

Overcoming the threats and uncertainty

Third-party governance and risk management (TPGRM)

Extended enterprise risk management global survey 2017



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Foreword

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Welcome to our 2017 global survey on extended enterprise risk management (EERM). This second survey follows last year's survey entitled "The Threats are Real" which revealed how large global organizations were addressing the key threats faced in managing third-parties that form their extended enterprise.¹ With a reduced focus on cost and an increased focus on value, the drivers for third-party engagement had shifted to recognizing the strategic opportunity that third-parties created for them.

This year's report is based on 536 responses, a significant increase from 170 responses received last year, reflecting the views of senior leaders from a variety of organizations in 11 countries across the Americas, Europe Middle East and Africa (EMEA), and Asia/Pacific. These responses were collected during a period of heightened uncertainty, following both the Brexit vote in the UK and the US presidential elections. As a result, the amount of progress made by organizations around this topic appears modest; however awareness of the risks has increased significantly, priming 2017 and 2018 as years for accelerated maturity on how organizations manage their third-party risks.

As reflected in our last survey, these respondents are typically responsible for governance and risk management of the extended enterprise in their organizations, including Chief Finance Officers, Heads of Procurement/Vendor Management, Chief Risk Officers, Heads of Internal Audit, and those leading the Compliance and Information Technology (IT) Risk functions. The respondents represented all the major industry segments.²

The majority of these organizations had annual revenues in excess of USD\$1 billion. Additional insight was also obtained from subsidiaries of group organizations operating with higher degrees of decentralization and others with lower annual revenues.

The report covers a number of issues that span the management of the extended enterprise and related risks in a rapidly-changing environment. We hope this report will continue to enhance your understanding of what has changed and what lies ahead as you exploit the many opportunities that TPGRM can create for your organization.

1. Given the increasing global usage of the term "extended enterprise" to denote the ecosystem of third-parties used by an organization, we will be using the phrase "Extended Enterprise Risk Management" to indicate Third-party Governance and Risk Management from our next edition.
2. Industry segments covered by the survey include Financial Services (FS), Energy & Resources (E&R), Manufacturing (MF), Public Sector (PS), Technology, Media and Telecom (TMT), Consumer Business (CB), Life Sciences & Health Care (LSHC) and Business, Infrastructure and Professional Services (BIPS).



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01

In today's business environment, organizations are under constant pressure to find new ways to create competitive advantage. The challenge is that almost all the pathways to achieve this competitive advantage also create risk.

Take the extended enterprise. Businesses have learned that leveraging an 'ecosystem' of third-parties can help innovate and generate incredible flexibility, agility, and cost savings. However, they have also learned that any shortcomings of third-party providers can damage their brand and reputation, can lead to regulatory penalties, and can disrupt their ability to meet their customers' expectations.

We believe that with the right risk management approach, organizations can confidently seize the competitive advantage offered by the extended enterprise by balancing opportunities and risk.

To help executives think about how they should leverage their extended enterprise, this report highlights opportunities and challenges reported by more than 500 global organizations as they manage their third-party providers including:

- Managing risks in a holistic and coordinated manner
- Adopting data-driven management of the associated risks
- Addressing the execution gap in processes and technology
- Integrating technology platforms
- Utilizing new delivery models

Leading organizations are enhancing their governance and management of these risks, while at the same time continuing to build relationships that leverage the ecosystem to create untapped value. We believe companies can use risk management to not only protect value but to power performance. Deloitte's Risk Advisory professionals around the world can guide you on that journey.

To learn more, please visit us at www.deloitte.com/risk.



Sam Balaji
Global Business Leader
Risk Advisory

We believe that with the right risk management approach, organizations can confidently seize the competitive advantage offered by the extended enterprise by balancing opportunities and risk.



Executive summary

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TPGRM in many organizations has continued to benefit from greater executive awareness; however significant changes in the external environment have slowed down progress in implementing holistic, integrated frameworks and risk management mechanisms over the last 12 months.

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The survey has identified five key areas where further effort is required by most organizations.

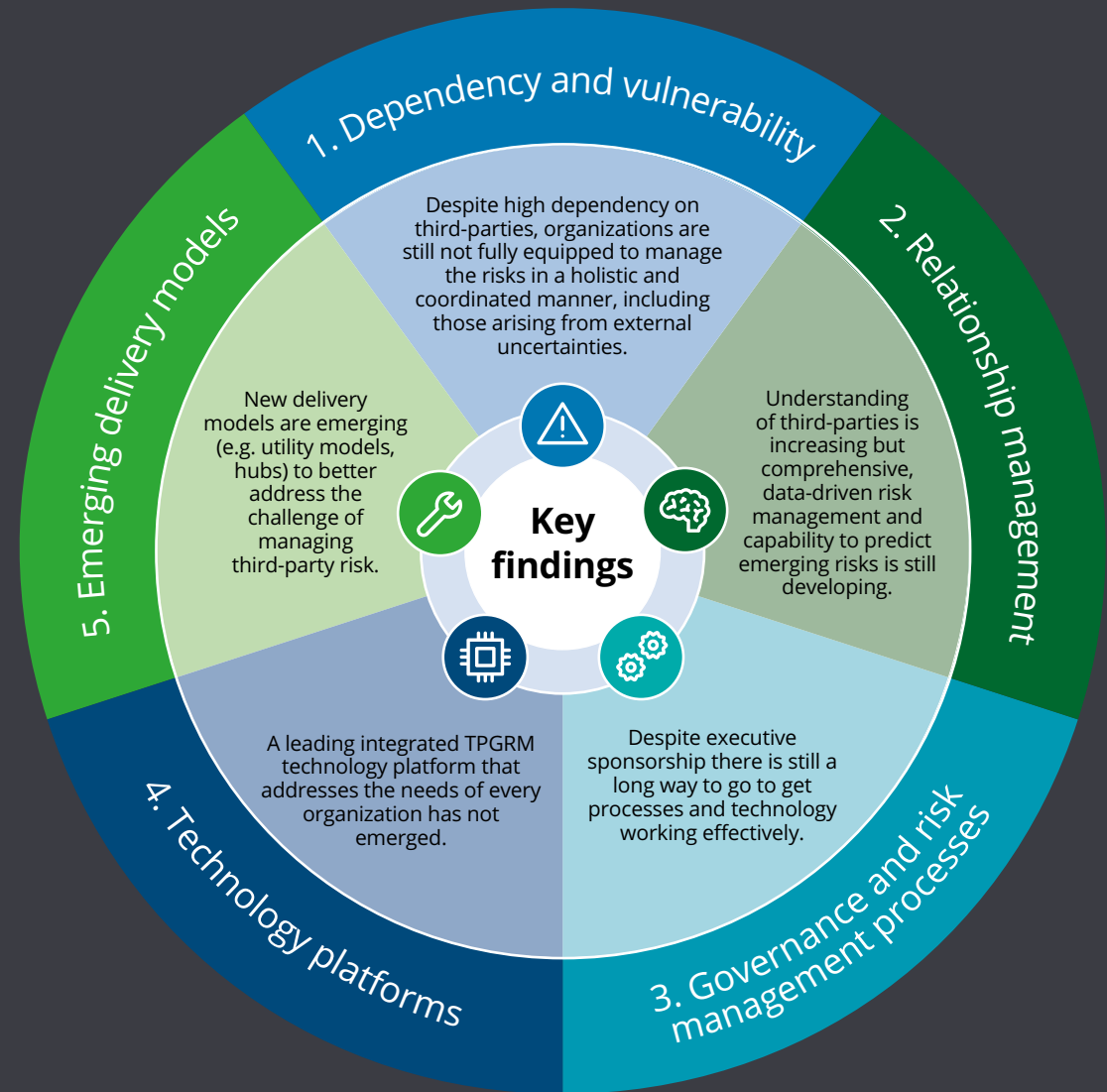
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1. Dependency and vulnerability

Despite high dependency on third-parties, organizations are still not fully equipped to manage the risks in a holistic and coordinated manner, including those arising from external uncertainties.

