



## **Gaining ground** **A digital path to third-party oversight**

Third-party risk management (TPRM) global survey 2021



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I am pleased to share with you our latest third-party risk management (TPRM) survey, now in its sixth edition.<sup>1</sup>

This year, we look at the pandemic's effect on the network of third-party relationships, known as the extended enterprise, both immediately and in the longer term. Despite the pandemic, organizations have gained ground in adapting to digital ways of technology and have started to manage a new breed of risks.

Our key findings are:



## 01. Many organizations are still responding to the pandemic

We expected that most organizations would have concluded their initial response to the pandemic. However, almost half were still in “respond” mode and still assessing where their organization was vulnerable due to third parties. Less than one quarter believed they had fully recovered and built adequate mechanisms to cope with the next disruptive event.



## 02. Risk intelligence is a key funding priority

Investment in creating a risk-intelligent third-party management and monitoring system is a key priority for organizations of every size and sector.

Organizations that have made limited investments in TPRM so far, or are smaller and more agile, see this as an opportunity to accelerate toward highly integrated and tech-enabled third-party management and monitoring in real time. Organizations that are bigger and more complex, or that have already invested heavily in TPRM, will expect to adopt a less radical approach. But they are likely to achieve interim benefits on their journey by improving business process and management information.



## 03. Digital risks are a top concern

More organizations cite digital risk as an urgent priority for the future over any other emerging risk. Digital risks are revealed as organizations and their third parties embrace increasingly digitized ways of working. Respondents recognize the risk of undesirable consequences of technology adoption and transformation.



## 04. Cost pressures are preventing insourcing

Pressure to reduce costs is increasingly conflicting with the desire for better risk management. Overall, the need to manage costs is stopping many organizations from bringing important outsourced business activities back in-house (insourcing), despite new risks and resilience challenges. It should be noted

that many organizations outsource to access skills they do not possess themselves (or for better quality) as opposed to just reducing cost.

I hope you enjoy reading this report as you explore the various opportunities in TPRM that lie ahead. As always, I would welcome your feedback on what trends you're seeing in the marketplace—or if you would like us to benchmark anything different in future reports.



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## 1. Many organizations are still responding to the pandemic

Organizations are taking longer than expected to respond, which has slowed their ability to recover and thrive. Many aspired to increase their TPRM maturity once their full range of vulnerabilities had been assessed. Those that underinvested in TPRM faced more high-impact third-party incidents.



## 3. Digital risks are a top concern

Digital risks arising from increasingly digitized ways of working are a top emerging concern, as respondents recognize the risk of undesirable consequences of technology adoption and transformation.



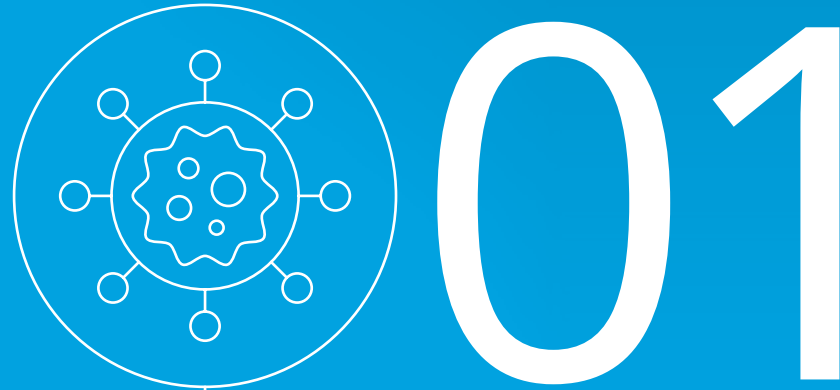
## 2. Risk intelligence is a key funding priority

Organizations are placing increasing focus on risk intelligence to inform third-party ecosystem management. Organizations can reap immediate opportunity by accelerating progress toward real-time, highly integrated and tech-enabled third-party management and monitoring.



## 4. Cost pressures are preventing insourcing

Many organizations feel significant pressure to cut costs by outsourcing business activities, even when they have credible concerns about process failures or loss of control.



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Many organizations  
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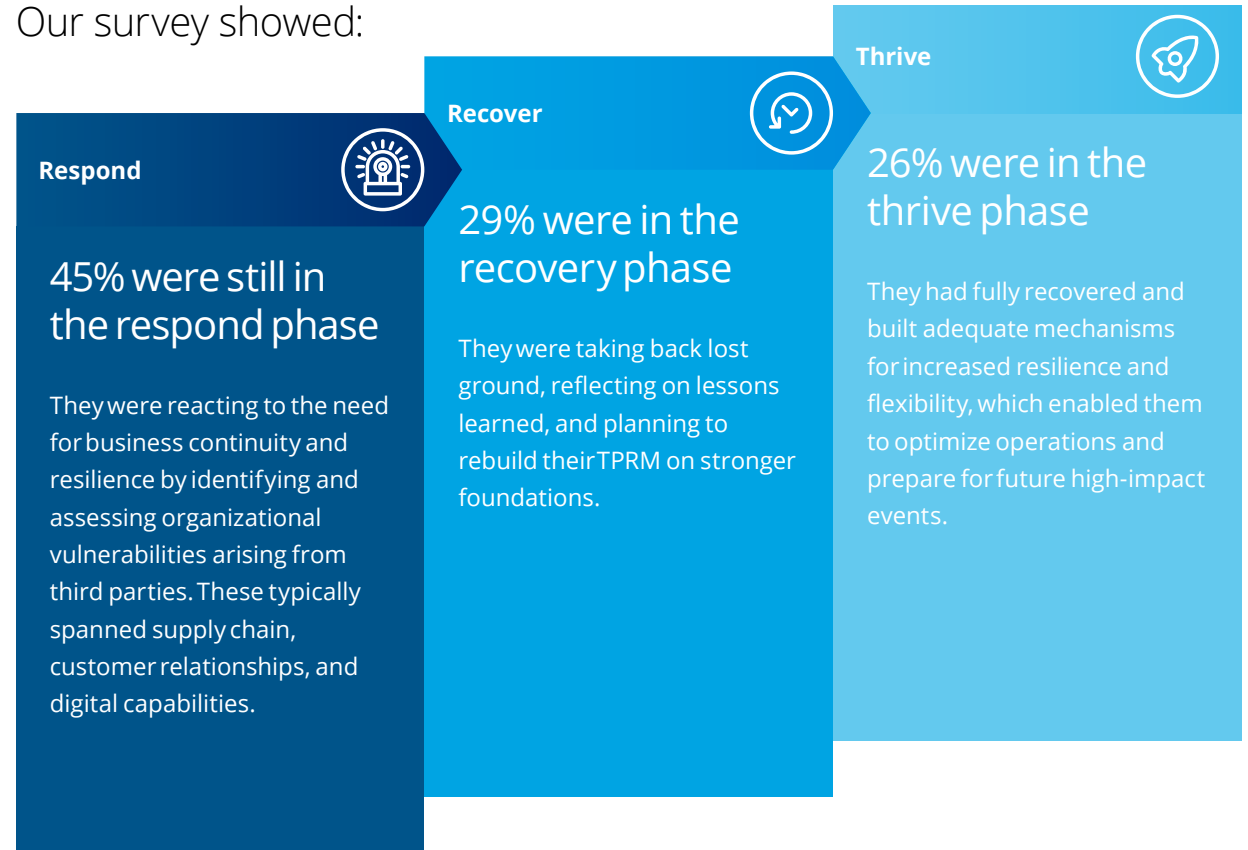
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Organizations underestimated their preparedness for the pandemic. A longer-than-expected response phase has slowed the ability to recover and thrive

When we launched this survey in December 2020, we expected most respondents to have moved on from the initial respond phase to the subsequent recovery or thrive phases of their pandemic response. We thought that most of them would have started to use these learnings to drive improvements to recover, while others would have started to rebuild their third-party risk management to allow them to emerge stronger from the pandemic.

We believe that the emergence of newer COVID-19 “variants of concern” (at the time of writing this report) could potentially extend the respond phase even further and increase the time taken to recover and thrive.

Our survey showed:



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## Industry summary

The energy, resources, and industrials (**ER&I**), life sciences and health care (**LSHC**), and **consumer industries** appear to have **taken the longest to deal with the pandemic: 53%, 49%, and 47% of respondents respectively were still in respond mode.**



This possibly reflects the pandemic's greater impact on these sectors. For instance, the consumer sector includes fast-moving consumer goods (FMCG). In FMCG, respondents reported a significant impact from extended lockdowns in many countries around the world, particularly where their products are considered nonessential.

Organizations from government and public services (**GPS**), financial services (**FS**), and and technology, media, and telecommunications (**TMT**) **industries have moved on much quicker from the crisis**, with most of them beyond respond:

- **FS** had the most respondents in the **thrive phase (33%)**; another **30% were in recovery**
- **TMT** is second to **FS**, with **32% in thrive** and **23% in recovery**
- **GPS** organizations were **most likely (39%) to be in recovery**, but **25% progressed all the way to the thrive stage**

Industry acronyms are spelled out in [endnotes](#)<sup>2</sup>





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### COVID-19 was a wake-up call to increase TPRM maturity

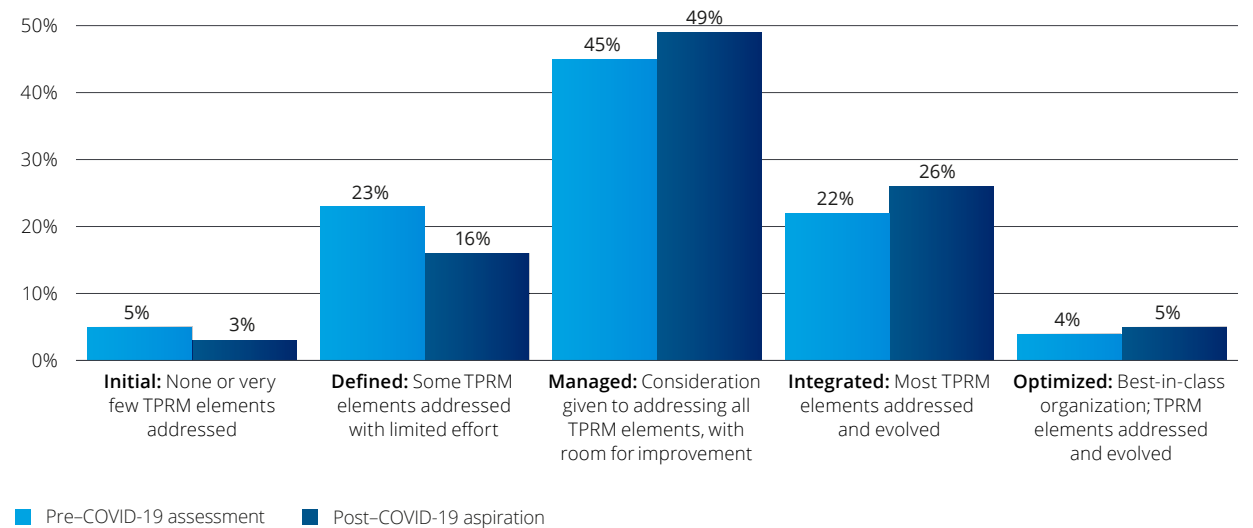
Our survey shows that the disruption caused by COVID-19 helped organizations realize the value of a more mature TPRM framework.

