State of Third-Party Risk Management

Michael Volkov | CEO The Volkov Law Group
Stephen Gooding | Director, NAVEX Global
Agenda

• Survey Execution

• Key Findings
  – Ethics & Compliance Programs
  – Third-Party Risk Management Programs
  – Assessing Performance

• Key Points and Takeaways
Michael Volkov
CEO and Founder, The Volkov Law Group

Michael Volkov has over 35 years of experience in practicing law. A former federal prosecutor and veteran white collar defense attorney, he has expertise in areas of ethics and compliance, internal investigations and enforcement matters. Michael Volkov has extensive experience with best practices, government expectations, and industry standards for ethics and compliance programs.

Stephen Gooding
Director, Product Specialists, NAVEX Global

Stephen joined NAVEX Global in early 2015 and has since lead the sales efforts for the company’s third party risk management solution, RiskRate. He has experience working with Customers in a wide variety of industries including manufacturing, retail, life sciences, technology, and financials. As Director of Product Specialists, he partners with Customers to help design ABAC programs and solve business challenges.
Survey Execution

2018 NAVEX Global Third-Party Risk Management Benchmark Report
The 2018 Third-Party Risk Management Benchmark Report

Respondent Snapshot

- 1200+ total respondents, 500+ third-party risk management program decision-makers or influencers
  - Full ethics and compliance program responses put third-party risk management in context

**Job Function**
- 37% Compliance
- 13% HR & Employee Relations
- 9% Legal
- 8% Internal Audit
- 7% Risk Management
- 26% Other

**Industries**
- 17% Healthcare
- 13% Finance & Insurance
- 12% Manufacturing
- 7% Education
- 7% Professional, Scientific and Technical Services
- 6% Transportation / Logistics

**Job Level**
- 16% C-Level
- 41% Senior Managers/Directors
- 31% Other Management
- 12% Non-Management

**Company Size**
- 21% Large (5000+ employees)
- 40% Medium (501-5000 employees)
- 39% Small (<500 employees)
Survey Question

How is third-party risk management positioned within your organization?

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is not part of our ethics and compliance program</td>
<td>16.6%</td>
</tr>
<tr>
<td>Our legal or compliance team has oversight and decision making</td>
<td>26.5%</td>
</tr>
<tr>
<td>capabilities, but it is managed by another team</td>
<td></td>
</tr>
<tr>
<td>It is a part of our compliance program, but not integrated</td>
<td>28.7%</td>
</tr>
<tr>
<td>It is an integrated and key component of our ethics and compliance</td>
<td>28%</td>
</tr>
<tr>
<td>approach</td>
<td></td>
</tr>
</tbody>
</table>
Key Findings and Analysis

2018 NAVEX Global Third-Party Risk Management Benchmark Report
Top Overall Ethics & Compliance Concerns

Ethical conduct and cyber security / data privacy are top program concerns

Which of the Following E&C Topics Are Top Concerns in Your Organization?

- Ethics and Code of Conduct: 46%
- Cyber Security and Data Privacy: 44%
- Procedure Management / Quality Control: 28%
- Conflicts of Interest: 25%
- Anti-Bribery and Corruption / Fraud: 21%
- Speaking Up and Retaliation: 19%
- Workplace Harassment: 19%
- Diversity and Discrimination: 16%

Multiple response question, totals may not add up to 100%, n=1,264.
Program Elements Aligned To Top Overall Concerns

A risk-based due diligence program for third parties ranked last

Does Your E&C Program Include the Following Elements?

