Risk Management Strategies for Customs Brokers

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ABSTRACT

Agents of International trade include how they create and uphold documentation requirements and how Government regulations must also be followed if doing so is necessary for operational efficiency and client satisfaction. This study examines how customs brokers have adopted four categories of risk: documentation error, regulatory compliance and legal risk, and operational risk. It also examines how the application and execution of different strategies by these customs brokers result in an increase in operational and client satisfaction through an increase in risk management effectiveness through various data analyses. Data were collected from fifty (50) customs brokerage employees using a five (5) point Likert format questionnaire and then subjected to statistical analyses, such as percentages of responses, one-way ANOVA and chi-square. The statistical analyses and data support the following conclusions: that documentation errors were the predominant issue (80% affirmation); that the impact of the application and execution of risk management practices upon client satisfaction and operational operations by customs broker/forwarders at 80% affirmation; that there is a high amount of technology adoption by customs brokers, particularly with the use of ICEGATE, but a lack of use and/or awareness of EDI and RMS; and that, across all ages and years of experience, customs brokers have a similar perception of the impact of risk management, indicating that there is a consensus in the industry on the subject of risk management. Furthermore, documentation discipline, regulatory compliance and strategic use of technology are critical components of effective risk management within the Indian customs brokerage industry, and therefore it is recommended that future studies continue to examine what aspects of documentation discipline, regulatory compliance and strategic technology use can improve risk management within the industry.

KEYWORDS: Risk Management, Customs Brokers, Customs House Agent (CHA), ICEGATE, CBIC, Documentation Compliance, EDI, RMS, International Trade, Customs Clearance, India

INTRODUCTION

India's customs brokerage industry is located in the nexus of worldwide commerce; law-abiding rules about product delivery; plus managing how things move. Customs Brokers are licensed by the CBLR and are managed by the CBIC. Customs brokers, often known as Customs House Agents (CHA), are legally appointed middlemen between importers and exporters and government agencies. A customs broker must prepare and submit various documents that support customs clearance - e.g., a bill of lading (BOL) or an air or ocean waybill (AWB), the Bill of Entry for an import shipment and the Shipping Bill or export Declaration for an export shipment - into the ICEGATE electronic gateway system, the Indian government's electronic customs clearance system.

Customs brokers assume risks when engaging in international trade because of two complicating factors: document errors consistent with changes made by countries; and global shipping has numerous exposures and therefore has a need to develop risk mitigation plans. For example, cargo detention, financial penalty, license suspension and reputational impairment are all outcome-based risks. If customs brokers do not have risk mitigation plans or systems in place, the outcome of the aforementioned outcomes, not only impacts the customs broker but also has negative consequences on their respective importer and exporter customers.

Ultimately, risk management is more than just a compliance issue; it must be seen as an important and essential business competency. Successful customs brokers use risk management and risk mitigation methods and processes to expedite clearance, minimize penalties, build strong relationships with their customers and have a competitive advantage in the marketplace. Furthermore, many customs brokers will take advantage of their ability to utilize EDI to augment their operational risk management program. The increasing level of digitization in customs processing, coupled with the development of the CBEC-GST Risk Management System, will help support customs brokers in achieving their business goals and objectives through the utilization of effective risk management strategies and processes.

PROBLEM IDENTIFICATION

Although the need for risk in customs processing is now widely recognized, brokerage houses still find themselves making mistakes in documentation, breaching regulations, and encountering operational difficulties. The major obstacle here does not lie in the lack of existing procedures; rather, it lies in the gap between professional knowledge of how risk should be managed and its implementation.

Dimensions of the major problems in question include the following: (a) numerous cases of document-related mistakes which impede clearing operations and lead to additional fines; (b) underutilization of electronic tools, such as EDI and RMS, owing to ignorance and unawareness of their potential; (c) ineffective training courses; and (d) financial risks caused by miscalculations in duties and compliance problems.