Our 2016 survey demonstrated how the increasing frequency of significant third-party incidents had compelled organizations to consider investing in holistic TPGRM programs with Board-level sponsorship.

This survey reveals that strategic dependence on the extended enterprise continues to increase, with corresponding aspirations to further integrate and optimize the related risk management mechanisms. However, despite the broader investment there has been a lack of focus on resilience to the increasingly volatile and uncertain financial and political environment, potentially leaving a blind-spot that has not been addressed by this investment.

40.5 percent of respondents reported "some" increase in their level of dependence on third-parties in the last year with a further 10.1 percent experiencing a "significant" increase in such dependence.

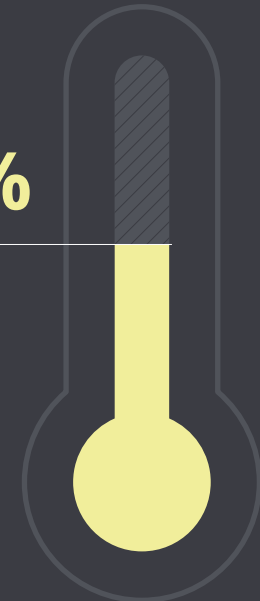
Significant increase - 10.1%



Some increase - 40.5%

53.3 percent of respondent organizations now have a "high or critical level of dependence" on their extended enterprise.

53.3%





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74.1 percent of respondents have faced at least one third-party related incident in the last three years.



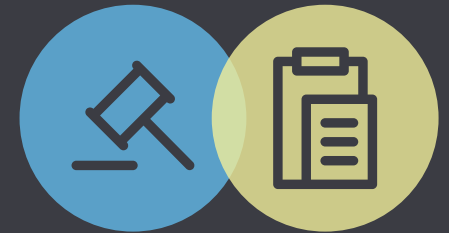
As many as **one in five** respondents have faced a complete third-party failure or an incident with major consequences in the last three years, the impact of which could have been minimized through a greater focus on resilience (in addition to prevention efforts).



Just **11.6 percent** of respondents are "fully prepared" to deal with the increased uncertainty in the external environment while a significant majority of **72.3 percent** of respondents are only "somewhat prepared."



26.3 percent of respondents have faced non-compliance with regulatory requirements, while **16.7 percent** have suffered reputation damage.



Only **20.1 percent** have integrated or optimized their EERM mechanisms with others aspiring to do so within the next 1-3 years.





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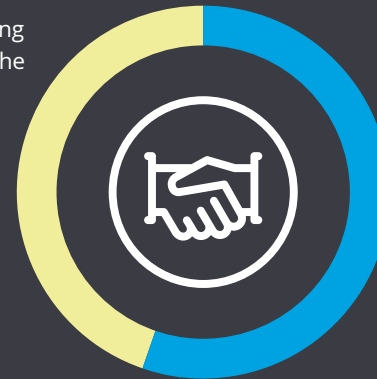
2. Relationship management

Understanding of third-parties is increasing but comprehensive, data-driven risk management and capability to predict emerging risks is still developing.

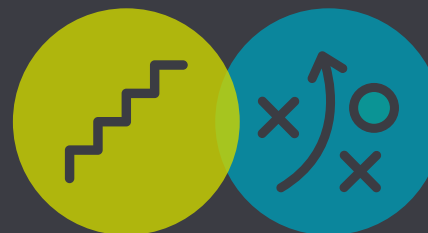
Although the overall level of understanding of the third-party landscape and associated risks appears to have increased, our survey indicates a lack of confidence in underlying data needed to manage these risks.

Similarly, while more than half of the respondents consider having a reasonable to excellent understanding of third-parties, this does not appear to be supported by robust, forward looking activities to proactively identify potential issues in advance.

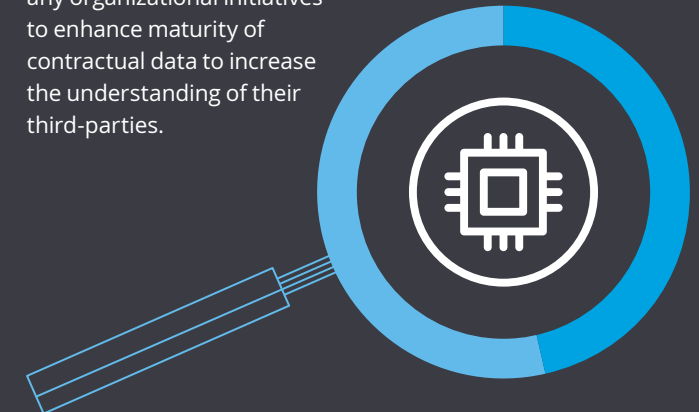
55.4 percent of respondents have a reasonable to excellent understanding of third-parties, with the other **44.6** percent having only low or "some level" of understanding.



Just **13.6** percent of respondents have forward-looking vigilance capabilities to identify imminent risks and performance issues of third-parties that are well-integrated into their processes of managing their extended enterprise, while **78.9** percent are at various stages of development of such capabilities.



46.6 percent do not have any organizational initiatives to enhance maturity of contractual data to increase the understanding of their third-parties.



As many as **53.8** percent consider their level of knowledge of third-party contract terms and related data to be limited, including respondents who recognize this is inadequate.





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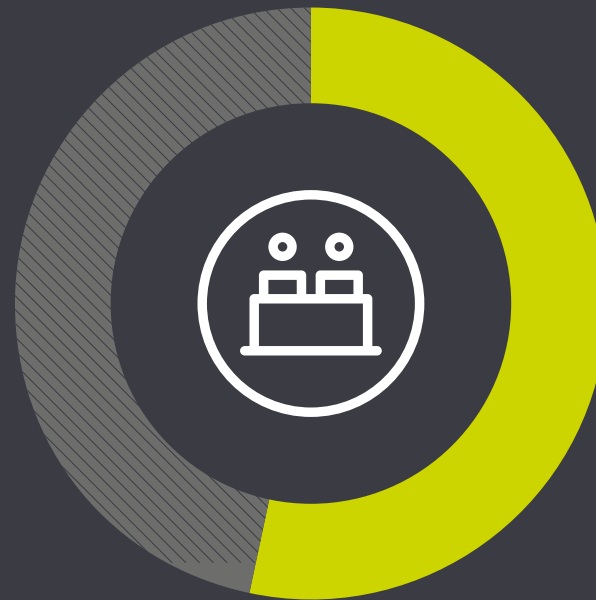
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3. Governance and risk management processes

Despite executive sponsorship there is still a long way to go to get processes and technology working effectively.

Despite sustained Board and executive sponsorship, process and technology gaps in TPGRM continue to impair delivery capability.

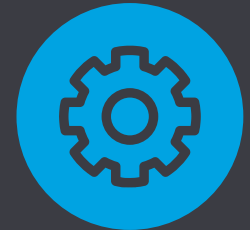


Third-party risk features consistently or periodically on the Board agenda in **53.2** percent of respondent organizations.

However, the proportion of respondents skeptical about TPGRM technology in their organizations has only slightly reduced from **94.3** percent since our last survey to **90.6** percent of respondents.



A similar lack of confidence relating to the quality of TPGRM processes is also only marginally down from **88.6** percent to **82.5** percent, indicating the need for continued focus in this area.



Ultimate responsibility for third-party risk management rests with the Board, CEO, CFO, CPO, or other members of the C-suite in **74.6** percent of respondent responses.





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4. Technology platforms

A leading integrated TPGRM technology platform that addresses the needs of every organization has not emerged.

Contrary to the previously held expectation that an integrated tool would address all the key dimensions of TPGRM, current survey results indicate that no single leading solution has since emerged. Instead, survey respondents are using a myriad of technologies in managing different aspects of third-party risk or even different types of third-parties across the organization. The current piecemeal approach has limited advantages in leveraging multiple dimensions of available technology, and is compelling many organization's to build in some spreadsheet or manual process-based intervention to bridge the gaps.