- **Prior to the pandemic, only 26% of respondents believed they were integrated or optimized in their level of TPRM maturity.** The highest proportion of respondents (45%) were in the managed category, representing the midrange of our five-point maturity scale. The remaining 28% were in the early stages of this maturity journey.
- **Following the pandemic, however, respondents aiming for integrated or optimized increased to 31%,** with a corresponding decrease in those aspiring to the early stages of the maturity journey from 28% to 19%. The proportion in the managed category increased from 45% to 49%.

See figure 1.1. Also see [TPRM maturity model](#) for an overview of the characteristics of each stage.

**Figure 1.1: Organizational maturity in TPRM**

Pre-COVID-19 assessment compared with post-COVID-19 aspiration



This aimed-for progression to maturity is expected to be gradual, as the benchmark of excellent TPRM continues to rise for many organizations. These organizations will continue to play catch-up as expectations rise and new concepts of good practice emerge. Expectations will also increase as new technology solutions appear and as it becomes easier to embrace real-time information to enable more effective decision-making.

COVID-19's disruption helped organizations realize the value of a more mature TPRM framework



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### Real-time information and processes related to third parties are expected to lead to higher TPRM maturity

Half of survey respondents believe that, because of the pandemic, they need to increase their focus on third parties and make some major investments to reenergize their TPRM programs. They believe this despite many having sizable budgets for TPRM over the years (see figure 1.2).

#### Industry summary

GPS and LSHC had the **highest proportion of respondents (71% and 67%)** who believed that **major additional investment was required in TPRM practices** in their organizations, based on their experience of the pandemic.



However, **only 40% of TMT organizations believed the same**. This implies the sector's **prior investments in digital initiatives have stood them in good stead during the pandemic**. This sector has a particularly high proportion of virtual third-party relationships.

Industry acronyms are spelled out in [endnotes](#)<sup>2</sup>

Figure 1.2: Extent of additional investments to be made to reenergize organizational TPRM programs



The pandemic led half of organizations to realize they need to make significant or some investment in TPRM













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Figure 1.3 shows the most common focus areas to increase TPRM maturity:

- Fifty-three percent cited **real-time information, risk metrics, and reporting**, which is not surprising. One impact of COVID-19 has been a greater need for real-time, continuous assessment and alerts rather than traditional point-in-time third-party assessment.
- An equal proportion also identified the need to **rethink business processes** to aid adoption of this new technology.

Risk intelligence as a key priority is discussed in greater detail in [section two](#).

Figure 1.3: Pillars of improvement in the TPRM maturity journey

	Overall	Consumer	ER&I	FS	GPS	LSHC	TMT
Real-time information, risk metrics, and reporting	53%	46%	54%	56%	54%	63%	53%
Business processes	53%	48%	49%	54%	79%	67%	53%
Tools and technology	51%	49%	50%	67%	53%	54%	50%
People and organization (for example, clarity of roles and appropriate skills and training)	49%	49%	42%	51%	67%	58%	45%
Governance and holistic oversight by leadership	45%	41%	42%	47%	58%	56%	41%
Policies and standards	43%	41%	43%	40%	71%	50%	41%
The right “tone at the top”	37%	40%	35%	34%	54%	44%	29%

Note: The dark blue cells represent the most respondents by industry, and the light blue cells represent the least respondents by industry.



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## Industry summary

- **GPS is more likely than other industries to want to improve TPRM business processes (79% against an industry average of 53%);** TPRM policies and standards (71% against an industry average of 43%); and people and organizational issues (67% against an industry average of 49%).
- **LSHC is more likely than other industries to want to improve TPRM real-time information, risk metrics, and reporting (63% against an industry average of 53%);** TPRM business processes (67% against an industry average of 53%); and people and organizational issues (58% against an industry average of 49%)
- **FS is more likely than other industries to want to improve TPRM tools and technology (67% against an industry average of 51%)**
- **TMT is less likely than other industries to want to improve tone at the top and promote a well-coordinated risk culture (29% against an industry average of 37%)**



Industry acronyms are spelled out in [endnotes](#)<sup>2</sup>

Overall, 53% of respondents want to improve real-time information, risk metrics, and reporting



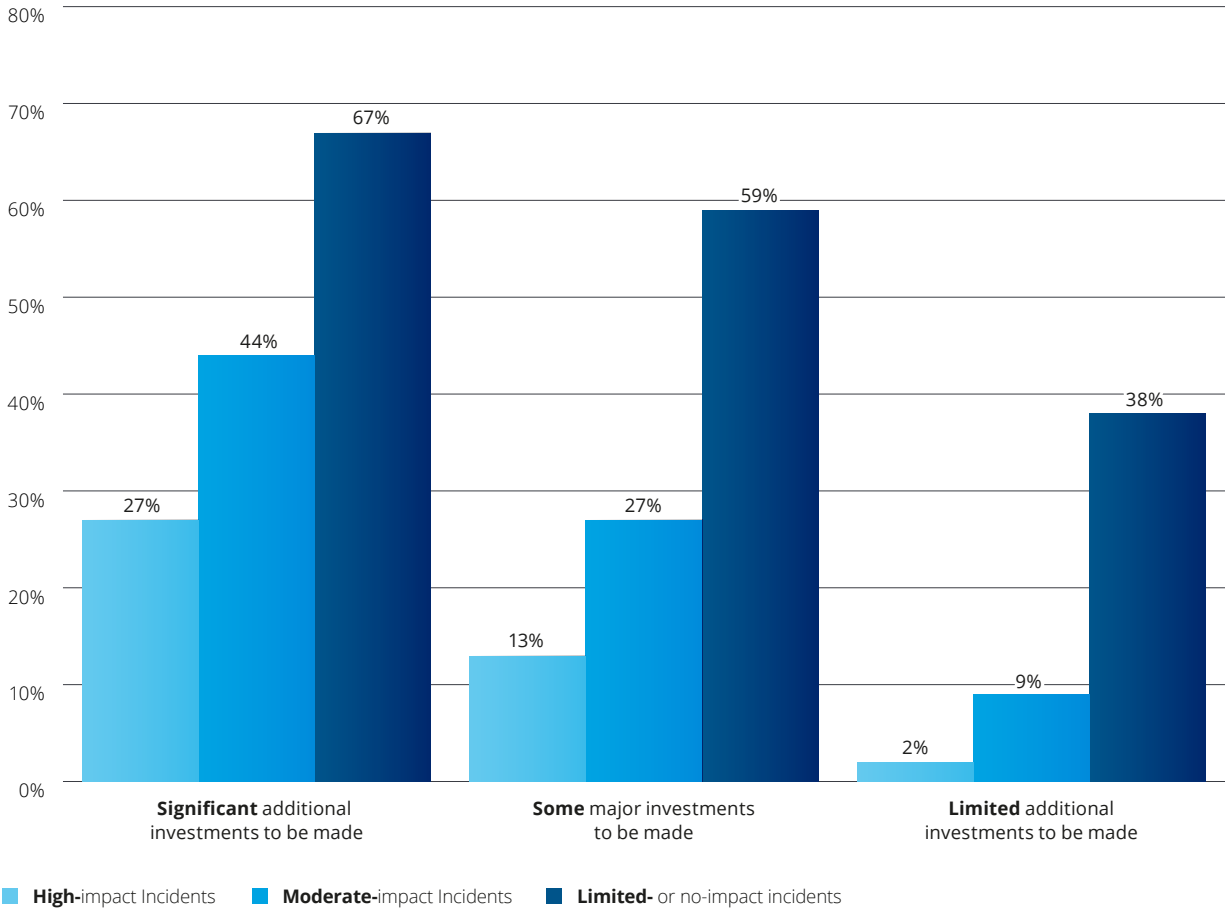
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Third-party incidents during the pandemic

Almost half of respondent organizations in our previous survey believed that the financial impact of a failure by a third-party or subcontractor had at least doubled over the past five years. One in five estimated a tenfold increase. At that time, 17% of respondent organizations said they had faced a high-impact third-party risk incident in the past three years, a sharp uptick from 11% a year before.

Figure 1.4 shows some interesting results from our current survey. Organizations were more likely to face a high-impact third-party incident if they hadn't invested in TPRM. Among respondents who believed that significant additional investment was required, 27% had already experienced high-impact third-party incidents during the pandemic.

Figure 1.4: Third-party incidents by severity  
(for various levels of additional investment required to reenergize organizational TPRM programs)





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More than half (51%) of organizations faced one or more third-party risk incident since COVID-19 officially became a global pandemic on March 11, 2020. Of these:

- 13% were high-impact incidents that severely compromised financial performance or profitability, impaired customer service, or seriously breached regulation
- 31% had a moderate impact
- 46% had a low impact
- 10% were not sure whether they had suffered a third-party incident or not. This may reflect either a lack of highly evolved TPRM processes in their organizations or a lack of awareness of what is happening in their organization as a whole.

