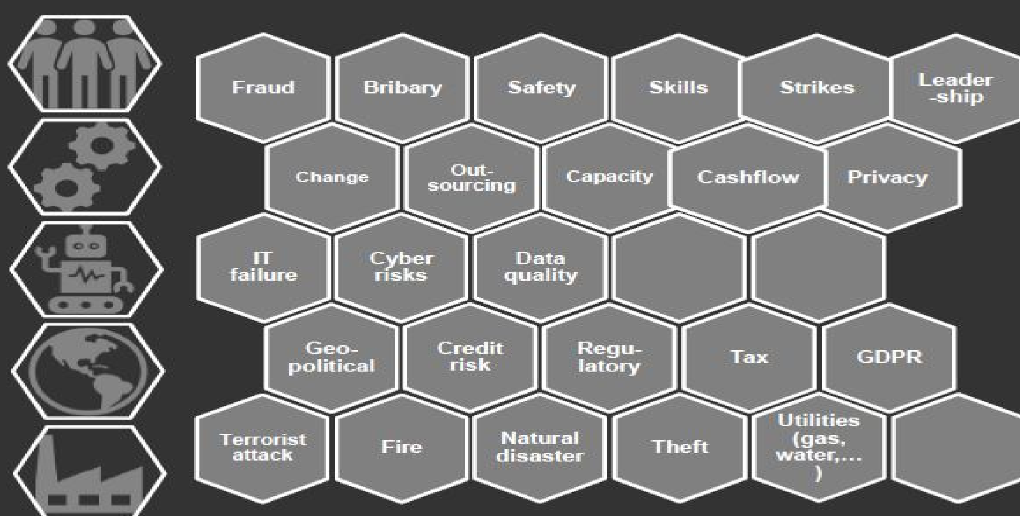
Operational Risk - Outcome



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Top 10 Operational Risks
Source: EY survey 2017

1. Cyber risk and data security
2. Regulatory
3. Outsourcing
4. Credit risk
5. Organisational change
6. IT failure
7. AML and sanctions compliance
8. Fraud
9. Physical attack
10. Geopolitical risk

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Wrap-up and conclusion

1. Cyber risk and data security
2. Regulatory
3. Outsourcing
4. Credit risk

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A RISK MANAGEMENT PLAN

- Protect your cash flow and brand by planning ahead and minimising possible risks to your business.
- Follow these steps to create a risk management plan that's tailored for your business.

1. Identify risks

What are the risks to your business?

For example:

- flood
- data breach
- contamination
- power outage

Some risks will cause major disruption while others will be a minor irritation.

2. Assess the risks

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Assess the risks that you've identified.

Try to estimate the:

- potential severity of each risk
- likelihood that it might happen

Prioritise your risk planning based on the results of your assessment.

3. **Minimise or eliminate risks**

Some risks are preventable, so eliminate or minimise these where possible. For some risks, it might be as simple as installing an alarm system or buying extra personal protective equipment (PPE).

Check your insurance

Insurance is one way to reduce the impact of an event or disaster.

For example, business interruption insurance can make sure that you receive your average earnings

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for the insured period until you're able to start operating again.

Make sure your insurance is enough to cover you in the event of a significant disruption to your business.

4. Assign responsibility for tasks
Identify what needs to happen if a crisis or disaster occurs and who is responsible for each action. Having clear directions is one of the simplest and most powerful tools for a fast recovery.

5. **Develop contingency plans**

Come up with contingency plans for how you'll continue or resume your operations if a crisis occurs. Your contingency plan is basically your 'plan B' for risks that you can't avoid completely.

Your contingency plans will depend on the:

- type, style and size of your business
- extent of the damage

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6. Communicate the plan and train your staff

People in or connected to your business must be aware of the strategies you've put in place to mitigate or recover from a disaster situation.

To do this:

1. **Decide if you'll communicate by phone, email, text or other means.**
2. **Create procedural statements.**
3. **Inform the relevant people (such as staff, suppliers, contractors and service providers).**

- Backup suppliers are secured to prevent dependency on a single vendor.
- The procurement team negotiates supply contracts with penalties for late deliveries.
- A buffer stock of critical materials is pre-ordered to prevent downtime.

- The risk register is updated weekly to track material shipments.
- The project team conducts weekly risk review meetings to reassess supply chain risks.

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Next, train your staff in your procedures and have them practice. This way if a disaster occurs, the process can take over and guide the staff.

7. **Monitor for new risks**

Risks can pop up during day-to-day operations, so it's important to know how to identify potential risks before they escalate.

Continuously monitoring for risks will help you develop realistic and effective strategies for dealing with issues if they occur.

In essence, mastering risk management in international relocation is about much more than mitigating risks; it's about crafting an experience that is as enriching as it is efficient. By embracing advanced practices and focusing on the human aspect of relocations, global mobility professionals can navigate the complexities of international moves with finesse, ensuring success and satisfaction for their clients and themselves.

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