19.9 percent of respondents are using the TPGRM-relevant modules of broader GRC solutions, while **17.0** percent are using specific TPGRM solutions.

Using features of an existing ERP system is still the most popular solution as a technology platform for TPGRM, as outlined by **43.9** percent of respondents. **20.4** percent of respondents supported this by the use of bespoke solutions to achieve integration needs.

55 percent of survey respondents now combine more than one technology platform to address TPGRM requirements.



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5. Emerging delivery models

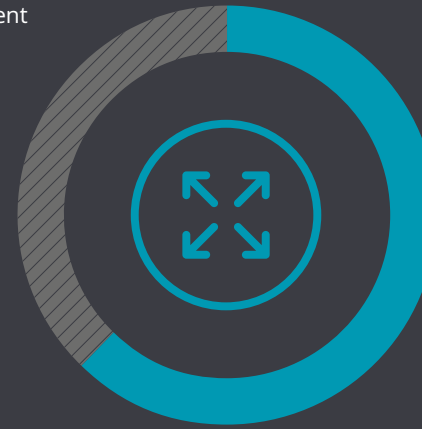
New delivery models are emerging (e.g. utility models, hubs) to better address the challenge of managing third-party risk.

Various innovative delivery models are developing in response to increasing decentralization in organizations. The survey reveals that the majority of respondents are expanding the role of the corporate center to include Shared Service Centers (SSCs) and Centers of Excellence (CoEs) for TPGRM to bring in the desired standardization as well as specialized skills. This in turn is driving competition for the top talent amongst many organizations building their own internal capability.

Some respondents, however, are progressively moving to external service provider-based “managed service” models, representing an increasing trend.

To facilitate collaborative sharing of information across organizations, information hubs (community models) available as market utilities on TPGRM, represent another emerging trend. Our survey however reveals a relatively low level of knowledge around these information hubs.

As many as **62.4** percent of respondents are equally or more decentralized than they are centralized.



Over **59.0** percent of respondents are moving to increasingly centralized in-house functions to support TPGRM.



12.8 percent of respondents are moving to an external service provider-based “managed service” model for third-party management, which also reflects an emerging trend.



One in five respondents are already utilizing information hubs (community models) on third-party risk available as market utilities or intending to do so in the near future. However, **51.3** percent of respondents are unaware of this emerging trend.





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1. Dependency and vulnerability

1a. Despite high dependency on third-parties, organizations are not yet managing the risks in a holistic and coordinated manner.

1b. Organizations feel inadequately prepared to deal with changes in the external environment impacting their extended enterprise.



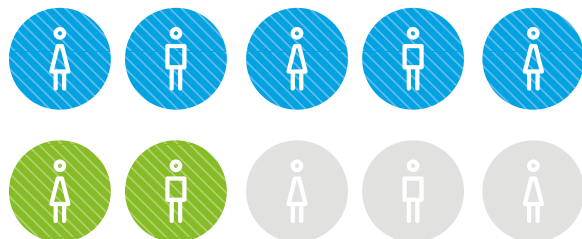
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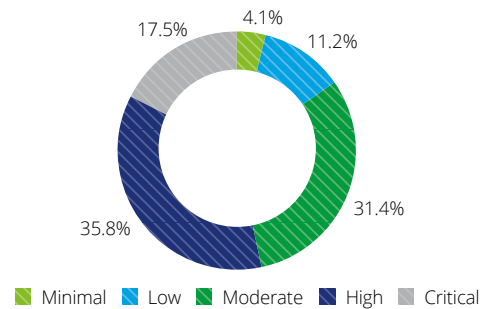
1a. Despite high dependency on third-parties, organizations are not yet managing the risks in a holistic and coordinated manner.

Although **53.3** percent of respondent organizations now have a **“high or critical level of dependence” on third-parties...**

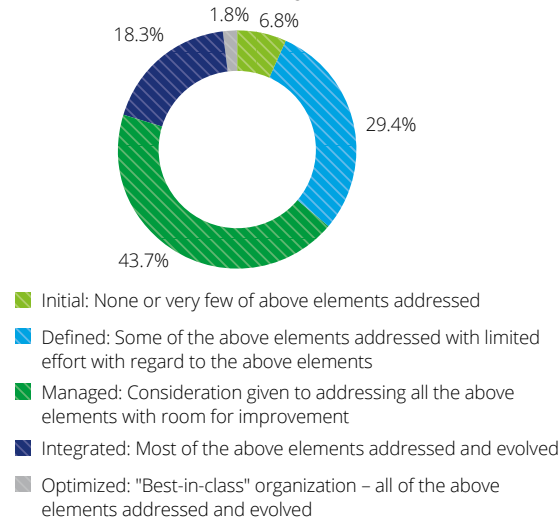
...only 20.1 percent have **integrated or optimized their TPGRM mechanisms.**



Extent of third-party dependence



Levels of TPGRM maturity



Key messages

Our 2016 survey demonstrated how a renewed set of drivers, directly aligned to long-term value-creation (e.g. business agility, access to specialized skills and knowledge, innovation and process improvement) in addition to cost-savings, were motivating organizations to enhance dependence on third-parties. This, together with the increasing frequency of significant third-party incidents with various adverse consequences, had increased board-level awareness on TPGRM. As a result, these organizations were starting to consider investing in holistic and integrated programs.

The current survey indicates that the strategic dependence on third-parties continues to increase. 40.5 percent of respondents reported some increase in their level of dependence on third-parties in the last one year with a further 10.1 percent experiencing a significant increase in such dependence.

Although 53.3 percent of respondent organizations now have a “high or critical level of dependence” on third-parties, only 20.1 percent have integrated or optimized their TPGRM mechanisms. Respondents recognize that these current levels of integration or optimization are far below aspirational levels. There are therefore aspirations to further integrate and optimize the related risk management mechanisms. 53.0 percent of respondents aspire to achieve integration and an additional 27.0 percent to achieve optimization within the next 1-3 years.

Most organizations are still not managing the risks that third-parties create for them in a holistic and coordinated manner; this position has not changed significantly since last year.

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- LSHC, E&R, and TMT closely follow FS in their dependency level on third-parties. All three industries have faced disruptive changes in their business environments, requiring them increasingly to look to third-parties to bring in sources of innovation, competitive advantage, and cost savings. For instance, LSHC has faced significant uncertainty, caused by changing demography (e.g., the ageing population in Western countries and related healthcare issues), financial factors (e.g., changes in government policies and cost reduction pressures), and increasing innovation (e.g., patient self-care), amid increasing regulation and the need to be more patient-centric through greater use of technology. Similarly, uncertainties regarding energy prices have impacted E&R organizations, just as emerging technologies and innovative pricing models and delivery platforms have impacted the TMT sector. Given the need for a prompt response to these strategic changes, these organizations have not had the chance, or the immediate regulatory drivers, to invest in TPGRM as FS has done over the last few years.

- CB and MF industries have traditionally managed a large number of third-parties in their direct supply chain. This has remained consistent over the past few years, although newer delivery models enabled by innovation and technology continue to emerge. Further, the impact of regulatory action resulting from third-parties has so far globally been considerably lower compared to other industries discussed above. As a result, survey respondents rated their level of criticality in third-party dependence to be comparatively lower than the industries discussed above. Accordingly, investments in governance and risk management have mostly been directed by procurement teams addressing supply chain risks rather than a more recent holistic and integrated approach covering all third-parties.