- Code of Conduct: 87%
- Effective Policies and Procedures That Prohibit and Reduce Misconduct: 83%
- Training Based on Your Organization’s Risks and Individual Roles: 73%
- Non-Retaliation Policies Across the Organization: 70%
- An Anonymous (e.g., Hotline) Reporting Channel with Consistent Investigations: 67%
- Buy-In, Oversight and Commitment from Senior Leadership: 66%
- Periodic Assessment of Your Organization’s Risk Profile and Program Effectiveness: 61%
- A Risk-Based Due Diligence Program for Third Parties: 45%

Multiple response question, totals may not add up to 100%, n=1,264.
Top E&C Priorities Include Awareness & Training

Only 23% of orgs will prioritize third-party due diligence

Which of the Following E&C Activities Will Your Organization Be Prioritizing Over the Next 12 Months?

- Increasing the Awareness of Our Policies and Regulations Across the Organization: 50%
- Improving or Increasing Our Ethics and Compliance Training Activities: 40%
- Training and Supporting Frontline Managers and Supervisors on Their Responsibilities: 39%
- Auditing or Measuring Our Compliance Program Effectiveness: 31%
- Conducting a Risk Assessment: 27%
- Improving Third-Party Due Diligence and Oversight: 23%
- Increasing Board and Senior Leadership Awareness and Involvement in Compliance: 20%

Multiple response question, totals may not add up to 100%, n=1,264.
## Third-party risk management program performance lowest rated

Please Rate the Performance of Your Organization’s E&C Program in the Following Areas:

<table>
<thead>
<tr>
<th>Area</th>
<th>Poor</th>
<th>Fair</th>
<th>Average</th>
<th>Good</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Policies and Tracking Attestations</td>
<td>5%</td>
<td>9%</td>
<td>27%</td>
<td>43%</td>
<td>16%</td>
</tr>
<tr>
<td>Keeping Up to Date with New Regulations</td>
<td>3%</td>
<td>6%</td>
<td>21%</td>
<td>45%</td>
<td>25%</td>
</tr>
<tr>
<td>Managing Third-Party Risks</td>
<td>8%</td>
<td>13%</td>
<td>35%</td>
<td>36%</td>
<td>8%</td>
</tr>
<tr>
<td>Addressing Environment, Health and Safety Issues</td>
<td>4%</td>
<td>6%</td>
<td>24%</td>
<td>41%</td>
<td>25%</td>
</tr>
<tr>
<td>Legal Defensibility and Governance</td>
<td>2%</td>
<td>6%</td>
<td>23%</td>
<td>47%</td>
<td>22%</td>
</tr>
<tr>
<td>Whistleblowing Channels (e.g., Telephone, Web Intake, Open Door)</td>
<td>8%</td>
<td>8%</td>
<td>21%</td>
<td>35%</td>
<td>28%</td>
</tr>
<tr>
<td>Managing Incident Reports and Investigations</td>
<td>4%</td>
<td>6%</td>
<td>20%</td>
<td>44%</td>
<td>26%</td>
</tr>
<tr>
<td>Measuring Compliance Program Effectiveness</td>
<td>11%</td>
<td>14%</td>
<td>28%</td>
<td>36%</td>
<td>11%</td>
</tr>
</tbody>
</table>
Key Data Points: Overall E&C Programs

Third-party risk management key component of successful E&C programs

- As third-party risk management programs further integrate into E&C programs, objectives align

- Third-party due diligence is often overlooked and its importance not yet fully understood

- Prioritization of third-party risk management is critical to full ethics and compliance program success
Survey Question

How concerned are you about your third party risk management program?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is the top challenge for us</td>
<td>4.9%</td>
</tr>
<tr>
<td>It is one of our top-three challenges</td>
<td>37.6%</td>
</tr>
<tr>
<td>We are concerned, but it is not a top challenge</td>
<td>45.4%</td>
</tr>
<tr>
<td>It is a low-level priority</td>
<td>4.3%</td>
</tr>
<tr>
<td>We are confident in our program and don’t worry about third-party risk management</td>
<td>7.8%</td>
</tr>
</tbody>
</table>
Third-Party Risk Management: Program Maturity

Indicators of program sophistication and performance

Based on four indicator survey questions that demonstrate approach to and execution of best practices in a third-party risk management program
Third-Party Risk Management: Self-Assessment of Risk

Very few believe their third parties represent significant risk

What Percent of Your Third Parties Do You Consider to Be High Risk?