REVIEW OF LITERATURE

Risk management it is very important for customs brokerage. More recently, trying to understand the relationship between the digitalisation of global trade, the increasing complexity of regulatory frameworks, and how customs brokers can leverage effective means of mitigating compliance related business risks has been the focus of a growing number of researchers in academia (Akhtar & Bhattacharya, 2020). According to Akhtar and Bhattacharya (2020), customs procedural complexities found within many developing countries within the global economy are a major contributor to increasing trade intermediary compliance costs and risks, and there is a compelling need for institutions involved in customs brokerage to implement structured risk management frameworks (RMS**).** Kumar and Pillai (2021) provide evidence to demonstrate that the adoption of technology, specifically through implementing electronic systems for filing trade documents, significantly reduces the chance of documentation errors and positively impacts cargo clearance time within India's ports by highlighting the role of ICEGATE and EDI in this process.

In studying the impact of compliance protocols on regulatory penalties, Rajendran and Selvam (2022) found that customs brokers who use standardised compliance protocols experience lower levels of regulatory penalties than customs brokers who use informal compliance practices. In addition, Basu and Ganguly (2022) reported a measurable reduction in the frequency with which customs inspectors were required to inspect inbound cargo at India's top 11 cargo ports when RMS is used to determine whether or not a shipment is a compliant shipment, thereby allowing customs brokers to expedite the clearance process for compliant cargo.

Singh and Mehta (2023) provided evidence to demonstrate that the use of internal controls, specifically through the use of dual verification processes and audit trails, reduces the likelihood of experiencing fraud and misdeclaration risks when performing customs transactions.

On an international scale, Widdowson (2021) (referred to in the previous section) cites the need for an effective customs risk management system to take a systemic approach in integrating technology, the competency of employees, and regulatory compliance. This study incorporates Widdowson's perspective through the systematic design of the study and its methodology. Mohanty and Panda (2023) also provide data and opinions about the effectiveness of risk management systems.

CONCEPTUAL FRAMEWORK

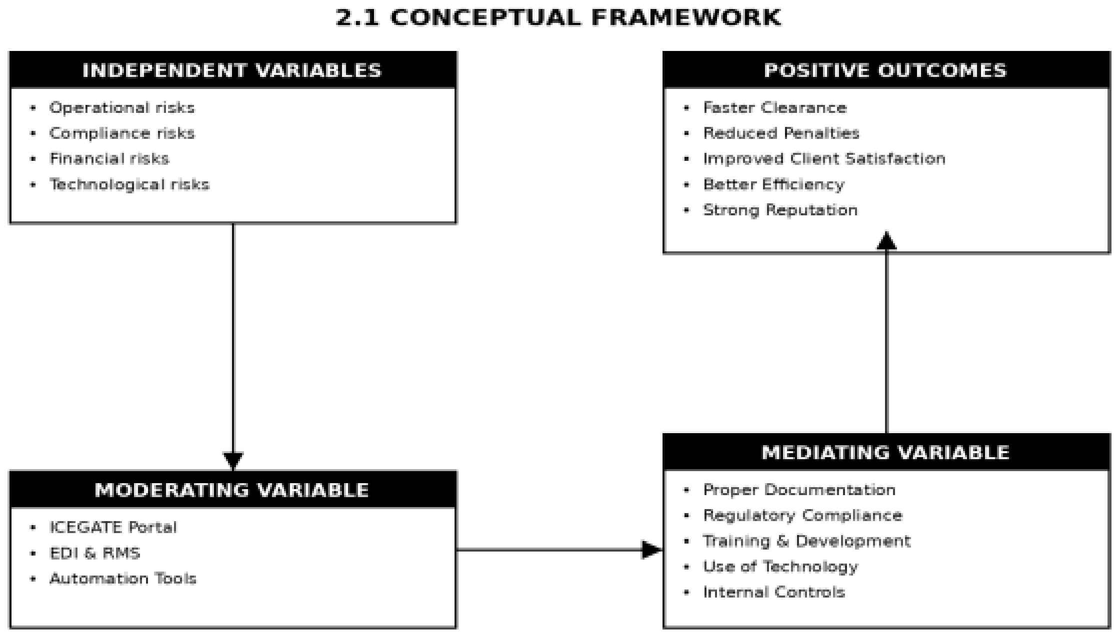

Figure 1

RESEARCH METHODOLOGY

This was a quantitative descriptive study. Primary data was collected from a structured questionnaire sent to 50 participants who work for Customs Brokers in Chennai, India. Due to accessibility, the researchers used convenience sampling for the study, which they deemed sufficient for exploratory academic research. The questionnaire contained 21 close-ended questions utilizing a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree).