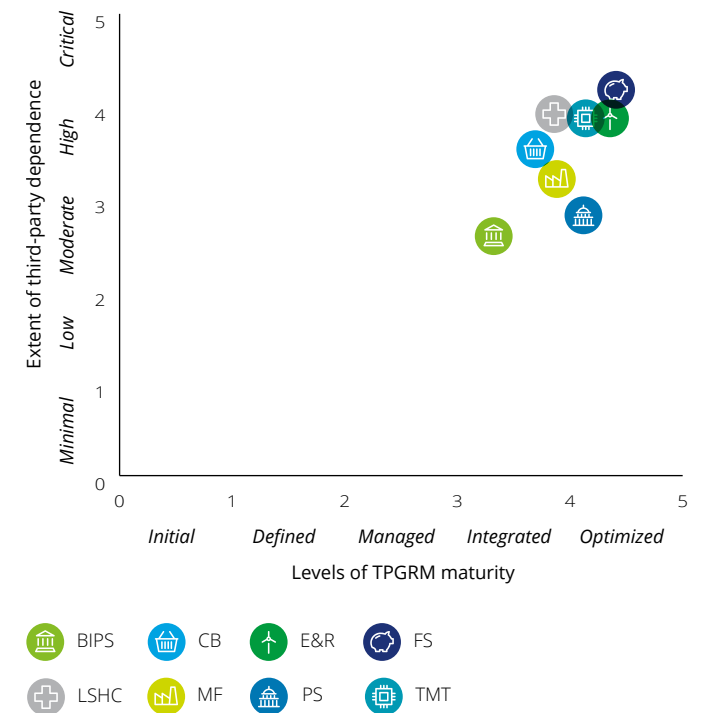
- PS and BIPS have the lowest levels of dependence on third-parties in relative terms when compared to the other industry segments, in keeping with their lower levels of investment in TPGRM.

Aspirations: The survey results indicate that all the industry segments without exception have aspirations to continue to integrate and optimize TPGRM. Should these aspirations materialize over the next 1-3 years, FS, TMT, and E&R, will emerge as the “astute entrepreneurs” with the ability to bring in the proportionate focus on risk and governance, aligned to higher levels of dependence on third-parties. LSHC anticipates taking a more measured approach to its integration and optimization roadmap.

PS organizational respondents intend to continue to invest in TPGRM. However, it appears that high levels of public accountability could continue to drive organizational decision-makers to “play safe” and focus such risk management efforts mainly to manage or mitigate any adverse consequences of risks. This could result in limited efforts to be able to integrate their understanding and management of risks more directly with their strategic decisions.

In a similar vein, the BIPS industry segment forecasts limited additional reliance on third-parties to continue their operational risk management focus on minimizing professional liability to clients or other third-parties impacted by services rendered by them. Additional investments will primarily address newer threats, for example breaches of computer security or data privacy related to their clients, bodily injury, or property damage as a result of its acts or omissions or even economic damages including delays, lost productivity and remedial costs.

Extent of third-party dependence compared to aspirational level of TPGRM maturity (aspirations)



All the industry segments without exception have aspirations to continue to integrate and optimize TPGRM.

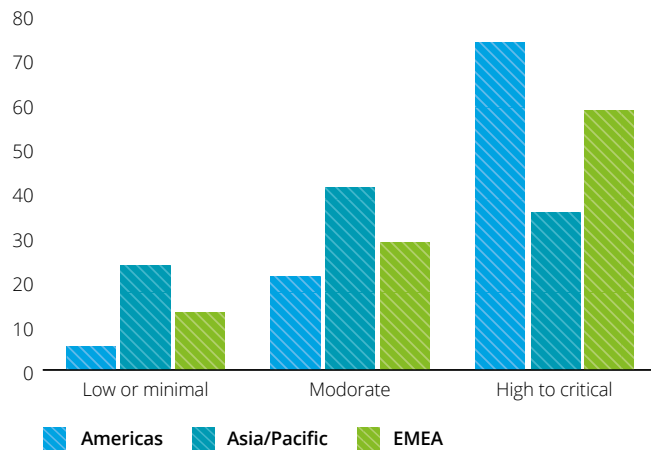
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Geography highlights

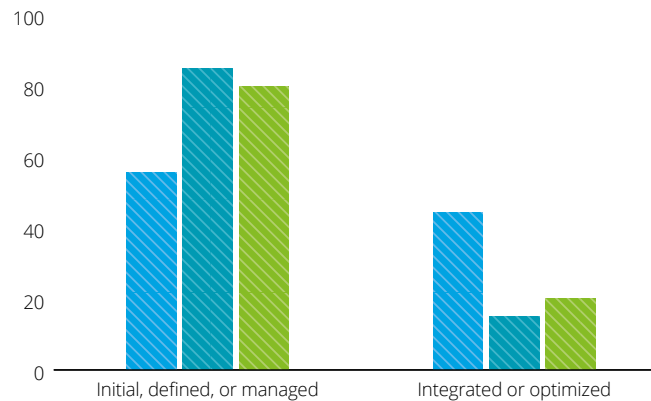
The Americas region has the highest proportion of high and critical levels of dependence on third-parties (73.6 percent of respondents) followed by EMEA (58.4 percent), and Asia/Pacific (35.3 percent).

Extent of third-party dependence by region



The proportion of respondents with integrated and optimized TPGRM mechanisms is also the highest in the Americas (44.4 percent) followed by EMEA (20.1 percent), and Asia/Pacific (15.1 percent).

Levels of TPGRM maturity by region



The Americas region has the highest levels of high and critical levels of dependence on third-parties as well as the proportion of respondents with integrated and optimized TPGRM mechanisms.



1 b. Organizations feel inadequately prepared to deal with changes in the external environment impacting their extended enterprise.



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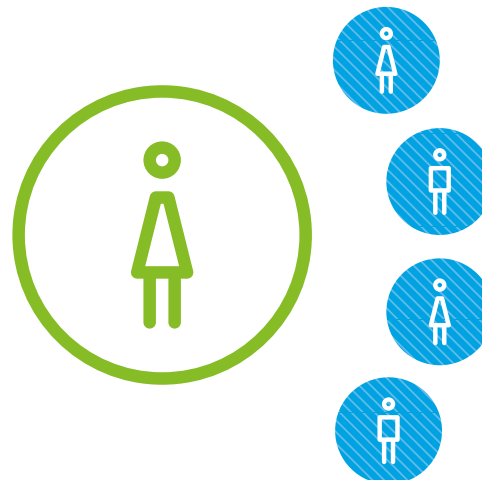
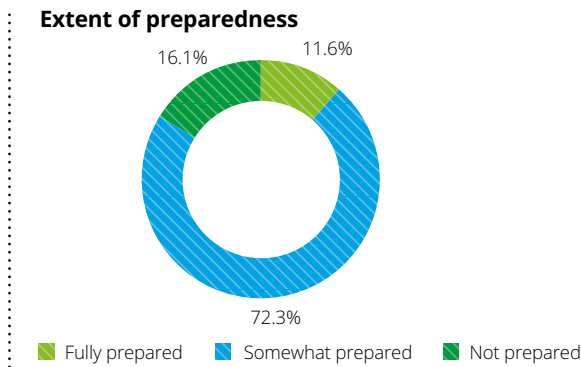
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74.1 percent of respondents have faced at least **one third-party related incident in the last three years.**

As many as **one in five** respondents have faced a complete third-party failure or an incident with major consequences in the last three years, **the impact of which could have been minimized through a greater focus on resilience.**



Key messages

Survey respondents recognize that the current business and political environment has become far more uncertain and volatile over the last year, impacted by factors such as the change in administration and resultant uncertainty in government policy in the US, the uncertainty of protectionism in global trade following the Brexit vote and the continued emergence of new global regulation such as the European General Data Protection Regulation (GDPR) creating increasing legal duties across borders.

The survey reveals how limited investment in building organizational resilience to this volatile and uncertain environment is exposing organizations to significant risk. Just 11.6 percent of respondents feel “fully prepared” to deal with the increased uncertainty in the external environment while a significant majority of 72.3 percent of respondents feel only “somewhat prepared.” The remaining 16.1 percent consider themselves unprepared to deal with this increased uncertainty.

At the same time, the survey results demonstrate the high frequency of third-party related incidents. As many as 74.1 percent of respondents have faced at least one third-party related incident in the last three years. One in five respondents have faced a complete third-party failure or an incident with major consequences in the last three years, the impact of which could have been minimized through a greater focus on resilience. 26.3 percent of respondents have faced non-compliance with regulatory requirements, while 16.7 percent have suffered reputation damage, directly as a result of their third-party relationships.