Organizations were more likely to face a high impact third-party incident during the pandemic if they hadn't invested in TPRM

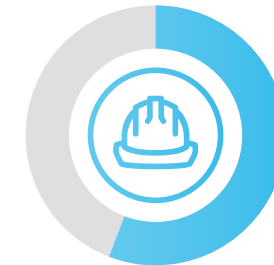
### Industry summary

- ER&I faced the **highest number of third-party incidents (60%)**, but only **8% had a high impact**
- **Fifty-five percent of consumer and LSHC organizations each experienced a third-party incident**; however, **consumer industry (21%) incidents** were more likely to be **high-impact incidents than those faced by LSHC (6%)**
- **FS companies** faced the **lowest proportion of third-party incidents, at 43%**. Only **6%** of these had a **high impact**

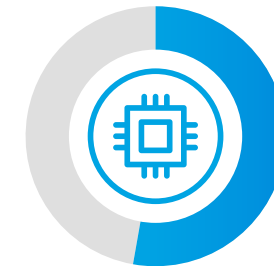
Industry acronyms are spelled out in [endnotes](#)<sup>2</sup>



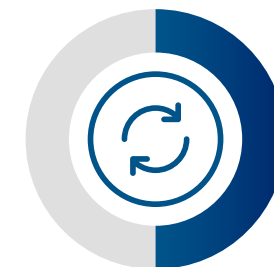
Risk domains most likely to be affected during the pandemic were:



**Health and safety risk**  
56%



**Cyber risk**  
53%



**Resiliency or business continuity risk**  
50%

Respondents experienced multiple incidents. See the full list of risk domains on page 12.



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Figure 1.5: Risk domains most affected by multiple third-party risk incidents during the pandemic (ordered by level of impact)

	Overall	Consumer	ER&I	FS	GPS	LSHC	TMT
Health and safety risk	56%	59%	58%	50%	64%	48%	60%
Cyber risk	53%	45%	58%	54%	45%	68%	50%
Resilience or business continuity risk	50%	52%	48%	51%	62%	50%	41%
Strategic risk	45%	50%	53%	38%	62%	26%	46%
Contract risk	40%	49%	46%	27%	30%	43%	39%
Geopolitical risk	39%	46%	53%	24%	40%	35%	38%
Information security	38%	28%	44%	42%	36%	44%	37%
Subcontractor risk	38%	44%	43%	26%	44%	44%	36%
Data privacy	29%	26%	26%	30%	45%	30%	26%
Quality risk	27%	29%	19%	25%	47%	34%	29%
Physical security	20%	22%	22%	18%	25%	10%	24%
Regulatory noncompliance	18%	23%	18%	12%	35%	18%	17%
Concentration risk	17%	21%	16%	14%	36%	15%	19%
Conduct risk	16%	17%	11%	18%	33%	11%	13%
Climate change risk (physical and transition)	15%	22%	20%	6%	21%	12%	13%
Environmental risk (air pollution, water, waste)	14%	20%	16%	6%	20%	17%	12%
Financial crime (money laundering, sanctions)	12%	18%	9%	12%	15%	0%	11%
Intellectual property risk	11%	17%	6%	6%	15%	16%	16%
Labor and modern slavery risk	10%	18%	10%	4%	20%	7%	10%
Antibribery and corruption	8%	11%	9%	5%	0%	3%	9%

Note: The dark blue cells represent the most respondents by industry, and the light blue cells represent the least respondents by industry.



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## Industry summary

Every sector saw a high incidence of health and safety, cyber, and third-party resilience incidents during the pandemic.



However, other risk domains were more common in certain sectors:

- **Strategic risk** management failures were most likely to be faced by **GPS organizations (62%)**. Such failures are caused by a lack of alignment between strategy, performance management, and risk management. Those from **ER&I (53%)** and **consumer businesses (50%)** followed
- **Contract risk**, when **third parties cannot fulfill contractual obligations**, was most likely to be experienced in third-party incidents in **consumer (49%)**, **ER&I (46%)**, and **LSHC (43%)**
- **Subcontractor risk** continued to be a significant area of concern and was most likely to trigger third-party incidents in **consumer, GPS, and LSHC (all 44%)**; this was followed by **ER&I (43%)**
- **Geopolitical risks** triggered multiple incidents for **53% of respondents in ER&I**, followed by **46% in consumer**

Industry acronyms are spelled out in [endnotes](#)<sup>2</sup>

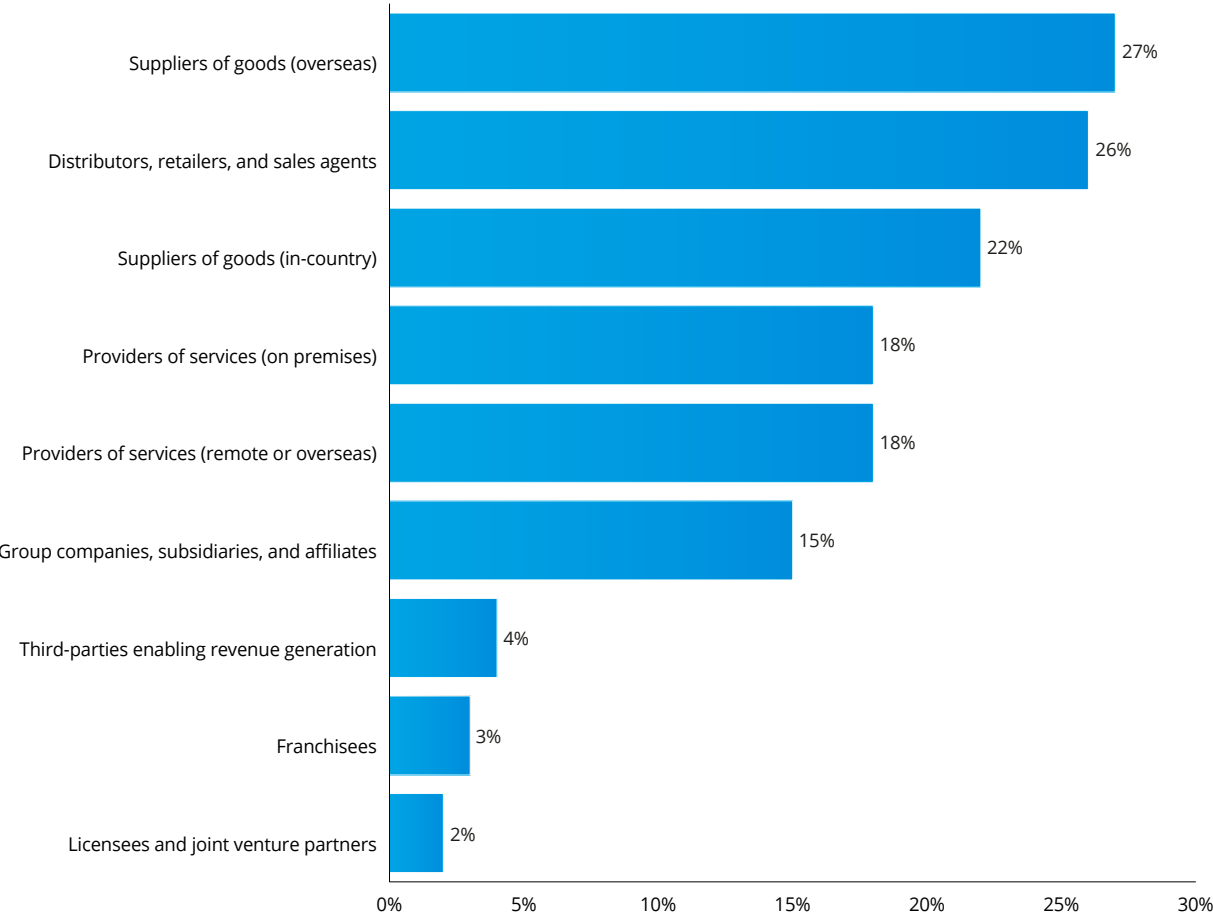
## Relationship types

The pandemic has disrupted some third-party relationships more than others. The third-party type most negatively affected was overseas suppliers of goods and services (27%), potentially in locations where the pandemic hit more strongly or peaked at a different time, or even where local restrictions were different to the home location of respondents. This, in turn, challenged the continuity of cross-border relationships. This is not surprising, given the global nature of a large proportion of respondents to our survey and the increase in international supply chains.

The third-party types then most likely to suffer were distributors, retailers, and sales agents (26%) and in-country suppliers of goods (22%).

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Figure 1.6: Third-party types most negatively affected by the pandemic



Industry summary

Industries were most negatively affected by varying third-party types as a result of the pandemic:

- **TMT (42%)** and **consumer industries (41%)** by distributors, retailers and sales agents
- **FS** by overseas providers of services (27%), followed by on-premises service providers (18%)
- **GPS** by on-premises service providers (42%) and overseas and remote service providers (27%)

Industry acronyms are spelled out in [endnotes](#)<sup>2</sup>



## Deloitte point of view

Long response and recovery times relating to the pandemic reflect national operational restrictions and lockdowns. This was complicated by newer variants of COVID-19 still emerging at the time of the survey.

Even in Asia-Pacific, where overall economic recovery was much quicker than in Europe, the Middle East, and Africa (EMEA), and the Americas, **59%** of organizations were still in respond mode (compared with **37%** in EMEA and **41%** in the Americas).

Our surveys from 2015 and 2020 showed that many organizations struggled to make necessary investments because of budget constraints. Those that acknowledged TPRM investment gaps faced more high-impact third-party incidents than competitors that had made these investments.



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# Risk intelligence is a key funding priority

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## Our latest survey shows investment in risk intelligence is a key priority

The pandemic has increased organizations' desire to implement an intelligent third-party risk management and monitoring system, enabled by:

- Streamlined third-party management processes; and
- The online real-time management of information required for strategic decision-making, due diligence, and the monitoring of third parties

This requires an integrated and technology-enabled platform that coordinates activities across an organization and provides a single, up-to-date picture, rather than inconsistent and out-of-date data from various sources. The desire is to move away from questionnaires and toward credible and actionable intelligence provided in real time—all accessible on an integrated platform that allows users to understand total risk, as well as risks from individual third parties and operations.

