Focus on 5

5 questions about Marigold automated due diligence

An interview with Marshall Billingslea, managing director, Deloitte Financial Advisory Services LLP.

The supply chain of a large multinational company can comprise tens of thousands of vendor relationships. Vetting current and potential business partners to determine their compliance with expanding regulations around the world, including any past or present sanctions, is practically infeasible using long-established manual processes; the breadth and depth of data to be gathered and analyzed are simply overwhelming. Automation of third-party risk assessment and monitoring can help lighten the weight of due diligence, while capitalizing on companies' opportunities to use risk insights to power their organizational performance.

**Why is automation of third-party due diligence needed now?**

In today’s fast-paced and increasingly global business environment, companies need the ability to tap disparate data sources quickly to support “can we trust this vendor” decisions. During due diligence, a current or potential third party can pop up as a politically exposed person (PEP) or appear on a list of restricted, debarred or sanctioned people and enterprises. Different nations and institutions such as the United Nations and World Bank can separately create lists and impose sanctions, which may or may not overlap. It can be difficult to find a piece of data about a foreign counterparty, or data might be spread broadly across different sources. Time is short, risk sensitivity is high, and the resources required to aggregate and adjudicate information can be substantial.
Automation can help analysts conduct searches and investigations more efficiently by collecting relevant pieces of information and presenting them in an actionable and consistent manner while, importantly, continuously monitoring for new data. Deloitte’s proprietary, web-based Marigold due diligence solution, for example, automates risk assessment and monitoring through proprietary algorithms and an automated alert system.

Marigold incorporates and analyzes data from multiple subscription and publicly obtainable data sources to identify, assess and monitor third-party risk. Areas of discovery can include taking a deeper look at the goods and materials flowing to and from an entity of interest. Or, multimodal shipping data can be examined to learn what is being moved, from where to where, and when.

What types of information can automation solutions uncover and how can users act on that information?
A company conducting due diligence may want to know about the nature and intensity of media scrutiny facing a third party, or whether it is under sanctions in a country or countries. An automated due diligence solution can quickly discover and generate such information, as well as flesh-out the list of entities and executives that should be on the company’s radar. Along with helping establish a solid baseline for investigations, such data can be used to strengthen internal risk and compliance processes. Integrated into the company’s work stream, automation can help triage third parties as they onboard and flag those warranting further examination.

The changing nature of corporate structures is another consideration. Not only is a third party’s specific risk profile of concern, so are the profiles of its parent and other business units. Using automation and analytics to probe the corporate hierarchy can help identify organizational ownership and roles and reveal the broader scope of potential risks associated with a business partner. Findings can be summarized into an overall risk score, and focus areas can be identified. For example, data sources may reveal high potential for litigation or other legal actions.

Beyond supporting compliance, can due diligence automation provide other organizational value?
Historically, companies tended to regard regulatory compliance as simply a cost to bear and did little beyond the bare minimum required. However, as penalties for noncompliance have increased, along with the complexity of avoiding such sanctions, some companies have recognized the need to put more resources into compliance.

Some innovative companies are going even further, recognizing the potential for risk to drive organizational performance. The process of digging up information on third parties can add great value to other parts of the enterprise, for instance providing insights into a vendor’s financial health. While this information may be of only marginal interest to the compliance organization, the supply chain group may prize it, as a vendor’s financial condition could determine whether it can deliver components essential to the development of a customer’s end product.

Companies can also use their due diligence assessment methodologies and data for M&A purposes, such as determining whether to integrate parts of their supply chain horizontally or vertically. Third-party due diligence can also help a company stay abreast of competitor activities, such as moves that could signal an attempt to acquire a critical supplier.
What are the options for leveraging automated third-party due diligence?
Solutions such as Deloitte’s Marigold can be deployed either internally or as a cloud-based managed service. Cloud deployment can take advantage of leading-edge technology, scalability, and the finer-grained costing inherent in purchasing only the capacity needed. Alternatively, companies that are highly focused on security may choose to house data elsewhere, perhaps internally or with another trusted technology integrator.

How can a company amplify the benefits of automation technology?
Beyond implementation and configuration, human input is often valuable across the due diligence process. What should a company do when third-party risks are identified? What if a company is establishing a third-party due diligence capability for the first time or making major refinements to an existing due diligence process? Broad forensics and investigation capabilities are fundamental to fine-tuning the rule sets employed within the technology, as well as in setting up and operating the broader compliance program. Marigold, for example, leverages Deloitte’s decades of insights and experience derived from conducting due diligence investigations. Our collective knowledge helps train the system to ask pertinent questions, find the data sources to answer those questions, and capture needed information. When specific risks are identified, or as new risks emerge, we can help a company conduct additional, deep-dive investigations and supply chain risk assessments.

What future innovations might we expect in vendor due diligence?
Several aspects of the due diligence process are primed for improvement and expansion, notably integration with vendor management platforms and software. Rule sets can be refined, and additional data sources can be identified and developed. Also, applying additional analytics and machine learning to data can help improve both the due diligence process and the quality of information provided to decision makers.

My take
The scale and complexity of regulatory requirements facing companies continue to grow. To keep pace, companies should consider real-time, automated, algorithmic approaches to due diligence. Along with streamlining the due diligence process, automation can help company decision-makers cast a broad information-gathering net that encompasses other business functions. By doing so, they can become better equipped to focus limited enterprise resources.

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