Deloitte point of view

Investments in TPGRM initiatives have traditionally focused on implementing controls mapped to specific risks that third-parties inherently present to organizations. These controls have been primarily of a detective nature to identify situations requiring management attention or disciplined escalation on a timely basis. In addition, due diligence or vetting procedures related to third-parties have acted as preventive controls/safeguards against potential future challenges. Resilience, aimed at reducing the impact of third-party-related risk incidents, has not received adequate attention, except where enforced by regulation, for instance in the FS industry segment.

Uncertainty in the external environment is likely to be a key factor for risk functions over the next 12 months, requiring investments in building resilience to a changing environment to complement the earlier focus on detection and prevention. Deloitte considers this to be a key risk trend for 2017.

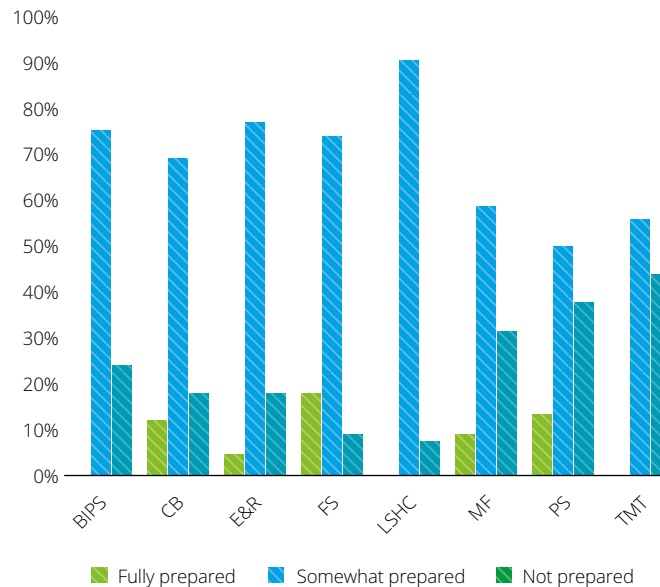
Due diligence or vetting procedures related to third-parties have acted as preventive controls/safeguards against potential future challenges.



Industry highlights

While the lack of preparedness for significant change in the external environment combined with facing complete third-party failures and major disruption is consistent across all industry segments, a few industries stand out:

Preparedness for significant change in the external environment by industry



- None of the respondents from LSHC, TMT, and BIPS are fully prepared for significant change in the external environment, although 23.1 percent, 23.3 percent and 30.0 percent of respondents have experienced complete third-party failure or major disruption in the last three years respectively.
- FS appears to be the most prepared for a changing environment, compared to the other industry segments albeit with only 17.3 percent respondents indicating they are fully prepared; however 21.3 percent have experienced complete third-party failure or major disruption in the last three years.

One in five respondents have faced a complete third-party failure or an incident with major consequences in the last three years.

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Geography highlights

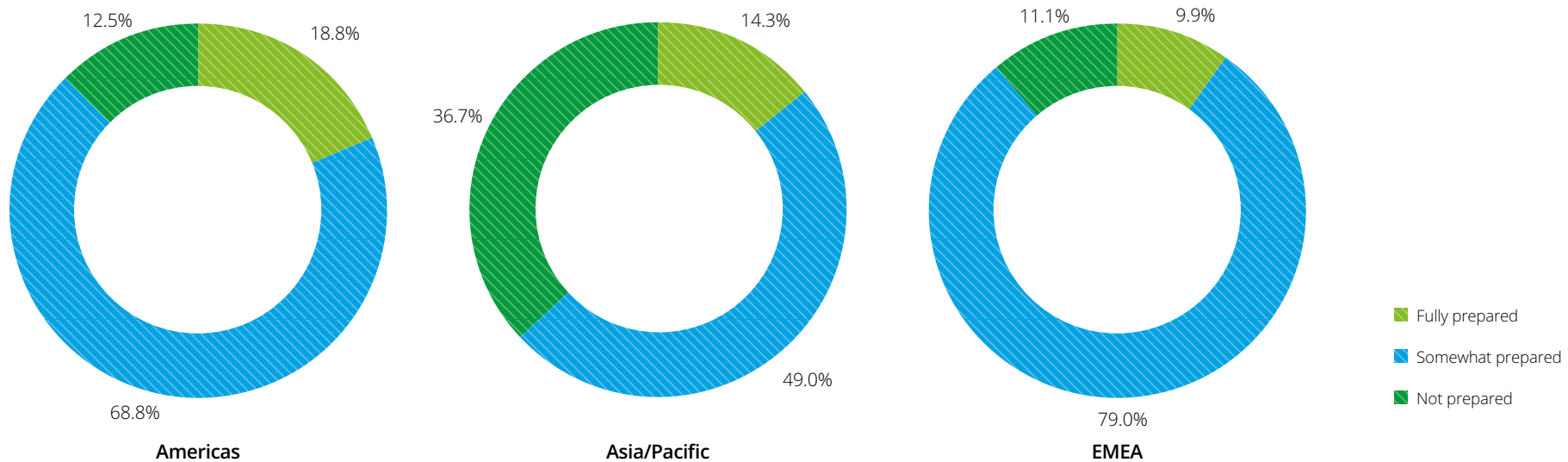
The Americas region appears to be the most prepared compared to the other regions with 18.8 percent fully prepared, followed by Asia/Pacific 14.3 percent respondents in this position.

Less than one in ten respondents from EMEA are fully prepared for dealing with changes in the external environment, although experience of complete third-party failure or major disruption is the highest (23.7 percent).

Third-party incidents resulting in reputation damage is the highest in the Americas (one in four respondents) while those involving non-compliance with regulatory requirements is the highest in EMEA (28.5 percent).

Less than one in ten respondents from EMEA are fully prepared for dealing with changes in the external environment, although experience of complete third-party failure or major disruption is the highest (23.7 percent).

Resilience to deal with risk events arising from changes in external environment by region





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2. Relationship Management and Monitoring

2a. Understanding of the third-party landscape is increasing but the underlying data needed to identify and manage risks associated with these third-parties is lacking.

2b. Focus is turning to developing capabilities to predict emerging third-party risks.





2a. Understanding of the third-party landscape is increasing but the underlying data needed to identify and manage risks associated with these third-parties is lacking.



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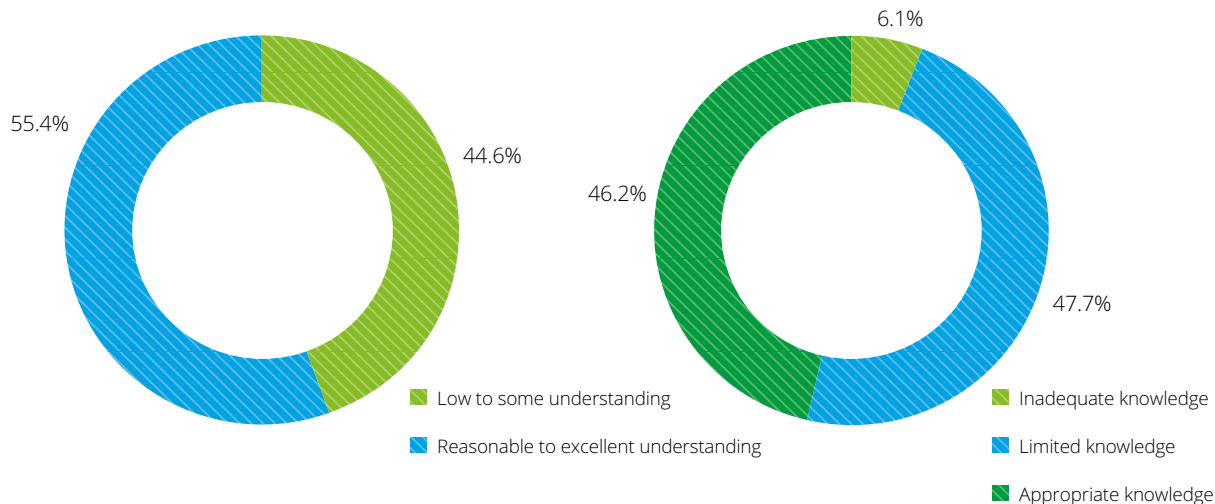
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46.6 percent do not have any organizational initiatives to enhance maturity of **contractual data to increase the understanding of their third-parties.**

Level of understanding of third-parties and knowledge of related contractual data



Key messages

The survey reveals that 55.4 percent of respondent organizations state that they have a reasonable to excellent level of understanding of their third-party population, while the remaining 44.6 percent continue to have a low or only "some" level of basic understanding.

