De-Risking

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De-Risking

What does "de-risking" mean ?

Some leading dictionaries define "de-risking" as "to eliminate risk" or "to remove risk."

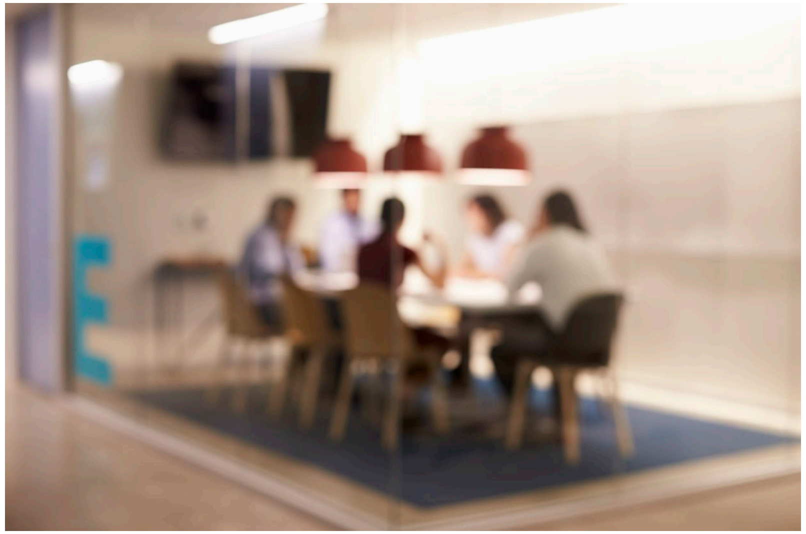
Others define it as "reducing the possibility that something bad will happen" or making something "less risky."

According to the definition provided by the Financial Action Task Force (FATF), the term "**De-risking**," refers to the practice of financial institutions exiting relationships with and closing the accounts of clients perceived to be "high risk."

De-Risking

These different definitions would produce very different “de-risking” policies for businesses. If you define the de-risking goal “eliminating” the relevant risks, rather than “reducing” them, you will take far more sweeping actions.

The most common risks invoked in discussing economic separations are risks to national security *or* “protecting a narrow set of advanced technologies critical for national security purposes” — with the greatest focus on “technology that could tilt the military balance.” Protecting “national security” is probably the most important role of a national government. It is also a broad and vague concept. The US Commerce Department, for example, has explicitly embraced “national security” export controls on China regarding technologies that “improve the speed and accuracy of its military decision making, planning, and logistics.” This would include vast sectors of U.S. manufacturing and exports involving research and communication tools with predominantly civilian uses.



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De-risking is also certain to address a variety of *economic risks*.

The G-7 communiques focus especially on risks to “economic resilience and economic security.” De-risking includes taking whatever economic steps a country deems appropriate to diversify supply chains, reduce excessive dependency on Chinese supply chains, and resist economic coercion.

What is De-risking?

- In a business context the steps to make (something) less risky or less likely to involve a financial loss.
- For business this could mean cutting ties and lessening relationships with categories of customers that are considered “high-risk”.
- Companies may stop supplying goods or services to high-risk customers and may even choose to cease business with these customers.
- Companies may also choose to restrict the goods and services provided to high-risk customers carefully monitoring them and subjecting them to special conditions.

De-Risking

- De-risking can be defined as the phenomenon of companies terminating or restricting business relationships with customers or categories of customers to avoid rather than manage risk.
- The risk referred to in de-risking is a customer who could pose a higher-than-average risk of Sanctions or Export Controls or that processing supplies might result in a breach of money laundering regulations.
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De-Risking

What's driving De-risking?

01 National security risks

02 Economic security risks

03 Complexity of Sanction and Export control compliance

04 Change in Policy and/or risk appetite

05 Perceived risk is greater than the expected value of the business

06 Inadequate budget to support increased due diligence and monitoring activities

07 High-risk categories designated by regulatory and government agencies

08 Hefty fines

De-Risking

Potential benefits of De-risking:

Improved strategic decision-making due to ability to identify risks and cost of doing business in different jurisdictions.

Increased visibility into the company's processes along with increased business efficiency.

More transparency and clearer accountability.

Dynamic risk assessment framework to continuously identify emerging risk.

Robust early warning mechanism to alert the management on significant issues at an early stage.

Strong change management framework to stay current and upbeat with the emerging trends.

De-Risking

Geopolitics have redefined supply chains companies should consider using enterprise risk management framework or the ISO 31000 Risk Management framework to de-risk their supply chain from any of the risk drivers mentioned above to gain a competitive advantage whilst ensuring compliance with regulatory risks.

We have a dedicated team of supply chain, tax, trade, and risk experts who can help you evaluate any de-risking strategy been planned

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