Our survey data echoes this emerging priority. As shown in **figure 1.3**, 53% of respondents want to improve real-time information, risk metrics, and reporting. However, 49% believe such improvements will not be fully

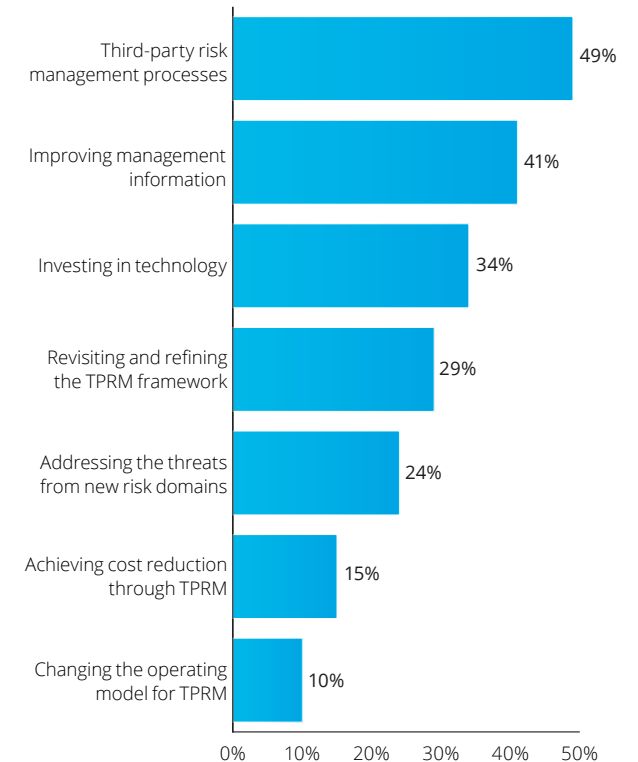
effective without first addressing the more fundamental challenges with risk management processes (figure 2.1) that currently exist in their organizations.

Improvements in risk management processes include:

- Developing new processes, such as those related to emerging risks or areas not covered in existing third-party risk management programs
- Transforming existing processes (for example, fundamental redesign in response to changing circumstances or technology)
- Fixing broken third-party management processes (for example, through weaknesses identified during the response to the pandemic)

This, then, makes investment in improving management information the next area of focus (41%) (see figure 2.1). Other areas organizations want to invest in (to further reinforce the move to real-time TPRM) are the adoption of new technology or improvements in the way that existing technology is used for managing third-party risks (34%).

**Figure 2.1: Focus areas for investment on third-party management in the year ahead**

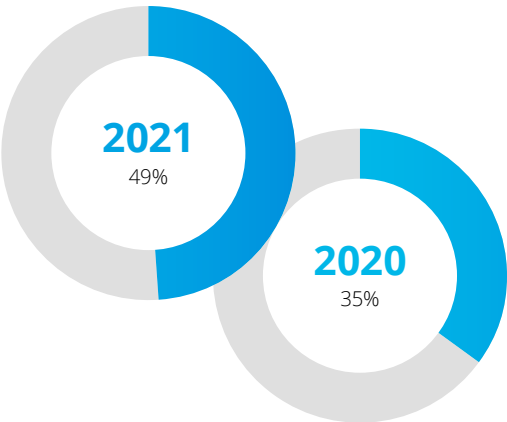




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**Focus on real-time due diligence and monitoring**  
Almost half of respondents in this year’s survey (49%) are implementing progressive changes to due diligence and monitoring processes, a much higher number than last year (35%). They will use these to complement more traditional point-in-time assessments so that they can soon conduct third-party assessments that are intelligence-led and made more in real time. This is a higher priority for organizations than expanding their frameworks to cover newer risk domains. This is understandable in the immediate term, but the TPRM road map should show when organizations will deal with these emerging risks.

**Organizations updating their due diligence and monitoring processes:**



**Revolution or evolution?**  
Our research identified two categories of respondent organizations:

Organizations that plan a more revolutionary approach to TPRM	Organizations likely to continue an evolution in their TPRM
Some have made <b>limited investments</b> in third-party risk management so far. Some are <b>more agile</b> , perhaps because they are smaller or because their operations are <b>less complex</b> . These organizations see their less developed legacy systems as an opportunity to <b>leapfrog</b> toward a highly integrated third-party management and monitoring solution, conducted in real time and enabled by technology.	They will progressively improve business processes and management. These organizations may have <b>already invested significantly</b> in TPRM infrastructure, including people, processes, and technology. It may be that their <b>size or complexity slows their speed of change</b> . These organizations also want to create an intelligent third-party management and monitoring system.

Figure 2.1 shows that refining the TPRM framework (29% of organizations) and focusing on emerging risks (24%) are comparatively lower priorities for immediate investment. This suggests that organizations recognize the need to address basic elements first, such as process, technology, and improving the flow of information to management.

Almost half of organizations (49%) are implementing progressive changes to due diligence and monitoring processes



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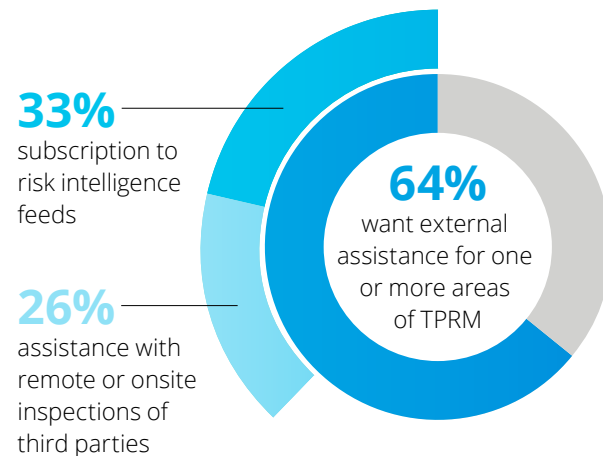
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### Leveraging external assistance

Many organizations want targeted assistance in third-party management from external advisers and consultants. They tend to prefer this to full outsourcing. Overall, 64% of respondents want external assistance for one or more areas of TPRM. Of these respondents, this is most commonly for subscription to risk intelligence feeds (33%) and assistance with remote or onsite inspections of third parties (26%).



### Industry summary

Respondents' experience of outsourcing varies a lot depending on the size of the organization. However, it does not differ widely between industries.



#### Larger organizations are much more likely to seek piecemeal external assistance.

- Organizations with a turnover of more than \$5 billion: **41%**
- Organizations with a turnover of \$1 billion to \$5 billion: **24%**
- Organizations with a turnover of up to \$1 billion: **22%**
- Smaller and medium-sized organization: **13%**

Correspondingly, smaller and medium-sized organizations tend to outsource their entire third-party risk management processes more than their larger counterparts: **7%** of organizations with a turnover of less than \$1 billion do so, compared with **4%** of those with a turnover of more than \$1 billion.<sup>1</sup>

1. Smaller and medium-sized organizations are those with fewer than 250 employees and turnover of less than \$1 billion, unless they are US organizations. In this case, the threshold is 500 employees. If they have more employees than this, they are put in the category "organizations with a turnover up to \$1 billion."

Industry acronyms are spelled out in [endnotes](#)<sup>2</sup>

# Deloitte point of view

## The pandemic has influenced immediate priorities

This is supported by respondents stating that improvements in risk management processes and management information are their top priorities for the current year, as these will radically improve monitoring of third parties. Enhancing monitoring of third parties was also the second highest priority identified in our 2020 survey (35% of respondents). However, the focus has now sharpened on activities such as real-time ongoing monitoring and risk sensing, using emerging technologies such as robotics automation and cognitive processes.

The pandemic has driven organizations to think about how they make the most of technology more broadly. This involves treating it as an integral component of a wider digital transformation

initiative to implement intelligent third-party risk management. That includes third-party monitoring, but also goes far beyond it.

In this journey, we believe an increasing proportion of businesses will make greater use of technology-based managed solutions for TPRM, which in turn will drastically reduce their capital costs and, to a lesser extent, lower operating costs too. We believe this model will maintain or improve the quality and provide reliable risk management insight.



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# Digital risks are a top concern

## Digital transformation of TPRM creates new risks

Last year’s survey showed that organizations had started adopting digital transformation initiatives in TPRM. Their third parties had also significantly accelerated the digitization of their supply chain and other interactions. The current survey recognizes that such high speeds of experimentation and innovation are bound to create challenges for people and social interactions. Managing digital risks has become the most significant emerging risk in third-party management; 71% of respondents identify it as a top priority. The financial resilience of third parties in real time ranked second (41%), closely followed by diversity and inclusion standards held by third parties.

71% of respondents identify digital risk as a top priority within TPRM

Figure 3.1: Emerging third-party risk domains

	Top priority area	Reasons for increased focus and attention		
		Low level of awareness or understanding	Low level of maturity	Inadequate investment
Digital risk (in recognition of the increasingly digitalized ways of working)	71%	28%	27%	42%
Financial resilience of third parties on a real-time basis	41%	40%	35%	28%
Diversity and inclusion (ethnicity, gender, sexual orientation, or any other dimension that can be used to differentiate people from one another)	40%	35%	34%	34%
Health and safety of third-party staff (including mental health and spread of infectious diseases)	38%	40%	28%	16%
Environment risk (air pollution, water, waste)	37%	31%	39%	31%
Climate change risk (physical and transition)	35%	33%	48%	29%
Ethics (including harassment and corporate bullying)	30%	36%	36%	23%
Newer forms of antibribery and corruption, such as “greenwashing”	23%	40%	41%	31%

Note: The dark green cells represent the most respondents, and the light green cells represent the fewest respondents.