However, although the overall level of understanding of third-parties appears to have increased since these organizations started investing in holistic and integrated TPGRM programs, survey results indicate that there is a lack of confidence in underlying data needed to manage these risks. As many as 53.8 percent of respondents have limited to inadequate knowledge of the underlying contractual terms and related data.

Specific organizational initiatives to improve the quality as well as the level of understanding and utilization of this data do not appear to exist in nearly half the organizations (46.6 percent) covered by the survey.

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Deloitte point of view

Deloitte experience indicates a direct relationship between the extent to which an organization is data-driven and its capability to manage its third-party relationships in a comprehensive manner, together with the related risks and opportunities.

Deloitte specialists believe that poor levels of understanding of detailed third-party data, in the absence of data quality improvement initiatives, is undermining the ability to make informed decisions on third-party risk.

It is interesting to note that being more disciplined in the contracting process going forward (for example, through a centralized templates approach) is a top organizational initiative across a vast majority of the survey respondents. The benefits of this initiative would emerge even stronger, if complemented by a focus on data.

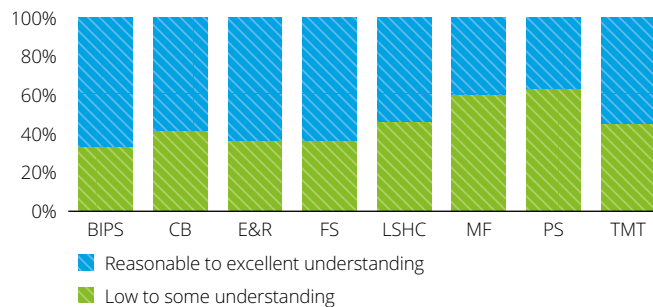


Industry highlights

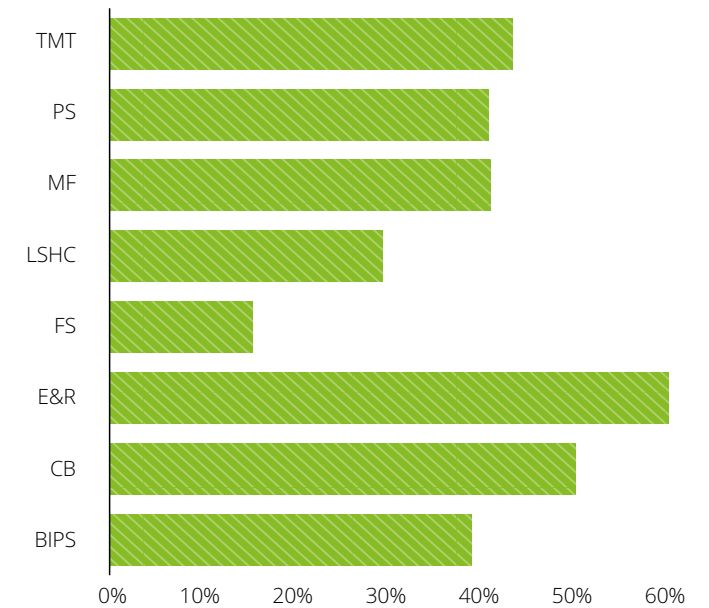
The survey highlights some variance across the industry segments in their understanding of third-parties and knowledge of contractual data:

- Organizations in the FS, E&R, and BIPS industry segments expressed the highest confidence in their understanding of their third-party population with 64 percent, 64 percent, and 67 percent respondents respectively having reasonable to excellent levels of understanding. These three industry segments also expressed the highest levels of knowledge on contractual data with 49.3 percent, 63.6 percent and 46.4 percent of respondents having reasonable to high levels of knowledge respectively.
- Organizations in the PS and MF industry segments expressed the lowest confidence in their understanding of their third-party population with 37 percent, and 40 percent of respondents respectively having reasonable to excellent levels of understanding. Similarly, appropriate knowledge of the underlying contracts exists in only 42.8 percent and 36.6 percent of organizations in these two industry segments respectively.

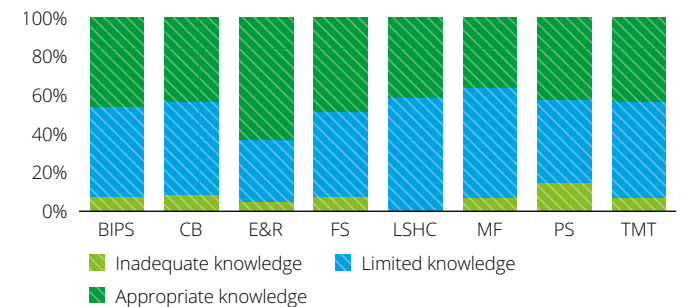
Varying levels of understanding of third-parties by industry



Organizations with no specific data quality initiatives related to third-parties by industry



Varying levels of knowledge of third-party contract terms / related data by industry





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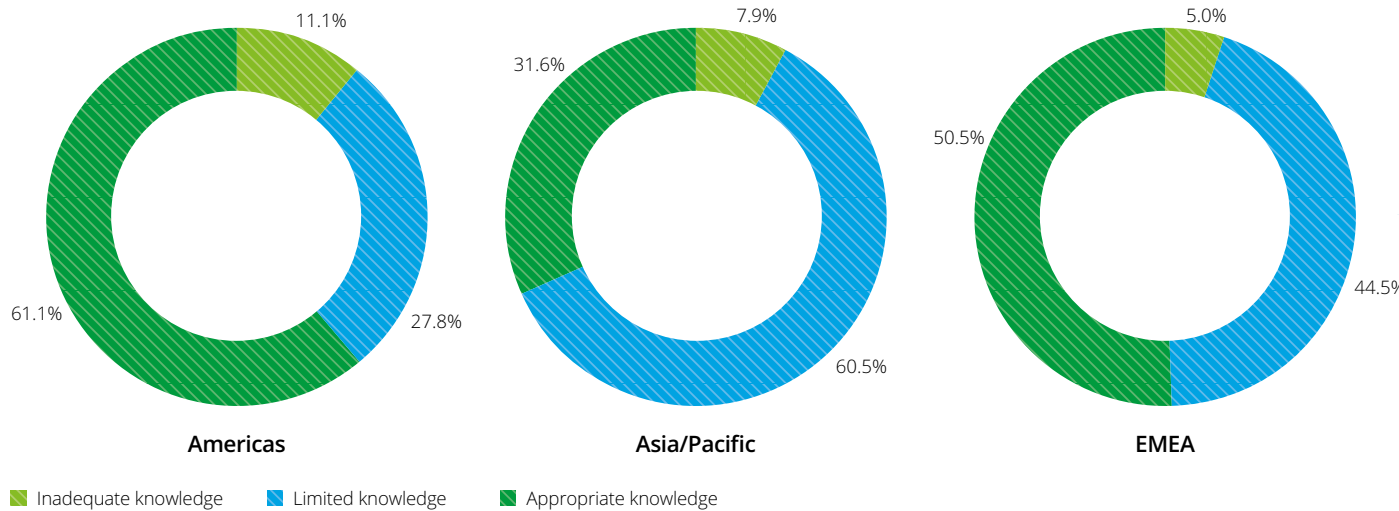
Geography highlights

Knowledge of third-party contracts and related data appears to be the highest in the Americas region with 61.1 percent respondents stating appropriate knowledge and poorest in Asia/Pacific with only 31.6 percent of respondents in the same position.

