

Risk Management for Language Service Providers

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Risk Management for LSPs

- Typical types of risk
 - Non-payment
 - Cash flow Counterparty/credit risk
 - Reputational risk

 - Foreign exchange Market risk

 - Other business risks Operational risk

Risk Management for (Financial) Translators

- Managing risks

General

- Defining risk tolerance / risk strategy

Risk-specific

- Recognizing / capturing...
- Quantifying... (if possible)
- Mitigating / hedging...
- Handling...

RISK

Defining risk tolerance / risk strategy

- Key questions
 - Am I prepared to accept risk?
 - How much can I afford to lose?
 - ...in absolute terms
 - ...as a percentage of overall income
 - ...as a percentage of profit margin

*Taking risks is ok –
as long as you are aware of them!*

Defining risk tolerance / risk strategy

- Key issues
 - The cost of being risk-free
 - “Will I lose customers if I demand payment in advance?”
 - Is it ok to do nothing?
 - Deciding **not** to hedge **is** a form of active management

*It's not always worth taking action –
considering your options always is.*

Counterparty/credit risks

Recognizing risk

Would you be prepared to lend money to a stranger you just met on the internet?

No?

Strangely, by working for unknown customers without prepayment, many LSPs do just that.

Counterparty/credit risks

Recognizing risk

- New customers
 - Anonymous e-mail accounts
 - Lack of detail
 - Inconsistent details
 - ‘Top urgent’ jobs
- Existing customers
 - Abnormal payment delays – strange excuses
 - Other unusual behaviour

Example: How to read 'tell-tale' signs

- Details of a job posted on ProZ.com:

URGENT DE>EN

*I need help translating 3 .doc files (1532, 690 and 264 words) by 20.00 German time this evening. Two translators could perhaps share the workload?
ONLY NATIVE SPEAKERS PLEASE!!!*

Please contact the outsourcer by email: Katharina.Gloeckler@lycos.de

Contact person: Katharina Gloeckler

Address: Hans-Baumann-Straße 35, Berlin, 01199

Phone: +49 30 569822

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(IP data revealed that the job was posted from the UK.)

Counterparty/credit risks

Quantifying risk

- Estimated/expected job volume
- Probability of default
 - Risk = Job volume * PofD
- Own work vs. outsourced work
 - Financial exposure when outsourcing
- Do you **really** want to accept dubious jobs?

Counterparty/credit risks

Mitigating risk

- Obtaining and verifying information
 - Payment practices lists
 - ‘Whois’ data
 - Other sources of reference
 - IP headers

Counterparty/credit risks

Mitigating risk

- 'Whois' data
 - Domain data
 - Domain owner
 - Registration date / last update
 - Admin contact
 - <http://www.internic.com/whois.html>
 - <http://www.uwhois.com/domains.html>

Counterparty/credit risks

Mitigating risk

- Checking IP header data

Return-Path: [sender email address]
X-Flags: 0000
Delivered-To: [your provider] to [your address]
Received: ([provider XXXX] invoked by uid XXXXX); [date] [time] -0000
Received: from server (EHLO name server) (IP address)
by [server] (XX) with SMTP;); [date] [time] +0100
Received: from XXX by [server] with local (data of server))
id XXXXXXXXXXXXX
for <your email address>;); [date] [time] +0000
To: your email address
Subject: [subject]
From: sender email address
Reply-To: sender email address
Message-Id: <XXXXXXXXXXXXXXXXXX>
Date:); [date] [time] +0000

Counterparty/credit risks

Mitigating risk

- Minimum details
 - Contact details
 - Job details
 - Job description and details
 - Delivery deadline(s) – date and time (including time zone)
 - Price and price definition (source vs. target, word/line/character count, including convention)
 - Payment terms

Counterparty/credit risks

Mitigating risk

- Prepayment
 - 20-40% down payment upon job placement
 - Competitive pressures vs. risk exposure
- Partial deliveries
 - Invoicing for each project stage

Counterparty/credit risks

Handling risk

- Dealing with risks which have materialised
 - Staying in touch, setting deadlines
 - Collection procedures
 - Dealing with cash-flow problems resulting from non-payment

Resources – IP/URL check

‘Whois’ checks:

<http://www.geektools.com/whois.php>

<http://www.whois.net/>

<http://www.swhois.net>

<http://www.internic.com/whois.html>

IP to location:

<http://www.geobytes.com/IpLocator.htm?GetLocation>

<http://www.ip2location.com/free.asp>

<http://www.location.com.my/free.asp>

Resources – Company data

International company details:

<http://www.sireh.com/>

UK company details:

<http://www.companieshouse.gov.uk>

Validation of EU VAT IDs:

http://europa.eu.int/comm/taxation_customs/vies/en/vieshome.htm

Resources – Phone directories

Telephone directories:

<http://www.infobel.com>

<http://www.whitespace.com>

<http://www.infospace.com>

<http://www.pronto.it/elence/query.php>

<http://www.teleauskunft.de>

...

Foreign exchange risks

Recognizing risk

“I always invoice in my base currency.
Therefore, I’m not exposed to FX risk.”

Really?

Exchange rate fluctuations can affect your competitive position, even if you are not directly exposed.