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Specific concerns around digital risk

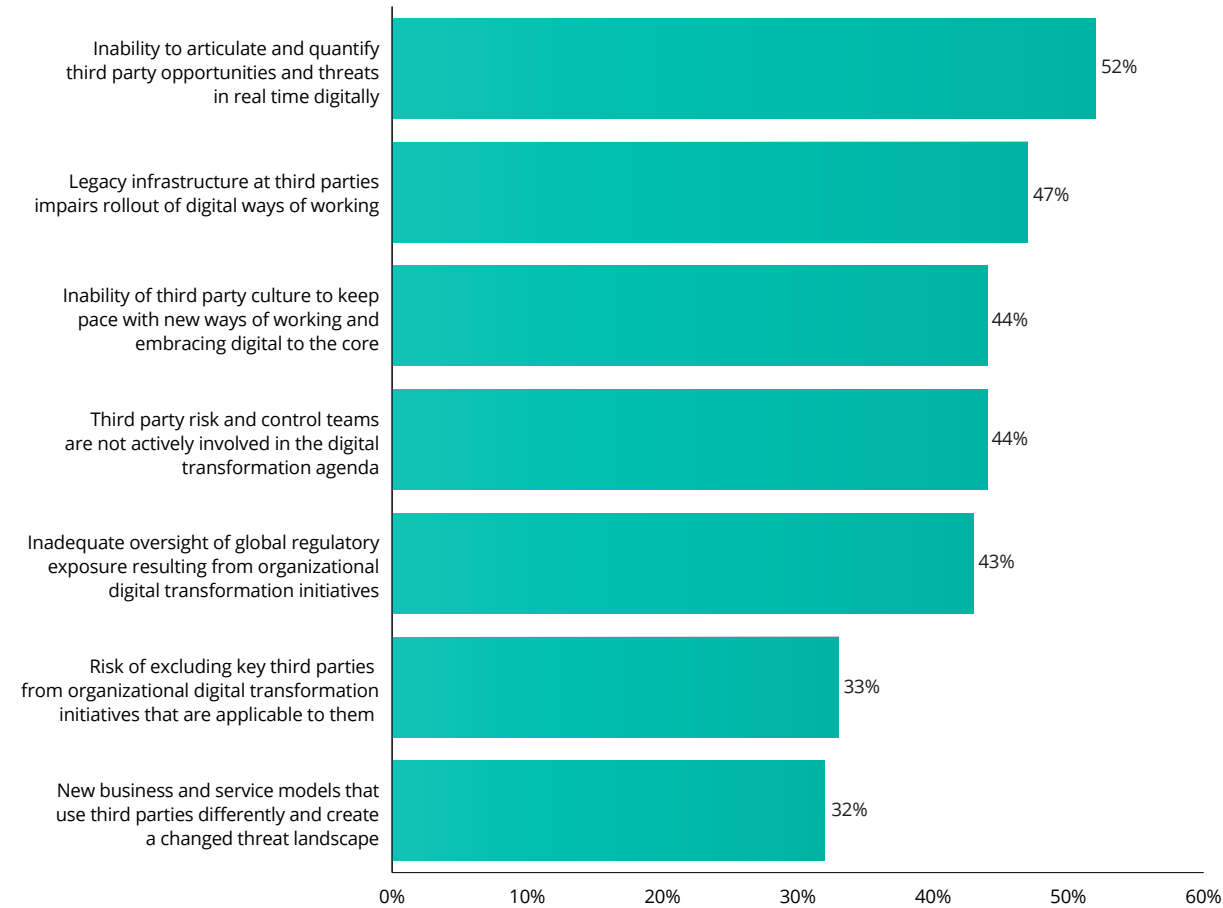
Figure 3.2 shows that digital risks can have multiple implications. However, the three most common issues organizations have concerns about are:

- Articulating and quantifying third-party opportunities and threats in real time digitally (52%)
- Legacy infrastructure at third parties that impairs the rollout of digital ways of working (47%)
- Third parties’ ability to keep pace with new ways of working and to embrace digital to the core (44%)

It is interesting that digital risk related to third parties is also the most common area of underinvestment across the various emerging risk domains (42% of respondents). This may appear counterintuitive, as there is significant organizational awareness and understanding of this risk, as well as a reasonable level of maturity. However, due to the multitude of digital risks and the lack of a consistent definition across organizations, each respondent may have interpreted such risks differently. This may also be true of the other top emerging risk domains listed in figure 3.1.

Figure 3.1 also shows that sometimes an emerging risk area is not mature because of a lack of understanding of the topic or due to a lack of investment in this area.

Figure 3.2: Specific concerns related to digital risk in organizational third-party ecosystems  
(That respondents do not believe to be well-positioned to manage)








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The **emerging risk domains where organizational awareness and understanding is lowest** are:







	Newer forms of antibribery, corruption, and dishonesty, such as “greenwashing”	40%
	Financial resilience of third parties in real time	40%
	Health and safety of third-party staff, including mental health and the spread of infectious diseases	40%
	Ethics (including harassment and corporate bullying)	36%
	Diversity and inclusion	35%

“Greenwashing” is when organizations respond to increasing fears about climate change by trying to deceive consumers into thinking they have minimized the environmental impact of their products and services.

The **emerging risk domains where respondents believe they have the lowest maturity** are largely similar to those where awareness and understanding are lowest. However, there are two big differences. One is that climate change risk is top of the list. The other is that health and safety does not make the list, nor does diversity and inclusion.

	Climate change risk (physical and transition)	48%
	Newer forms of antibribery, corruption, and dishonesty, such as “greenwashing”	41%
	Environmental risk (air pollution, water, waste)	39%
	Ethics (including harassment and corporate bullying)	36%
	Financial resilience of third parties in real time	35%

Finally, the **emerging risk domains that suffer the most from inadequate investment** are:

	Digital risk	42%
	Diversity and inclusion	34%
	Environmental risk (air pollution, water, waste)	31%
	Newer forms of antibribery, corruption and dishonesty, such as “greenwashing”	31%
	Climate change risk (physical and transition)	29%
	Financial resilience of third parties in real time	28%



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An increasing focus on responsible business

In this year’s survey, the two most common emerging risks are digital risk and the financial resilience of third-parties.

The other core emerging risks relate to an organization’s third parties being responsible businesses. Organizations prioritized in this order:

- Diversity and inclusion (40%)
- Health and safety (38%)
- Environmental risk (37%)
- Climate change risk (35%). Climate risk reporting is becoming mandatory in a growing number of countries. For example, the UK government has said it will make this obligatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. This international trend will make this emerging risk area even more important

The increasing emphasis on being a responsible business was already a top driver of investment in third-party risk management in last year’s survey. This year, 50% of respondents believe that acting as a

responsible business in the management of their third parties was a higher organizational priority than a year before. A further 49% believe this issue has a similarly high level of importance as last year. It is noteworthy that so many respondents regard it with even more urgency, despite the more immediate challenges of the pandemic, including the acceleration of digital risk.



99% of respondents believe being a responsible business is a higher or similar priority to last year

Industry summary

In every industry, many organizations say investment to manage digital risk is inadequate. However, for other risk domains, different industries have different views on where investment is inadequate:

- **Consumer:** Environmental risk (40% of organizations say it is inadequate)
- **ER&I:** Diversity and inclusion (36%)
- **FS:** Financial resilience of third parties and climate change risk (both 29%)
- **GPS:** Diversity and inclusion and newer forms of antibribery and corruption (both 60%)
- **LSHC:** Newer forms of antibribery and corruption (55%)
- **TMT:** Diversity and inclusion and health and safety of third parties (both 44%)

Industry acronyms are spelled out in [endnotes](#)<sup>2</sup>

# Deloitte point of view

## Digital initiatives for managing third-party relationships are an increasingly critical component of wider business strategys to enable more efficient and effective TPRM

As such, they derive increased value and profitability and heighten governance to ensure reputational management. However, with increasing digitization comes increased risk. To thrive in this new digital ecosystem, organizations and their third parties need digital flexibility. They need confidence to adapt to familiar and new digital risks while developing a culture that embraces the growing reliance on digital technologies, distribution channels, and collaborative working—and the infrastructure necessary to achieve this.

Our survey also highlights the growing importance of continuously managing the financial resilience of third parties. Our research over the past six years has consistently shown that continuous management has been largely overlooked.

Most organizations have typically focused on this risk on an ad hoc basis, even where these third parties were critical to their business. The pandemic has now escalated this issue to its highest ever level of priority.

Finally, our current survey reflects organizations' growing responsiveness to global environmental, social, and governance (ESG) issues such as climate change, sustainability, food and product safety, and high ethical standards in dealing with third parties. In addition, newer dimensions, such as the spread of infectious diseases and increase in mental illness during the pandemic, have significantly increased health and safety risks in third-party relationships. This requires changes to the existing approach.



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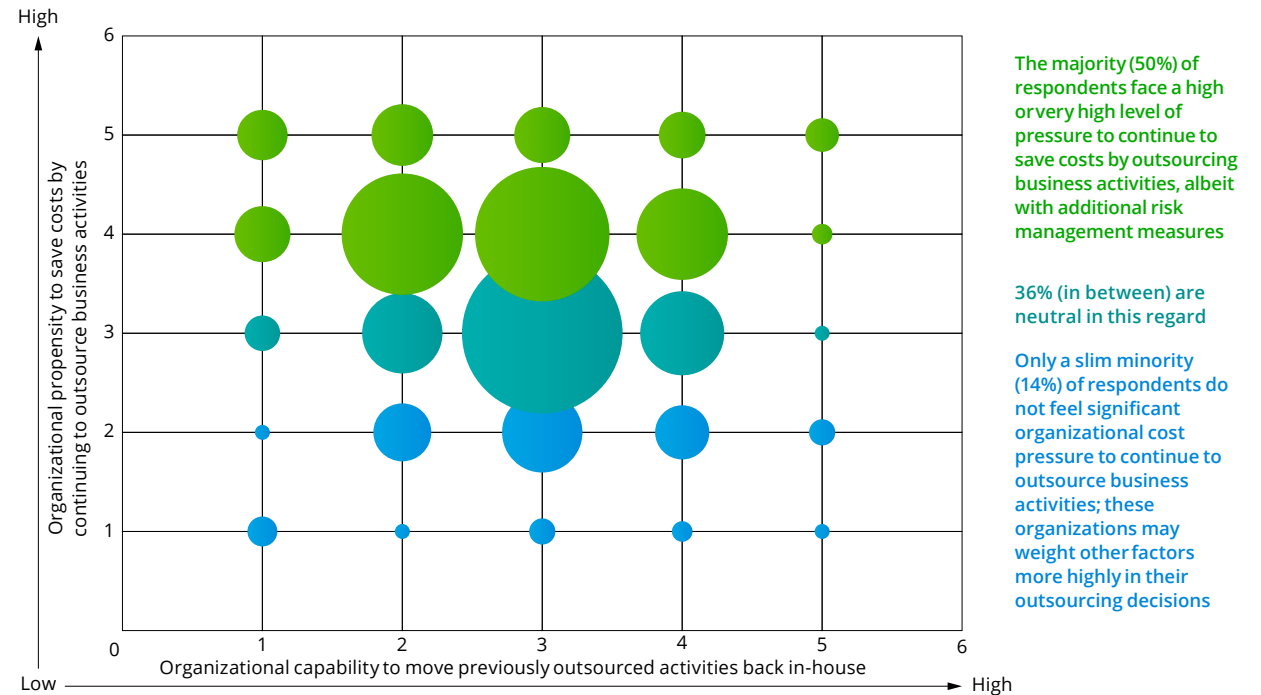
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## COVID-19 led many organizations to consider taking back outsourced business activities, either partially or fully

This is particularly the case when there is heightened concern about third-party failure or losing control over outsourced activities. However, in most cases, this has not moved on from initial conversations. Survey responses indicate why. On the one hand, most organizations lack the internal capability for such insourcing. They also face strong cost pressures, which make them reluctant to spend significant amounts of capital at the moment. However, even talk of insourcing underlines the importance organizations place on enhancing resilience and control over the third-party ecosystem, in conjunction with other measures to increase resilience, such as diversifying sources of supply.