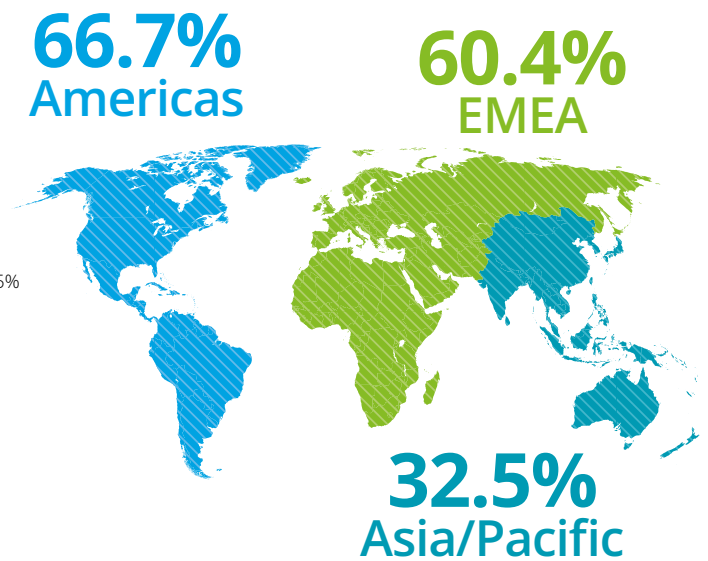
This is mirrored by the largest proportion of organizations in the Americas having third-party data-related imperatives (66.7 percent), followed by EMEA (60.4 percent), as against only 32.5 percent in Asia/Pacific.

The Americas has the largest proportion of organizations with third-party data related initiatives (66.7 percent).

Varying levels of contract data knowledge by region



Relative dominance of third-party data initiatives in the Americas and EMEA regions compared to Asia/Pacific



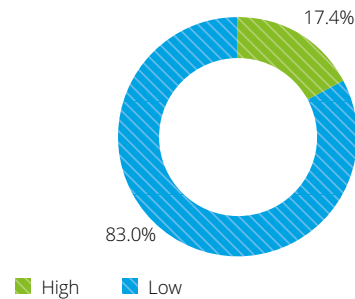


2b. Focus is turning to developing capabilities to predict emerging third-party risks.

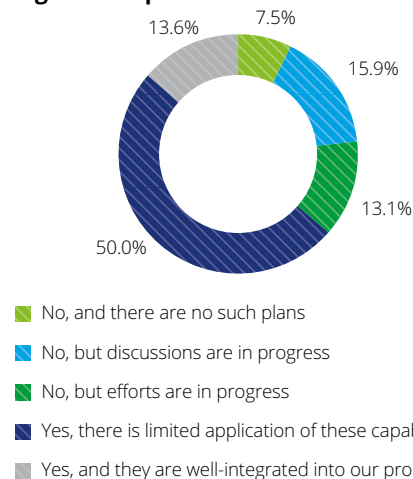
Only **13.6** percent of respondents have **forward-looking vigilance capabilities to identify imminent risks and performance issues** of third-parties that are well-integrated into their processes of managing third-parties, while **78.9** percent are at various stages of development of such capabilities.



Levels of confidence in organizational third-party monitoring and management



Status of implementation of forward-looking vigilance capabilities



Key messages

In 2016 only 6.5 percent of our survey respondents had high levels of confidence in third-party risk monitoring and related management mechanisms.

Although this has now increased to 17.4 percent in our current survey, this is still low and indicates that organizational risk monitoring capability does not match up to the stakeholder expectations.

Further, the boost in the confidence level does not appear to be supported by a respective enhancement of capabilities for increased forward-looking vigilance on imminent third-party issues and performance. Survey results indicate that only 13.6 percent of respondents have forward-looking vigilance capabilities to identify imminent risks and performance issues of third-parties that are well-integrated into their processes of managing third-parties. The other 78.9 percent (excluding the 7.5 percent who have no future plans in this regard) are at various other stages. While discussions or efforts are in progress in 29.0 percent of organizations, as many as 50 percent of respondents have very limited application of these capabilities.

While discussions or efforts are in progress in 29.0 percent of organizations, as many as 50 percent of respondents have very limited application of these capabilities.

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Deloitte point of view

Deloitte views the shifting focus from detection to prevention in the evolution of risk management as critical as organizations seek to embed mature, optimized TPGRM frameworks. The timely implementation and seamless integration of third-party related vigilance mechanisms would enable third-party risk management teams to proactively identify imminent risks and performance issues of third-parties. This in turn can help to prevent threats from becoming reality, thus optimizing TPGRM capability as well as stakeholder confidence. Organizations can also consider leveraging emerging delivery models such as managed service solutions or information hubs discussed later in this report to identify third-party failures before they occur enabling them to take action to prevent the failure or reduce the impact of the damage.

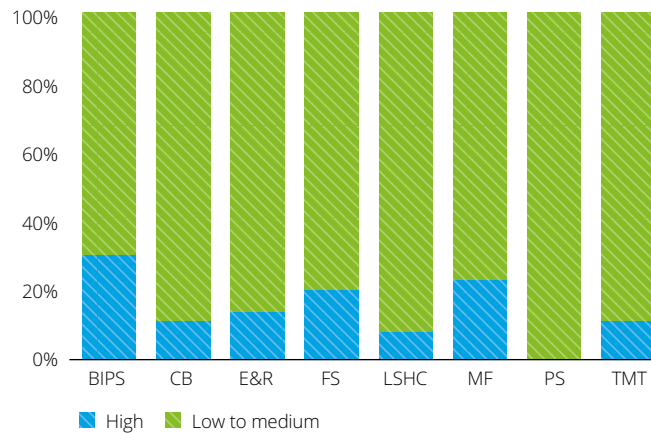


Industry highlights

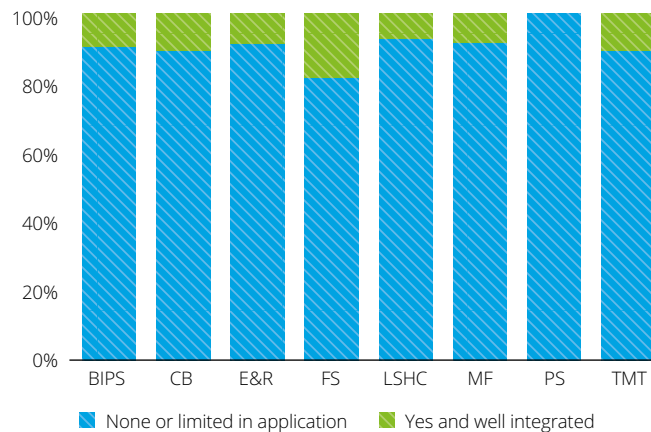
PS has the lowest level of stakeholder confidence in third-party monitoring and management mechanisms with not a single respondent having a high level of confidence. This is followed by LSHC, TMT, CB, and E&R with only 7.7 percent, 11.1 percent, 11.1 percent, and 13.6 percent respondents in this position.

Forward-looking monitoring or vigilance capabilities appear to be the most evolved in the FS industry segment with 18.7 percent of respondents having developed and integrated these capabilities with other aspects of third-party risk management. TMT, CB, BIPS, and E&R are distant followers of FS with 11.1 percent, 11.1 percent, 10.0 percent, and 9.1 percent respondent organizations in the same position. On the other hand, PS does not have any respondents who have developed and integrated these capabilities.

Levels of confidence in organizational third-party monitoring and management by industry



Third-party monitoring capability by industry



Geography highlights

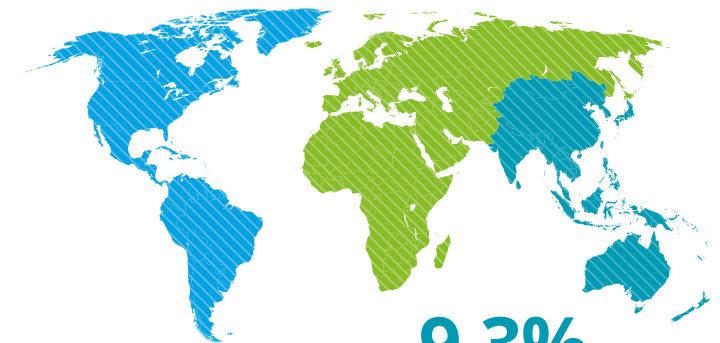
The Americas region is far ahead of the other regions with 21.4 percent of respondent organizations having developed forward-looking monitoring and vigilance capabilities, fully integrated with TPGRM processes.