<table>
<thead>
<tr>
<th>Category</th>
<th>Reactive (n=53)</th>
<th>Basic (n=149)</th>
<th>Maturing (n=197)</th>
<th>Advanced (n=80)</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 50%</td>
<td>4%</td>
<td>4%</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>26% to 50%</td>
<td>6%</td>
<td>4%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>10% to 25%</td>
<td>24%</td>
<td>15%</td>
<td>21%</td>
<td>29%</td>
</tr>
<tr>
<td>10% or Fewer</td>
<td>55%</td>
<td>47%</td>
<td>58%</td>
<td>58%</td>
</tr>
<tr>
<td>None</td>
<td>11%</td>
<td>30%</td>
<td>11%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Base: All respondents, n=506.
Numbers may not add up to 100% due to rounding.
Program Performance: Underestimating Risk is Common

Even among top industries, actual third-party damage risk is elevated.

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>No Risk</th>
<th>10% or Less</th>
<th>10 to 25%</th>
<th>26 to 50%</th>
<th>50% or More</th>
<th>Percent of Respondents Indicating Third-Party Related Organizational Damage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>3%</td>
<td>71%</td>
<td>21%</td>
<td>5%</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Transportation</td>
<td>13%</td>
<td>47%</td>
<td>23%</td>
<td>10%</td>
<td>7%</td>
<td>13%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>13%</td>
<td>51%</td>
<td>28%</td>
<td>4%</td>
<td>5%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Numbers may not add up to 100% due to rounding.
Third-Party Risk Management: Many Pursue a Risk-Based Approach

76 Percent of those with Reactive programs don’t currently do anything

What Best Describes Your Organization’s Approach to Third Parties?

<table>
<thead>
<tr>
<th>Approach</th>
<th>Reactive n=53</th>
<th>Basic n=149</th>
<th>Maturing n=197</th>
<th>Advanced n=80</th>
</tr>
</thead>
<tbody>
<tr>
<td>We Currently Have a Risk-Based Program That Applies Different Degrees of Due Diligence Based on Certain Classification Criteria and Risk Level</td>
<td>37%</td>
<td>0%</td>
<td>24%</td>
<td>45%</td>
</tr>
<tr>
<td>We Currently Apply the Same Approach to All Third Parties Regardless of Risk Level</td>
<td>27%</td>
<td>0%</td>
<td>37%</td>
<td>31%</td>
</tr>
<tr>
<td>Our Organization Applies Different Degrees of Due Diligence Depending on Which Department Manages the Relationship</td>
<td>13%</td>
<td>13%</td>
<td>15%</td>
<td>14%</td>
</tr>
<tr>
<td>We Currently Apply an Elevated Level of Due Diligence to High-Risk Third Parties Only</td>
<td>7%</td>
<td>6%</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>We Apply a Global Policy to Stratify Risk</td>
<td>6%</td>
<td>6%</td>
<td>9%</td>
<td>4%</td>
</tr>
<tr>
<td>We Don’t Do Anything Currently</td>
<td>10%</td>
<td>76%</td>
<td>4%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Base: All respondents, n=498.
Numbers may not add up to 100% due to rounding.
Third-Party Risk Management: Program Practices Vary