Figure 4.1 shows that half of organizations feel high or even very high pressure to save costs by continuing to outsource business activities, even when they have credible concerns about process failures or loss of control. These organizations are taking action by implementing additional risk management and resilience measures.

**Figure 4.1: Cost pressures faced by respondents compared with organizational capability for insourcing**



Note: Bubble sizes in the above chart are proportionate to the number of responses in each grid (i.e., larger bubbles represent a higher number of responses)



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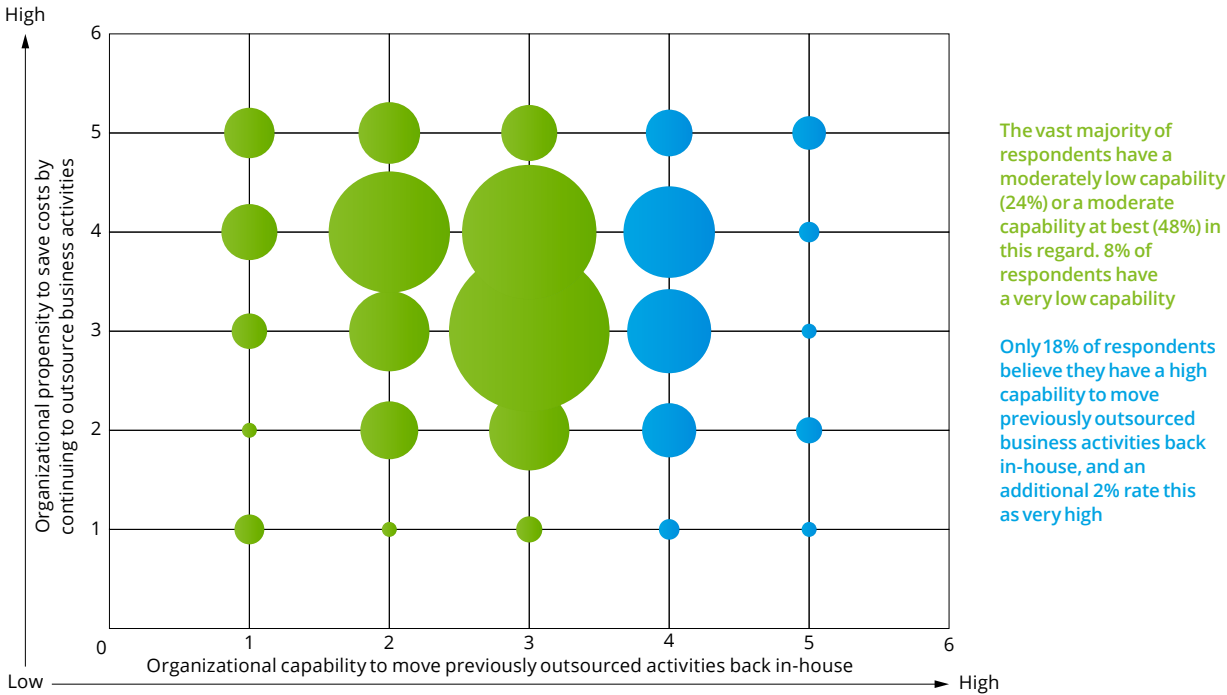


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Outsourcing is almost invariably cheaper. However, only 14% of respondents say they primarily outsource for reasons such as quality, resilience, and other competitive differentiators, rather than cost savings.

Figure 4.2 shows that only 18% of respondents believe they have a high capability to move previously outsourced business activities back in-house, although an additional 2% rate their capability as very high. The vast majority of respondents have either a moderately low capability (24%) or a moderate capability (48%). Eight percent have a very low capability. Some organizations have started looking into the multiple tiers of their critical third-party relationships to assess the benefits of bringing outsourced activities back in-house. These tiers include, for instance, subcontractors (fourth parties) and their subcontractors (fifth parties).

Figure 4.2: Cost pressures faced by respondents compared with organizational capability for insourcing



Note: Bubble sizes in the above chart are proportionate to the number of responses in each grid (i.e., larger bubbles represent a higher number of responses)

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Cost reduction or better risk management?

Overall, more than half (53%) of respondents selected risk management over cost reduction in choosing which was the higher organizational priority.

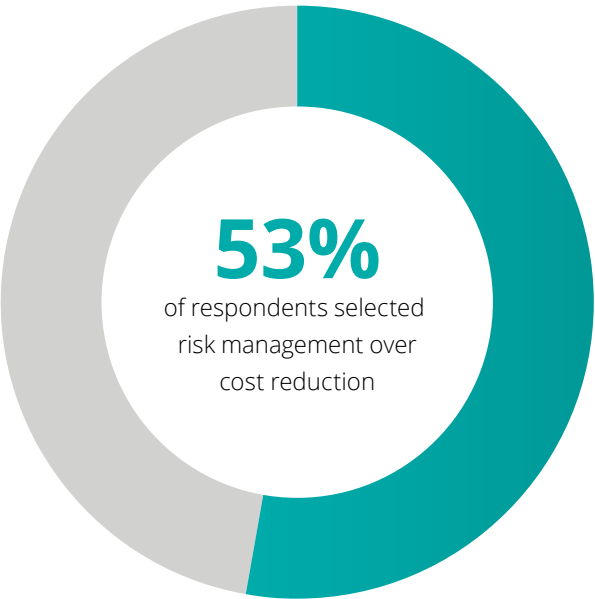
### Industry summary

The pressure to save costs by continuing to outsource business activities was highest for TMT organizations, with 58% saying they felt high or very high cost pressures. Next highest was LSHC organizations, at 54%. As a result, it is likely they would continue to outsource these activities to save costs, but with additional safeguards for risk management and resilience.

At the other end of the scale, 70% of GPS organizations are likely to insource despite higher costs. This may be due to other factors being weighted more highly than cost in such decisions. The FS sector faces intense regulatory scrutiny of its management of critical third-party processes, which explains why half of organizations would consider insourcing.

However, the in-house capability to move back previously outsourced processes was consistently low across all industry segments. FS (21% of respondents) and TMT (36%) had the highest capability to move back processes to in-house teams. We attribute this to stringent regulation of outsourcing in FS, which forces companies to keep “retained organizations” to effectively oversee these relationships. For TMT, third-party relationships are mainly virtual rather than physical, so they are easier to insource. Both sectors have also made significant prior investments in technology, which have enabled them to be more resilient during the pandemic. This resilience should make insourcing easier.

Industry acronyms are spelled out in [endnotes](#)<sup>2</sup>





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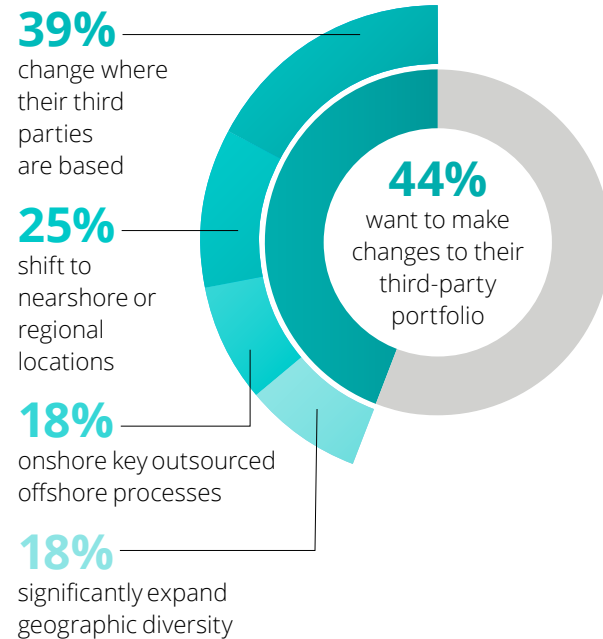
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### Rethinking the third-party portfolio

Respondents are relatively evenly split between those who intend to change the geographical mix of their third-party portfolio in response to the pandemic's varying geographical impact and those who don't. Although 56% do not want to make changes, 44% do. This latter group would like to:



### Industry summary

**When it comes to rethinking third-party portfolios, the most common tendency in most industries is to diversify** where third parties are sourced because of geopolitical global or regional issues, including those thrown up by the pandemic. An exception is the GPS sector, where the top actions are to shift to nearshore locations and significantly expand geographic diversity (36% of respondents for each of these).



Nearshoring is consistently the second most preferred area of action for other industries, with the exception of FS. Companies in the FS sector are more likely to favor onshoring (22% of organizations) instead of nearshoring (19%). This reflects the particularly high regulatory focus on critical third parties that are based overseas.