The criteria for each question grouped together in one of four main subject areas: risk awareness, technology adoption, risk management strategies, and the results of risk management. Secondary data was sourced from the Customs Act of 1962, CBIC notifications, CBLA of 2018, scholarly journals, and commercial publications.

Data analysis included the use of statistical methods to determine demographic profiles; One-Way ANOVA was utilized to determine differences in perceived experience based on different levels of experience; and Chi-Square tests were used to determine how age differences correlated to perceptions of risk management. All data analysis was performed through SPSS. The study spanned a period of 3 months and strictly adhered to ethical guidelines such as confidentiality and voluntary participation.

DEMOGRAPHIC PROFILE OF RESPONDENTS

Demographic Profile of Respondents			
Demographic Variable	**Category**	**Frequency**	**Percentage**
Age Group	Below 20	5	10%
	20 – 30	24	48%
	30 – 40	18	36%
	40 & Above	3	6%

Years of Experience	Less than 1 year	4	8%
	1 – 3 years	17	34%
	4 – 7 years	20	40%
	More than 7 years	9	18%

Most of the people who answered the survey (48%) are between 20 and 30 years old, which suggests that customs brokerages use mainly young workers at an early stage of their careers. Also, 40% of respondents have 4 to 7 years of experience and make up the largest group, with 34% having 1 to 3 years of experience. Because there is a significant representation of people with operational experience in customs brokerage, this data should provide credible insight into their views on risk management for customs brokerage processes.

KEY FINDINGS AND ANALYSIS

PERCENTAGE ANALYSIS – SURVEY RESPONSE SUMMARY

Key Survey Response Summary (N = 50)		
Survey Statement	**Agree / Strongly Agree**	**Key Insight**
Documentation errors are a major challenge	80%	Highest in Section I
ICEGATE is regularly used for customs processes	74%	High platform adoption
Technology helps in faster decision-making	74%	High agreement
Risk management improves client satisfaction	80%	Highest in study
Technology plays a crucial role in risk management	66% (38% Strongly Agree)	Highest Strong Agree
Risk management strategies improve overall performance	72%	Strong validation
EDI and RMS systems improve efficiency	40%	Awareness gap identified

According to survey results, has/users perception and impact of risk management by way of documentation errors has been shown to be a serious/critical operational issue with 80% of participants agreeing or strongly agreeing is the highest percentage (compared to social media) in Section I of the survey which also supports the literature about custom brokering generally With respect to the adoption of technology; ICEGATE has been integrated and there is 74% agreement with respect to technology enabling faster decision-making. However, a considerable gap exists between EDI and RMS systems utilization – only 40% agreed that it is improving efficiency, which is the lowest percentage in the "Technology" section and 50% had a neutral response in the "Whole Survey". While familiarity exists for these systems the relative levels of confidence lack, suggesting that this is a result of inadequate training and/or development, not due to a lack of available or suitable technology.

One-Way ANOVA – Risk Management Perceptions Across Experience Groups

One-Way ANOVA Results (Independent Variable: Years of Experience)					
Dependent Variable	**Sum of Squares**	**df**	**F Value**	**p-value**	**Result**
Risk management → Faster customs clearance	6.508	3	2.311	0.089	Not Significant
Risk management strategies → Broker performance	4.160	3	1.816	0.157	Not Significant