Advanced programs pursue multiple activities to identify and reduce risk

<table>
<thead>
<tr>
<th>Practice</th>
<th>Reactive n=53</th>
<th>Basic n=149</th>
<th>Maturing n=197</th>
<th>Advanced n=80</th>
</tr>
</thead>
<tbody>
<tr>
<td>Screen Our Third Parties</td>
<td>70%</td>
<td>55%</td>
<td>71%</td>
<td>67%</td>
</tr>
<tr>
<td>Monitor Our Third Parties</td>
<td>61%</td>
<td>38%</td>
<td>53%</td>
<td>63%</td>
</tr>
<tr>
<td>Perform Enhanced Due Diligence on Our Third Parties</td>
<td>41%</td>
<td>4%</td>
<td>23%</td>
<td>47%</td>
</tr>
<tr>
<td>Send Questionnaires and Collect Documents and Information from Third Parties in a Centralized Location</td>
<td>36%</td>
<td>11%</td>
<td>23%</td>
<td>36%</td>
</tr>
<tr>
<td>Advise Our Organization on Our Third-Party Due Diligence Program Structure and Effectiveness</td>
<td>29%</td>
<td>4%</td>
<td>10%</td>
<td>33%</td>
</tr>
<tr>
<td>Continuous, Automated Enhanced Due Diligence Actions Based on Our Organization's Definitions of High, Medium and Low Risk</td>
<td>20%</td>
<td>0%</td>
<td>3%</td>
<td>17%</td>
</tr>
<tr>
<td>Automate and Track All Aspects of Third-Party Risk Management Through the Lifecycle of Each Third-Party Engagement</td>
<td>12%</td>
<td>0%</td>
<td>3%</td>
<td>9%</td>
</tr>
<tr>
<td>Deliver Third-Party Training Incentives, Certifications or Program Compliance</td>
<td>12%</td>
<td>2%</td>
<td>3%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Base: All respondents, n=491.
Third-Party Risk Management: Addressing Risk with Technology

Far too many use rudimentary approaches

What Technology Are You Currently Applying to Manage Your Third-Party Risk?

- An Internally Built or Highly Manual System (Paper-Based or Stitched-Together Software)
  - Reactive: 35%
  - Basic: 64%
  - Maturing: 62%
  - Advanced: 17%

- An Office Productivity Solution (Spreadsheets, Word Processing or Email Program)
  - Reactive: 27%
  - Basic: 30%
  - Maturing: 22%
  - Advanced: 38%

- A Customer Relationship Management (CRM) or Enterprise Resource Management (ERM) Solution
  - Reactive: 20%
  - Basic: 6%
  - Maturing: 11%
  - Advanced: 26%

- A Purpose-Built Third-Party Risk Management Software Solution
  - Reactive: 13%
  - Basic: 0%
  - Maturing: 2%
  - Advanced: 11%

- A Reconfigured Automated Solution to Manage Third-Party Risk
  - Reactive: 5%
  - Basic: 0%
  - Maturing: 2%
  - Advanced: 8%

Base: All respondents, n=485.
Numbers may not add up to 100% due to rounding.
Program Performance: Too Many Rely on Insufficient Technology

Many of those who recognize third-party related damages use inadequate tools

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>Internally-Built System</th>
<th>Office Productivity Solution</th>
<th>CRM / ERP</th>
<th>Reconfigured Automated System</th>
<th>Purpose-Built Third-Party Risk Management Solution</th>
<th>Percent of Respondents Indicating Third-Party Related Organizational Damage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>20%</td>
<td>28%</td>
<td>30%</td>
<td>3%</td>
<td>18%</td>
<td>10%</td>
</tr>
<tr>
<td>Transportation / Distribution / Logistics / Warehousing</td>
<td>43%</td>
<td>20%</td>
<td>20%</td>
<td>7%</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>Healthcare &amp; Social Assistance</td>
<td>52%</td>
<td>20%</td>
<td>17%</td>
<td>1%</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>Total Across Industries</td>
<td>35%</td>
<td>27%</td>
<td>20%</td>
<td>5%</td>
<td>13%</td>
<td>–</td>
</tr>
</tbody>
</table>

Numbers may not add up to 100% due to rounding.
Survey Question

How would you rate your third-party risk management program overall?

