

Report

Different types of risk in Saudi Arabia Aramco and How they Manage these Risk

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Different types of risk in Saudi Arabia Aramco and How they Maje these Risk

Aramco is known for its progressive R&D ambitions and connections to Saudi sovereignty, but even according to accounts of Bloomberg, the world's most profitable corporation, is a state-owned national oil and natural gas company in Saudi Arabia.

Last week, before it's pending IPO Saudi Aramco filed its recent prospectus. It is potentially the biggest in history, but there are a few risks. Recently, before its grand IPO this year, which is expected to transform its history, it filed an investment prospectus containing all information, risks and figures.

According to record the company face top four risk i.e. explaining below:

1. Armed conflict (Attacks):

First of all, while Crown Prince Mohammed bin Salman has recently estimated a value of Aramco of \$2 trillion, the estimated estimates are not always straight forward. Firstly, a valuation is not listed in the prospectus itself.

The armed war, with the firm as state owned in the middle of a drone attack zone, is one of the many risks listed. A 20% rise in oil prices per barrel has resulted in recent attacks. More Aramco attacks "may have a significant adverse impact" in the future.

2. Climate change:

Secondly, climate change is on the agenda of prospective businesses, which makes sense, of course, as a natural gas company. Global protests, environmental protection, and carbon footprint are all components that may or may not impact the cumulative success of the advancement of Aramco's transactions.

According to climate change Aramco, peak oil production has always been on the horizon. The introduction of renewables and the change away from fossil fuels are a verified future and may also pose a challenge to Saudi Aramco 2020's overall profitability.

3. Political and social instability:

Because of the significance of the company's global position, there are still large risks. The Middle East and North Africa are heavily affected by political agendas and

uncertainties affecting the area and potential figures for Saudi Aramco may be similarly uncertain provided the role of the Suez Canal and Hormuz Street in their vital shipping operations is stated in even the prospectus.

4. Government ties

Government ties are the fourth mostly on ranking. In short, Saudi Aramco, a state-owned firm, is a leading GDP, general development and economic health company in the country. If the Saudi government needs to adjust its tax policy unexpectedly, it will have to pocket more Aramco's revenues, impacting future investment opportunities.

Likelihood and Impact:

All of these risk have a great impact. We can analyze its impact and likelihood from the below chart.

Low					
Medium					
High					
Likelihood	Impact				
		1	2	3	4
	1	1	2	3	4
	2	2	4	6	8
	3	3	6	9	12
	4	4	8	12	16

Risk management in Aramco:

Aramco safety specialist uses risk control processes for challenges avoidance and solutions. This is part of an ongoing appraisal, priority and input process. The priorities or circumstances of the external environment can shift at any stage in this phase to enable a company to be agile in its response to evolving risks.

For Aramco, risk assessment is important. **It's better to develop one that will come into one or more of the above categories while designing a risk management approach i.e.:**

Risk Avoidance:

Aramco is free to refrain from unacceptable risk-taking practices. For example, they have been given an office that is used by a chemical supplier, when attempting to start up a subsidiary in a foreign area. As it does not know what risk to the environment is caused by the site and does not want to take responsibility for the cleanup, it will intend to move the damage to the site, even though no other suitable property is available. In the other hand, prevention is not possible in all situations for a practitioner. Discontinuation of all travel companies due to the possibility of removal basically involves give up a chance to profit from industry worldwide.

Risk Reduction:

Risk may be discussed by the exploration for strategies to decrease the seriousness or probability of failure.

Risk avoidance is by certain practices. For example, because software production was only delivered in the final development process, it has become incredibly dangerous. Today, software is increasingly built and delivered so that accuracy checking can be carried out before the next step is taken. Finally, Aramco reduce risk by outsourcing functions to those who are more skilled or to those who can demonstrate an ability to manage or reduce risks. These specialists know the risks involved in international shipping and have the expertise required to reduce or eliminate many of those risks.

Risk Transfer:

As also occurs in many Aramco projects, the administrator takes all risks associated with defective equipment. Risks can often pass through contracts. Other ways of transfer of financial liability to another include hedging plans, future contracts and derived goods. Risks can also be pooled and a party can decide to distribute risk around the participants, and all members agree to the restitution if any of them experiences a loss.

Risk Retention:

Organizations may choose to assume those risks and subsequent losses. Retention refers to a risk of failure or injury presumption. This illustrates how a party typically handles the risk of a business.

Insurance companies also have to make a decision about which risks to retain. Risks they choose not to retain are transferred out via a reinsurance policy. Instead from transferring the risk to an insurance company through the procurement of insurance, the person or agency assumes responsibility for a specific risk they face. This means that the person or company has opted to cover the losses out of pocket rather than buy premiums as a means of shifting the financial responsibility of the loss to the third party.