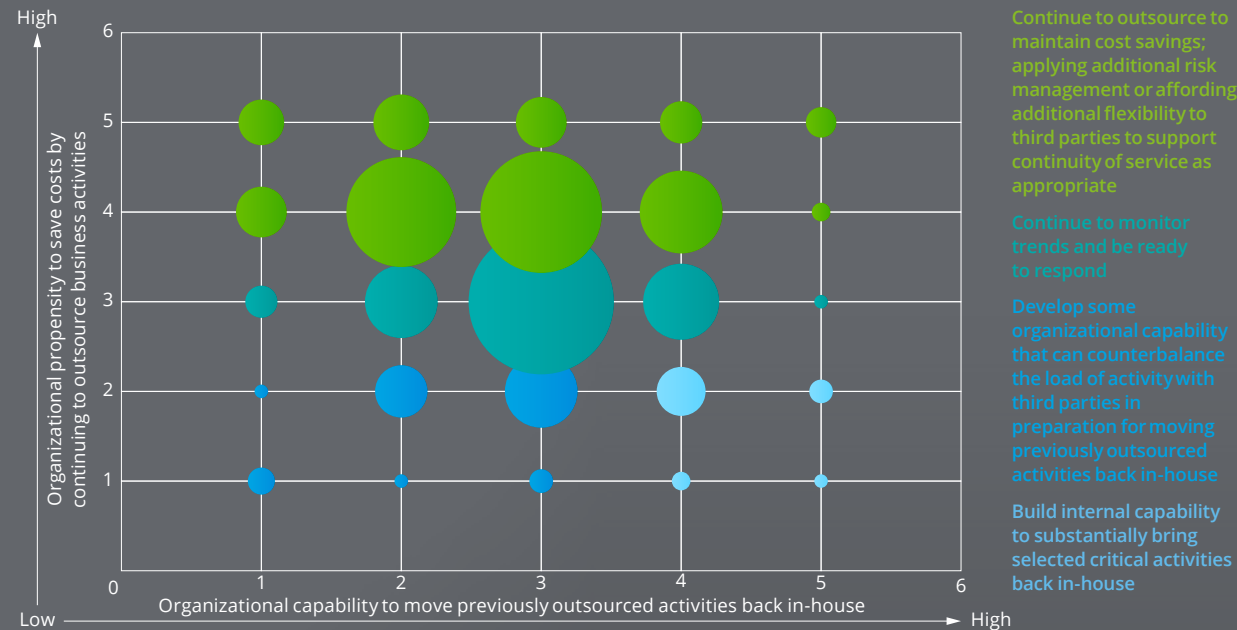
Industry acronyms are spelled out in [endnotes](#)<sup>2</sup>

39% of organizations want to change one or more third-party providers for another in a different location

# Deloitte point of view

Figure 4.3 shows that respondents have four immediate courses of action to deal with the significant uncertainty in the macro environment, based on their current organizational priorities or preferences

Figure 4.3: Four alternative immediate actions with regard to insourcing-outsourcing decisions



Note: Bubble sizes in the above chart are proportionate to the number of responses in each grid (i.e., larger bubbles represent a higher number of responses)

Organizations will have further options to consider in the longer term. In the short term, they can:

- Continue to outsource with additional risk management and resiliency measures, including finding a way to support the third-party provider. Examples include better payment terms, reduced service-level agreements (SLAs), and fewer punitive measures for a limited period of time
- Develop some in-house capability in preparation for moving previously outsourced activities back in-house either partially or completely (despite higher costs)
- Build internal capability to bring selected critical activities substantially back in-house. This may be because the risks of disruption by outsourcing it far exceed organizational risk appetite. Alternatively, the organization may significantly need to have the activity within its control and



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- Continue to monitor trends and be ready to respond to a clear decision for either:
  - Taking a more risk-averse stand to bring selected critical activities back in-house because evolving risks have exceeded organizational risk appetite, even with controls that reduce outsourcing risks or
  - Adopting a more aggressive stand and continuing to outsource, with risk management and resilience measures that reduce risk

Overall, COVID-19 has highlighted the lack of organizational resilience in third-party relationships. This underlines the need to strengthen business continuity and exit plans.

COVID-19 has highlighted the lack of organizational resilience in third-party relationships

Regulators' sharper focus on operational resilience also makes it more important to consider these matters. In December 2019, the Bank of England and the UK's Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) published a consultation paper on new requirements to strengthen operational resilience in FS (CP29/19). This proposal underlined the regulators' view that operational risk and resilience is as much of a priority for them as financial stability. The PRA has recently (March 2021) finalized its policy on outsourcing and third-party risk management to facilitate innovation and greater resilience in FS. This is not a coincidence, as the two topics are closely linked. The European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) have also looked closely at this area and continue to do so.



# Future predictions

## Crises reinforce the need to invest in good risk management

We saw this in the aftermath of the global financial crisis of 2007–08; we are likely to see it in the aftermath of the COVID-19 pandemic too. Looking to the future, we predict that:

- **Enhancing resilience and flexibility through innovation will be key considerations for most organizations.** They will have two motivations. One is to ensure they can operate effectively day to day. The other is to ensure they are ready for future high-impact events. The most innovative organizations will develop stronger skills and capabilities and set themselves apart from the competition.
- **Third-party risk management tools and technology will remain key to progress.** Our 2020 survey showed how organizations were investing in technology to gain competitive advantage. This investment has accelerated to the point where it is transforming the TPRM of many organizations. They are now going a step further to refocus on an entirely different approach toward digital technologies. In doing this, they are making the most of specialized external assistance from trusted advisers.

- **Investments in risk intelligence will drive the adoption of integrated TPRM platforms.** These will provide real-time information, based on an intelligent approach to risk, which will trigger a proportionate and actionable response to third-party risks. Such technologies will combine information from various sources, including:
  - What the organization already knows about its third parties
  - What third parties tell the organization (e.g., responses to questionnaires and information requests)
  - What the third parties customers say about them
  - What is in the public domain (including adverse media reports)
  - Insights from subscription-based external feeds

- **Digital transformation initiatives will only succeed if organizations develop a deeper understanding of their digital risk exposure in working with their third parties.** Organizations also need to develop a collaborative and integrated approach to digital risk. Digitization does not make the human element less important. We predict that, without taking this into account, digital initiatives in third-party risk management will experience serious challenges. They may fail altogether. According to our **Global Digital Risk Survey (2019)**, 36% of organizations have already experienced significant incidents because digital transformation activities have gone wrong.



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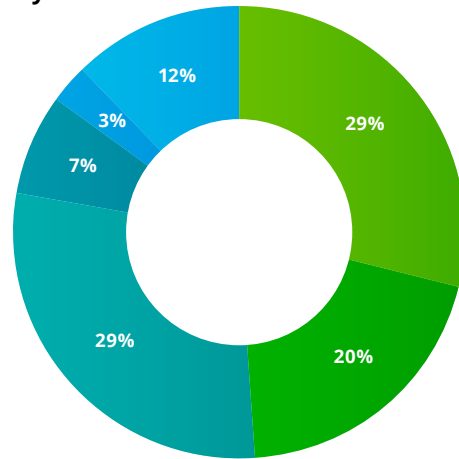
- **Organizations will increasingly work more closely with their third-party networks to address ESG risks and issues.** The desire to be a responsible business, customers' growing activism, investor focus, and society's expectations will change TPRM. So, too, will the growth of regulation and legislation that reflects the growing importance of ESG reporting by organizations. Taken together, these issues will reinforce organizations' agendas to manage third parties in a responsible way. Some immediate priorities created by the pandemic are likely to remain permanently higher priorities than before. An example is the need to minimize the spread of infectious disease among third parties' employees.
- **Most organizations will continue to outsource business activities, but with additional risk management.** However, while many will reject insourcing, as discussed in this report, they may increasingly embrace cosourcing or multisourcing as alternative solutions.

Organizations will increasingly work more closely with their third-party networks to address environmental, social, and governance risks and issues

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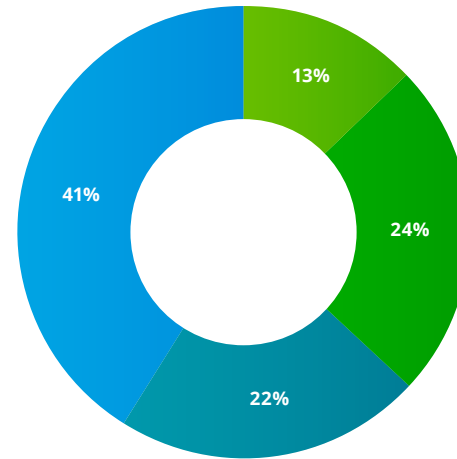
For the 2021 survey, Deloitte received a record 1,170 responses from a wide range of organizations from more than 30 countries<sup>3</sup>. Most responses were from people accountable for TPRM activities within their organization. The survey was conducted between mid-December 2020 and the end of January 2021.

Industry



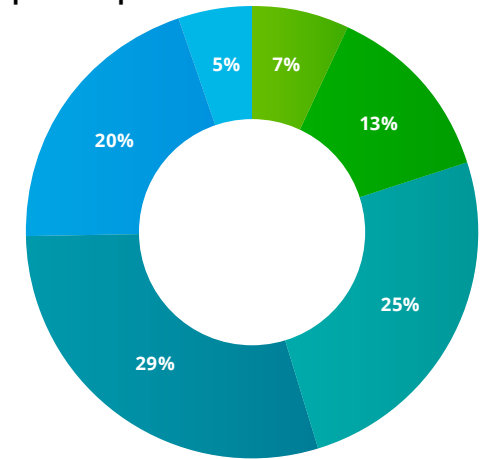
- Consumer
- Energy, resources, and industrials
- Financial services
- Life sciences and healthcare
- Government and public sector
- Technology, media, and telecommunications

Organization size



- Small or medium-sized organization (fewer than 250 employees)
- Large organization (250 or more employees) with turnover less than \$1 billion
- Large organization (250 or more employees) with turnover between \$1 billion and \$5 billion
- Large organization (250 or more employees) with turnover more of more than \$5 billion

Respondent position



- Board member
- C-suite
- Senior management
- Head of specific functional area
- Middle management
- Other



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### Kristian Park

#### Partner and global leader, Extended Enterprise

Kristian Park is global leader for Extended Enterprise at Deloitte. Based in the United Kingdom,

Kristian works with his clients to develop governance frameworks to identify and manage all types of third-party risk. He looks at both process and technology solutions, performs inspections of third-party business partners on his clients' behalf, and assesses third-party compliance with contractual terms and conditions. Kristian is also responsible for Deloitte United Kingdom's software asset management and software licensing teams, assisting clients in managing their software licensing obligations to generate efficiencies and savings. He has experience in a variety of industry sectors, including life sciences, financial services, energy and resources, sports, technology, media, and consumer and industrial products.



