Third Party Risk Management
Managing Risks in Your Extended Enterprise
Why Is Third Party Risk Management Important?

“It is not a new concept for organisations to engage with third parties for the provision of products and services, so why has third party management become so important?”

Organisations in regulated industries continue to rely on the extended third parties to enable mission critical services, which in turn, can increase business exposures. With heightened and reinforced regulatory expectations in third party management, it is imperative to have capabilities at hand to continuously monitor and manage third party risk and performance.

There are a number of factors driving organisations to place increased importance on third party risk which can be broadly grouped into the following areas:

- Regulation
- Market condition
- Reputational impact
- Technology
- Overseas providers
- Specialist supplier
More Than Enterprise Risk Management
Your enterprise risk goes beyond the ecosystem in which your organisation operates.

A network within a network...
Your enterprise risk goes beyond the ecosystem in which your organisation operates, because your success is dependent upon a complex network of your third-party relationships.
Why are third party risks important?
There are a number of factors driving organisations to place increased importance on third party risks.

**Regulation**
- Increased focus on third party risk by global regulators

**Market Condition**
- Global recession driving outsourced operations of core and non-core activities

**Reputational Impact**
- Required ability to proactively identify potential supplier/vendor delivery/performance/contractual failure before they happen

**Technology**
- Enhancements in technology, leading to data being shared and/or stored in the cloud

**Overseas Providers**
- Increasing use of offshore outsourcing and supplier networks, leading to increased level of regulatory risk

**Specialist Suppliers**
- Organisations’ reliance on products/services from specialist suppliers
Engaging Third Parties in Your Critical Services

Third parties engaged to enable your mission critical services can increase your business exposures. Heightened regulatory expectations require you to continuously monitor and manage your third party risk and performance.

Common third party risk drivers
- Regulatory non-compliance
- Non-performance by third parties
- Lack of ownership internally
- Lack of visibility
- Contract’s lack key clauses

Types of third parties
- Supply side
  - Sourcing & procurement
  - Vendor management
- Operations
  - R&D
  - IT
  - Facilities management
- Your organisation
- Cost base
- Revenue
  - Licensees
  - Distribution
  - Sales
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Managing Risks in Your Extended Enterprise

Third Party Risk Categories
Risks associated with third party relationships are scattered across the various segments of your business.

Risks Categories

<table>
<thead>
<tr>
<th>Financial/Reputational</th>
<th>Risk that the third party will have a detrimental effect on the financial success or reputation of the entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational</td>
<td>Risk that the third party will cause disruption to the operations of the entity</td>
</tr>
<tr>
<td>Legal and regulatory</td>
<td>Risk that the third party will impact the entities and/or the third parties compliance with local legislation, regulation or the agreements in place between the parties</td>
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</tbody>
</table>
Common Third Party Risks
Third party relationships carry key risks that may have significant impact on your business operations.

Resilience
There are no checks to ensure that business continuity plans have been completed and tested.

Solvency
There is no business-wide ongoing monitoring of third parties solvency and therefore there is limited visibility of third party solvency and financial viability.

Security
The business does not have adequate visibility as to whether third parties are compliant with physical and information security policies, some of which are client requirements. This can increase with further outsourcing.

Regulatory
There is no central visibility of third party compliance with data protection act requirements, this increases the risk of breach by third parties, for which the business may be liable.

Corporate Responsibility
There are no processes in place to consult with stakeholders from the corporate responsibility department in order to require third parties to protect the business’ brand and compliance with issues such as the SGX Sustainability Reporting Guide.

Health, safety and environment
There are limited processes to require contracts to include health and safety standards or requirements, the lack of which may expose the business to HSE claims.

Intellectual property
Contracts are not consistently passed through IP or legal teams to protect our intellectual property from theft or misuse by third party suppliers.

Billing and performance
There is limited ongoing monitoring of supplier compliance against contractual terms and conditions. As a result, suppliers may be raising inaccurate charges or failing to meet performance standards through contractual non-compliance.

Integrity
There are no processes in place to:
• Ensure AML, KYC, CDD clauses are included within contracts.
• Conduct supplier due diligence.
• Ensure audit rights are inserted into third party contracts.
• Inspect on-going compliance with policies.

As a result there is potential exposure to legal prosecution in the event of a breach by a third party supplier.
# Common Concerns on Third Party Risk Management

| Affiliates                                                                 | • How should affiliate relationships be assessed and managed in the same way as external third parties?  
|                                                                          | • Are any risks not relevant/heighted in an affiliate?  
|                                                                          | • Can risks posed by affiliates be assessed centrally and use results of IA reports?  
| Subcontracting                                                          | • How do you identify subcontractor relationships?  
|                                                                          | • Do you approve the terms of subcontractor engagement?  
|                                                                          | • Do you assess a subcontractor directly or get assurance around how a third party assesses its third parties?  
| Criticality                                                              | • How do you define ‘critical’?  
|                                                                          | • How do you identify critical services/third parties?  
|                                                                          | • What is the impact of critical services on your business?  
| Completeness                                                             | • How do you identify the full third party population?  
|                                                                          | • How do you identify what services those third parties provide?  
|                                                                          | • How do you locate all of the contracts with third parties?  
| Role of Internal Audit                                                   | • What involvement should IA have in framework design?  
|                                                                          | • Should IA teams undertake third party inspections?  
|                                                                          | • What third party risk audits are on your IA plans?  
| TPRM technologies                                                       | • What are the key requirements for a TPRM solution?  
|                                                                          | • How do you determine if we should ‘buy’ or ‘build’ a solution?  
|                                                                          | • How could external market solutions provide support?  

How Deloitte Can Help You
We are ready to support you in your third party management effort in these areas to enable benefits realisation.

Assess the design and implementation of your enterprise risk management program and operating model, incorporating third party risks and responses

Conduct due diligence, third-party assessments and proactively review your risks and opportunities, and regular checks on your responses to risks

Leverage technology, innovative analytics and tools to transform and continuously enhance your third party risk management practice

Review and enhance your third party relationships to identify potential cost savings

Benefits

More visibility into environment, operation, or performance of third parties
- Complete understanding of risks associated with third-party relationships
- More effective means of assessing and monitoring third-party performance, contractual obligations and expected deliverables
- Ability to manage or reduce dependency on a large number of third parties for business operations across multiple geographies

A holistic view of key processes and controls
- More visibility and effective oversight over third-party
- More effective control over third-party access to sensitive data

Optimised use and integration of data and technology
- Optimized use of integrated systems, data repositories, or information sources in managing your third party risk management framework and process
- More effective use of quantitative information in decision-making related to the extended enterprise
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