<table>
<thead>
<tr>
<th>Rating</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>4%</td>
</tr>
<tr>
<td>Good</td>
<td>28.3%</td>
</tr>
<tr>
<td>Average</td>
<td>33%</td>
</tr>
<tr>
<td>Fair</td>
<td>22.5%</td>
</tr>
<tr>
<td>Poor</td>
<td>12.2%</td>
</tr>
</tbody>
</table>
Program Performance: Room for Improvement

Very few view their programs as top-performing

How Would You Rate Your Third-Party Risk Management Program Overall?

- Excellent: 3%
- Good: 29%
- Average: 38%
- Fair: 21%
- Poor: 9%

Reactive: n=53
Basic: n=148
Maturing: n=197
Advanced: n=80

Base: All respondents, n=478. Numbers may not add up to 100% due to rounding.
Program Performance: Most Expect a Reduction in Risk

Even those with reactive programs believe they’re doing okay

Rate Your Agreement With the Following Statement: Our Third-Party Due Diligence Program Significantly Reduces Our Legal, Financial and Reputational Risks.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neither Agree or Disagree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>13%</td>
<td>43%</td>
<td>33%</td>
<td>9%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Reactive: n=53   Basic: n=148   Maturing: n=197   Advanced: n=80

Base: All respondents, n=478. Numbers may not add up to 100% due to rounding.
Program Performance

Existing technologies can improve performance

- There is a critical lack of urgency in the market despite known risks, enforcement actions and reputational damage

- Too many high-risk industries are not yet gaining performance improvements

- Dedicated software technologies can help identify, stratify and mitigate third party related risks
Key Points and Takeaways

2018 NAVEX Global Third-Party Risk Management Benchmark Report
Key Points

• There is no one-size-fits-all approach: For your program to succeed, it must reflect your unique organizational risk and the risks each of your third parties represents

• Start at the right place: Assess your status and work to improve sophistication, risk reduction and performance

• Don’t do half the job: Cover all of your third parties, follow best practices, conduct due diligence and protect your organization

• Classify and understand your risk: Identify different levels of risk based on multiple factors – who is representing your organization, and who is not – assess the risk, rank the third parties and apply different levels of scrutiny and risk mitigation
Key Points

• Risk management is more than preventing enforcement – it is an important aspect of protecting your company’s culture and mitigating risk of financial and reputational harm.

• Focus on reducing your risk: A third party failure threatens your reputation and ability to continue to do business. For many organizations a single failure can be catastrophic.

• Automation and consistency delivers excellence: Technology solutions are rapidly advancing third-party risk management programs and are cost-effective, with a high ROI.
Key Takeaways

Improving third-party risk management program value

• Third-party risk management is an integral component of a successful ethics and compliance program, and companies understand the importance of protecting their ethical cultures.

• There is a fundamental disconnect in the market – companies know that third-parties pose a significant risk but have failed to prioritize the implementation of available, cost-effective, technology-based solutions.

• Companies have to elevate this issue in order to protect its employees, its reputation and its relationships with key stakeholders.
Additional Third Party Risk Management Assets

• **Third Party Risk Management Thought Leadership**  [http://www.navexglobal.com](http://www.navexglobal.com)
  - Guide: [Definitive Guide to Third Party Risk Management](http://www.navexglobal.com)
  - White Paper: [How to Develop the Business Case for a Third-Party Risk Management System](http://www.navexglobal.com)
  - White Paper: [How to go from Manual to Automated Third Party Due Diligence Monitoring: Ten Steps to Success](http://www.navexglobal.com)
  - White Paper: [Anti-Bribery & Corruption Risk Assessment Checklist](http://www.navexglobal.com)

• **More Benchmarking Resources From NAVEX Global:**
  - [2018 Hotline Benchmark Report & Toolkit](http://www.navexglobal.com)
  - [2018 Policy Management Benchmark Report](http://www.navexglobal.com)
  - [2018 Ethics & Compliance Training Benchmark Report](http://www.navexglobal.com)

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