### Danny Griffiths

#### Director, Extended Enterprise

Danny Griffiths is a director in Deloitte's United Kingdom-based Extended Enterprise team and leads the third party advisory

proposition. He has 14 years of experience providing assurance and advisory services relating to third-party risk and specializes in supporting clients in developing and implementing technology-enabled third-party governance and risk management frameworks. Danny also has significant experience leading compliance programs for large national and multinational organizations, assessing third-party compliance against contractual obligations. Danny has worked extensively in the financial services sector, but also has experience working in other industries, such as technology, telecommunications, consumer, sports, and the public sector. He has led projects in multiple countries within EMEA, the Americas, and Asia Pacific and regularly hosts roundtables and presents at forums on third-party risk.



### Dr. Sanjoy Sen

#### Head of research and eminence, Extended Enterprise

Sanjoy Sen is the head of research for Extended Enterprise at Deloitte. He has a doctor of business

administration from Aston University in the United Kingdom based on his global research on the third-party ecosystem. He also holds the honorary title of visiting senior fellow in strategy and governance in the school of business and economics at Loughborough University. Since 2014, Sanjoy's work has been cited in various global academic and professional journals, newspapers, and conference papers. Sanjoy has extensive experience advising boards, senior leadership, and heads of risk and internal audit on strategic governance and risk management of the extended enterprise, outsourcing, and shared services. He has worked across the United Kingdom, Gibraltar, India, and various countries in the Middle East. He is a chartered accountant (FCA), cost and management accountant, and certified information systems auditor (CISA) with more than 30 years of experience, including 17 years of partner-level experience at Deloitte and another Big Four firm.

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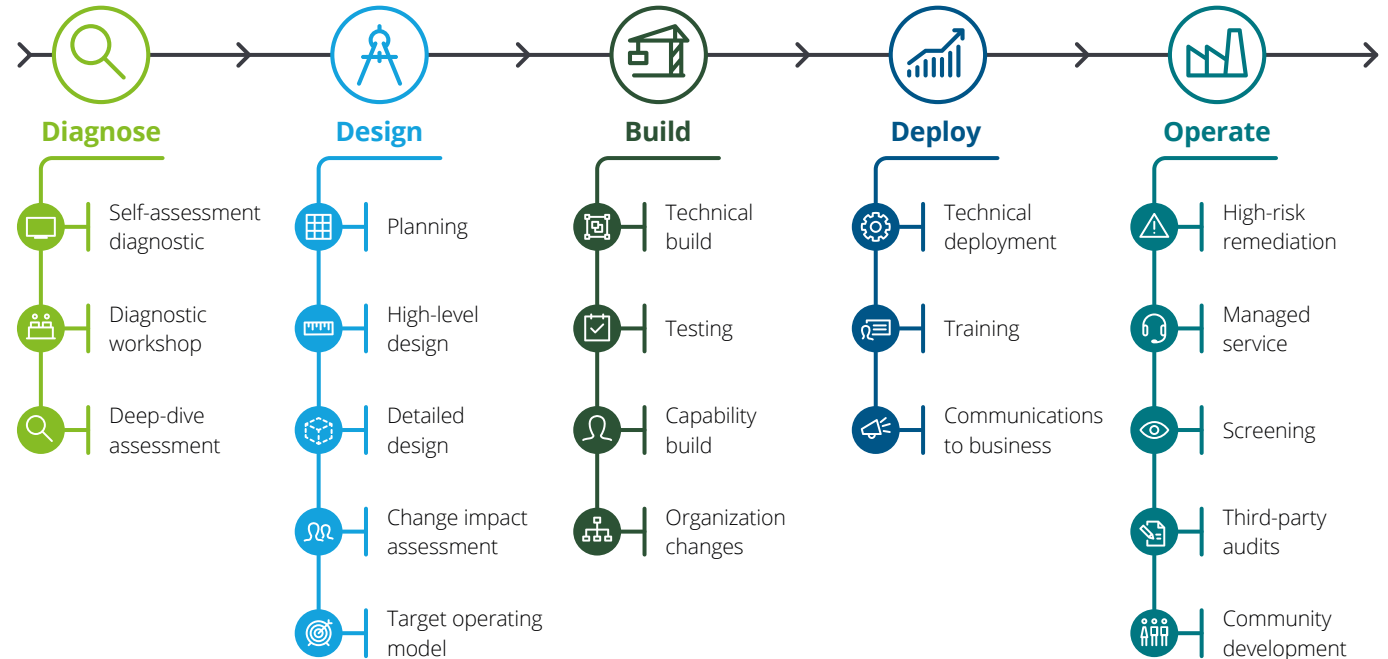


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We believe we are the **leading TPRM practice globally**. We have the **scale**, **breadth**, and **depth** to advise you, help you implement, and also fully manage your end-to-end TPRM activities.

We help you to:

- **Diagnose** existing TPRM capability;
- **Design** TPRM frameworks (i.e., policies, procedures, operating models, tools, etc.)
- **Build** and configure TPRM tools and stand up TPRM teams and utilities
- **Deploy** TPRM across your organization through phased implementation, training, and communication programs; and
- **Operate** and perform ongoing TPRM activities as part of a hybrid or fully outsourced managed service.





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03 Digital risks are a top concern



04 Cost pressures are preventing insourcing



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# Endnotes

1. In this year's report, we predominantly use the phrase "third-party risk management" rather than "extended enterprise risk management," as this is more widely used by organizations.
2. Industries covered by the survey include consumer; energy, resources, and industrials (ER&I); financial services (FS), government and public services (GPS); life sciences and health care (LSHC), and technology, media, and telecommunications (TMT). Industries are referred to by acronyms in all graphics.
3. We have considered fully and partially completed survey responses—to the extent survey questions have been answered by these respondents—when analyzing data and preparing our report.



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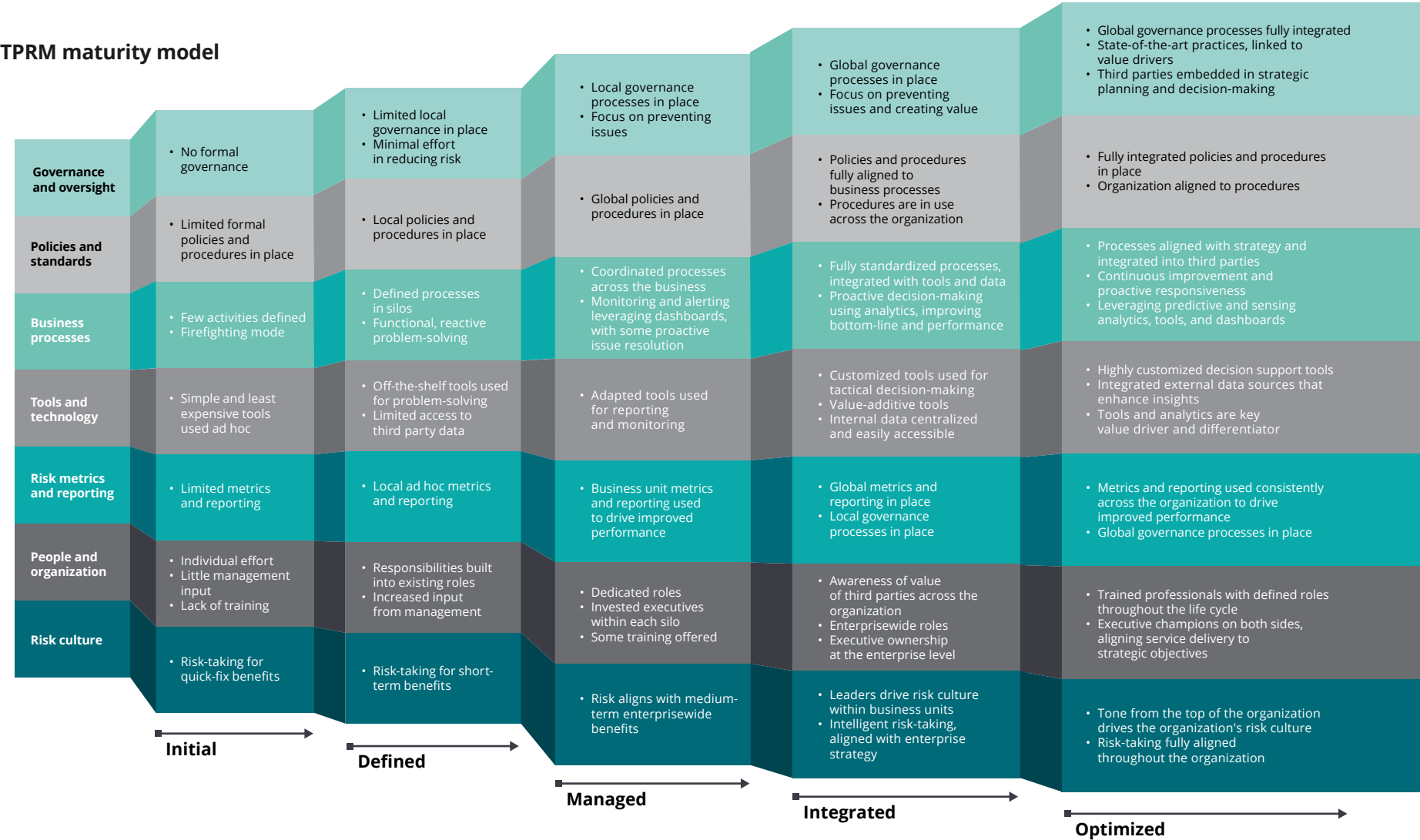
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