Using one-way ANOVA tests, we checked to see if there were significant differences in professional perceptions of risk management outcomes among different levels of professional experience (less than 1 year, 1-3 years, 4-7 years, and greater than 7 years). For our hypothesis that risk management reduces the amount of time it takes to process shipments through customs (H1), we found that $F(3, 46) = 2.311$, $p = .089$ was not significant based on the .05 cut point. Therefore, we accepted our null hypothesis, indicating no difference in risk management between levels of professional experience. Most notably, the group with the longest amount (greater than 7 years) of professional experience had the highest mean (4.556), leading us to conclude that the more experience professionals have with risk management processes in terms of having been involved with these processes, the more confident they are in the benefits these processes will provide operationally.

therefore, the null hypothesis was accepted. Again, the group with the longest amount of time (greater than 7 years) had the highest mean (4.222), while the group with the least amount of time (less than 1 year) had the lowest mean (3.000). Even with the differences in means, the overall results suggest that positive perceptions of risk management outcomes exist across all four groups of professionals; this supports the idea that there is a consensus within the profession that risk management processes are an effective way to manage risk.

CHI-SQUARE TEST – RISK MANAGEMENT PERCEPTIONS ACROSS AGE GROUPS

Chi-Square Test Results (Independent Variable: Age Group)				
Dependent Variable	**χ^2 Value**	**df**	**p-value**	**Result**
Risk management → Faster customs clearance	2.844	6	0.828	Not Significant
Risk management strategies → Broker performance	8.126	6	0.229	Not Significant

The Chi-Square test results show that age has no effect on how effective people think risk management is at speeding up customs clearance, $\chi^2(6) = 2.844$, and $p = 0.828$ does not demonstrate a statistically significant link between risk management effectiveness and one's age group. The results show that agreement is the most common response for all the age groups; and the greatest level of agreement occurred for the 20–30 and 30–40 ranges of age. Thus, those who believe that risk management can have an impact on operational performance have a shared understanding of this, and that does not depend on age.

The analysis of whether respondents age groups believe that risk management strategies will improve the performance of customs brokers produced the following results: $\chi^2(6) = 8.126$ and $p = 0.229$. Although the 20–30 age group had the highest level of support (19/24), there was not enough difference in responses from the other age groups for any of the differences between the age groups to be statistically significant. Additionally, this series of Chi-Square test results shows that all employees (regardless of their demographic background) had a shared and positive perception of risk management.

FINDING

- The continued presence of and ongoing difficulty with Document Management (Documentation) is an example of a significant operational risk where both lack of management controls, such as standardized checklists and verification processes, and also introducing technology-based tools like electronic filing systems for building-in error prevention into workflows can provide potential solutions.
- There still exists a large gap between the current level of adoption of technology by customs brokers in relation to using ICEGATE at the company levels and the limited extent to which firms are utilizing EDI and RMS as advanced technology applications. Overall, there appears to be a lack of substantial engagement by customs brokers at the intermediate-level by using technology-based infrastructures as risk management applications and therefore have yet to fully embrace EDI and RMS as advanced risk management application tools.

SUGGESTIONS

- The customs brokers should adopt digital documentation checking system, using standardized checklists and double-check processes to minimize documentation mistakes at their very origin.
- The organizations must organize systematic training for each role on the EDI and RMS systems to overcome the recognized gap in the use of technology and leverage their benefits.
- Periodic review meetings must be held to ensure that all employees are aware of CBIC notices, CBLR changes, and DGFT trade policies.
- Solid internal controls, involving audit checks, supervisor's monitoring, and digital records storage, must be adopted to avoid any fraud and violations.

CONCLUSION

The present paper reveals that risk management is one of the critical functions within the framework of Indian customs brokerage operations. The results obtained at Customs broker., Chennai reveal that despite high levels of employees' risk awareness, certain problems associated with the use of advanced technologies and strict documentation management still hinder the performance of customs brokers.

The problems related to documentation management appear to be the main issue, while client satisfaction seems to be the main result of proper risk management in this organization. In addition, consistent results revealed in ANOVA and Chi-Square tests show that there is a universal understanding of the significance of risk management among all age and professional groups. This peculiarity can be viewed as a valuable organizational culture that should be used for developing formal risk management systems.

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