Foreign exchange risks

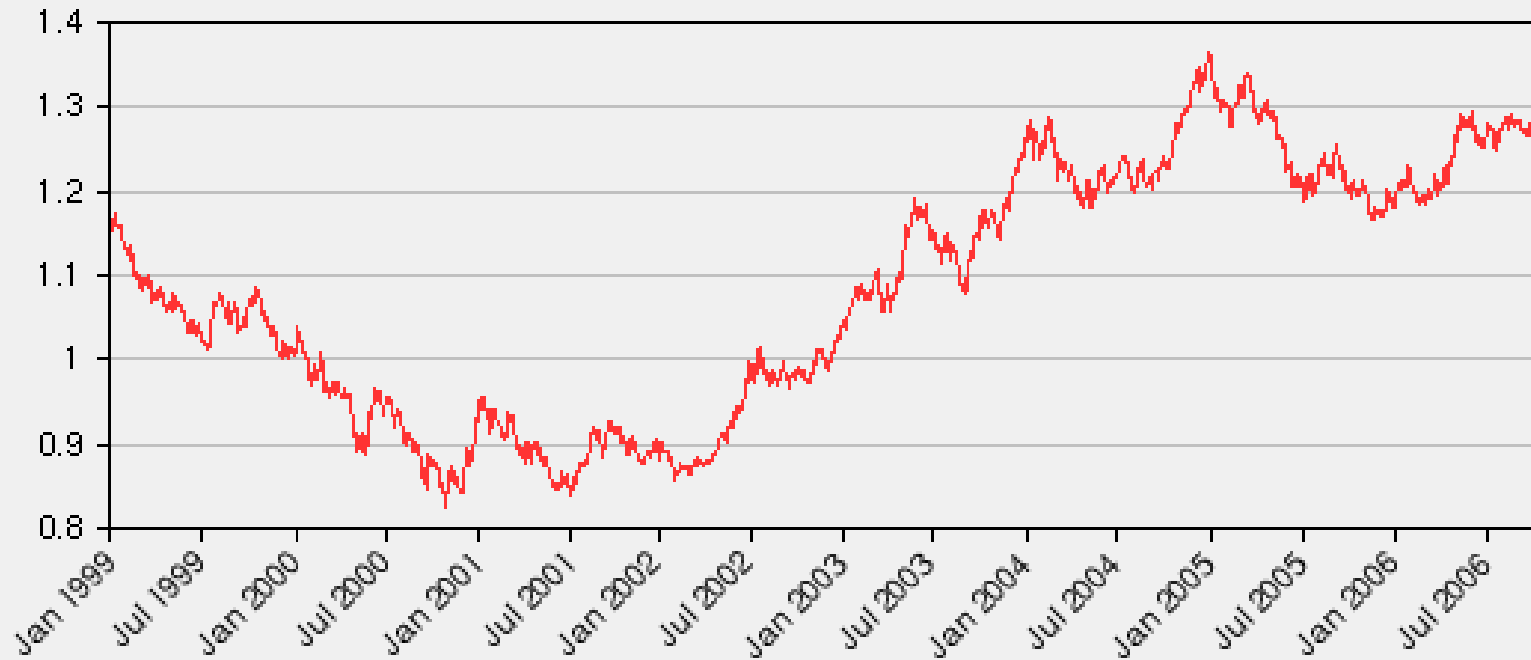
Recognizing risk

- Direct FX exposure
 - Gains or losses on foreign-currency revenues
- Indirect FX exposure
 - Competitive advantages/disadvantages as a result of exchange rate fluctuations

USD-based translators have enjoyed an advantage – but will the party last?

EUR/USD rate 1999-2006

European Central Bank (c)1 999-2006



Min=0.8252 (26 Oct 2000) - Max=1.3633 (28 Dec 2004)

Foreign exchange risks

Quantifying/hedging risk

- Quantifying exposure
 - Base currency: USD
 - Projected euro revenue (12 months): € 25,000.00
 - Estimated risk:
 - € 25,000 @ 1.2900 (current) USD 32,250.00
 - € 25,000 @ 1.4835 (€ +15%) USD 37,087.50
 - € 25,000 @ 1,0965 (€ -15%) USD 27,412.50
- Downside: USD 4,837.50**

Foreign exchange risks

Quantifying/hedging risk

- Hedging tools available
 - Currency futures
(e.g. CME E-mini Euro FX Futures)
 - Currency warrants
 - OTC options
- Hedging issues
 - Quality of revenue projections / market forecasts
 - Basis risk due to mismatched maturity/expiry
 - Mismatch of exposure vs. hedge ('tail')

Other business risks

Recognizing risk

Message received from a client:

“Urgent translation – highly confidential!”

The message (with a highly sensitive file concerning an unannounced takeover offer) was sent by unencrypted e-mail.

Who do you think will get the blame if there is a leak?

Other business risks

Recognizing risk

- Operational risk – loss exposure due to...
 - Systems failure
 - Human error
 - Breach of confidentiality
 - Legal issues
 - ...

Other business risks

Capturing risk

- Areas requiring scrutiny
 - Systems integrity (including data transmission)
 - Systems reliability
 - Human error
 - Breach of confidentiality
 - ...

Current development: Insider Lists

- EU Market Abuse Directive, Article 6 (3):
*“Member States shall require that issuers, or persons acting on their behalf or for their account, **draw up a list of those persons** working for them, under a contract of employment or otherwise, **who have access to inside information**. Issuers and persons acting on their behalf or for their account shall regularly update this list and transmit it to the competent authority whenever the latter requests it.”*

Current development: Insider Lists

- Impact of insider legislation on financial translators
 - Regular access to inside information, particularly when working on financial statements, annual reports, etc.
 - Insider Lists create a direct link between regulatory authorities and translators

Current development: Insider Lists

- Impact of insider legislation on financial translators (ctd.)
 - Translators are responsible for maintaining integrity

Relying on your client to take precautions simply isn't good enough.

Other business risks

Mitigating risk

- Contain and reduce exposure by...
 - Taking appropriate precautions
 - Using proper documentation
 - Being (at least) one step ahead of your clients
 - ...

Avoiding risks in business is impossible.

Managing them is the key to success.

Contact details

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