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Internal Compliance Program - Series (13)- Risk Matrix

Today, in the thirteenth article in the hands-on practical advice series on Internal Compliance Programs for Export Control:

Part 13: Risk Matrix

Now that you have exposed, in a series of sections, your export compliance risk with regard to your business activity, products, customers, end-users and end-uses, as well as your order and shipping process, time has come to conclude this risk assessment chapter (the second one of your ICP). During this exercise, you have identified key risks (external and internal) faced by your company and tested the controls that you have in place to mitigate these risks. You are now in a position to measure the total exposure your company has to the risks it faces and to plan actions to reduce these risks.

The risks could appear on the level of the exports (exports without any authorization, unauthorized release of sensitive information or controlled technology), of your organization (weak or missing compliance structure, unclear product classification with regard to control lists, lack of communication within the organization, underdeveloped or missing export compliance procedures) and your customers (unknown end-users or end-uses, unawareness of diversion risk).

A good business practice consists in visually presenting these risks in a table or graph, providing the reader with a clear corporate risk self-assessment, thus enabling him or her to understand the actions and processes you will expose in the coming chapters of the ICP.
An approach could be to classify all risk factors into a “low”, “moderate” or “high” risk. For example, when speaking about customers, a stable and well-known customer base in a localized environment, and few higher-risk customers demonstrate low risk. A changing customer base and a moderate number of higher-risk customers are signs of a moderate risk. A large fluctuating client base in an international environment and a large number of higher-risk customers prove that the risk is high.

Calculating the residual risk, meaning the risk that remains after controls are applied to the inherent risk, is also widely adopted. It is determined by balancing the level of inherent risk with the overall strength of the risk management controls. For example, when inherent risks considered as being low are only controlled at a level of less than 75 %, the residual risks will be qualified as high. On the contrary, when inherent risks are controlled at 90-100 %, the residual risks are getting low.

A well-known process is also to identify the risks in a column, and link any of these risks to a risk mitigation tool in the second column of a table. For example, if the main risk is to export controlled goods without an authorization, the preferred tool should be to develop and use a license determination matrix.