EMEA is a distant follower with only 14.4 percent respondent organizations believing that they are in that position and with only 9.3 percent of Asia/Pacific organizations feeling the same.

Forward-looking monitoring and vigilance capabilities well-integrated into our TPGRM processes

21.4%
Americas

14.4%
EMEA



9.3%
Asia/Pacific



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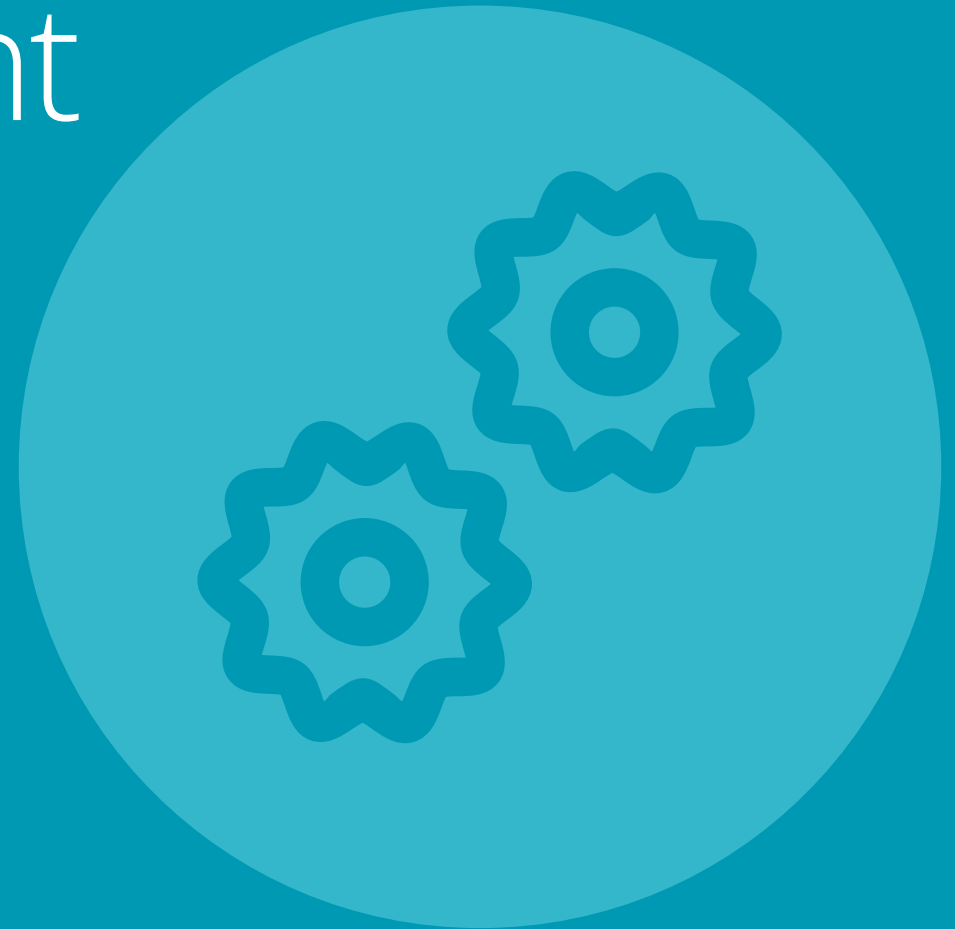
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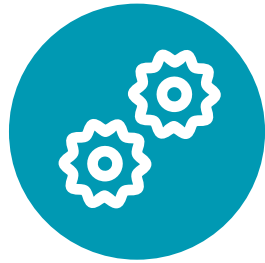
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3. Governance and Risk Management Processes

3. Confidence remains low in underlying TPGRM processes and technology.



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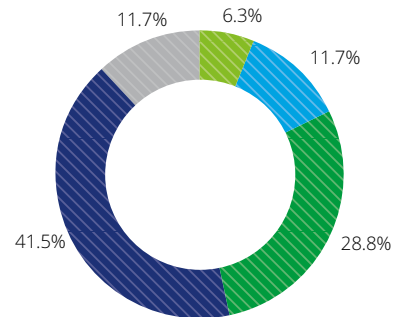


3. Confidence remains low in underlying TPGRM processes and technology.

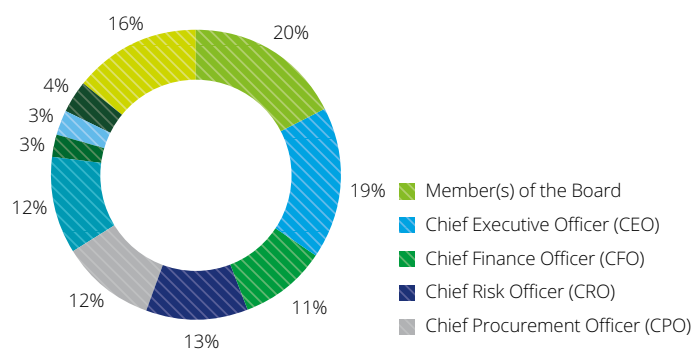
Ultimate responsibility for third-party risk management rests with the Board, CEO, CFO, CPO, or other members of the C-suite in **74.6** percent of responses.



Third-party risk management on the Board agenda



Overall accountability for TPGRM



- Not featured
- Intermittently with low importance
- Reactively (reponse to incidents)
- Periodically with varying urgency
- Consistently as a critical item

- Member(s) of the Board
- Chief Executive Officer (CEO)
- Chief Finance Officer (CFO)
- Chief Risk Officer (CRO)
- Chief Procurement Officer (CPO)
- Head of Vendor/Alliance Management
- Vendor/Alliance Manager
- Head of Internal Audit
- Head of Compliance
- Others/Lack of clarity



Key messages

According to the survey, third-party risk features consistently or periodically on the Board agenda in 53.2 percent of respondent organizations. This typically represents the more progressive organizations who appreciate the benefits of interconnecting risk and strategy discussions at the highest level of the organization or as a regulatory imperative in those that operate in highly regulated business environments. Some respondent organizations indicated that their Board had started driving TPGRM matters following a major third-party related incident that had a significant impact on their customers.

Ultimate responsibility for third-party risk management rests with the Board, CEO, CFO, CPO, or other members of the C-suite in 74.6 percent of respondent responses – once again an encouraging step in the evolution of TPGRM to strategic levels.

However, confidence relating to the quality of the detailed TPGRM processes is still very low with 82.5 percent respondents indicating the need for continued focus in this area. The case is similar with supporting technology where the proportion of respondents sceptical about TPGRM technology in their organizations has only slightly reduced from 94.3 percent since our last survey to 90.6% of respondents.

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Deloitte point of view

Our survey once again indicates an “execution gap” in TPGRM between expectation levels and reality, as also highlighted in our 2016 survey. This gap is the result of organizational commitment not being supported by the ability of the related technology, processes, and skills to achieve intended results.

Although this gap has started to reduce in the last 12 months, there is still a long way to go with significant improvements still pending with regard to TPGRM processes, monitoring mechanisms and supporting technology.

Deloitte specialists believe that Board and C-suite ownership and oversight of TPGRM has been critical in enabling organizations to start realizing the opportunities and managing the risks from third-parties efficiently and effectively. Organizations should leverage the mandate provided by Board and C-suite ownership to address this execution gap at the earliest opportunity. However, this transformational thinking is still yet to make a substantial impact on organizations where regulatory pressures are lower or those that are yet to experience the negative consequences of a major third-party related risk incident.



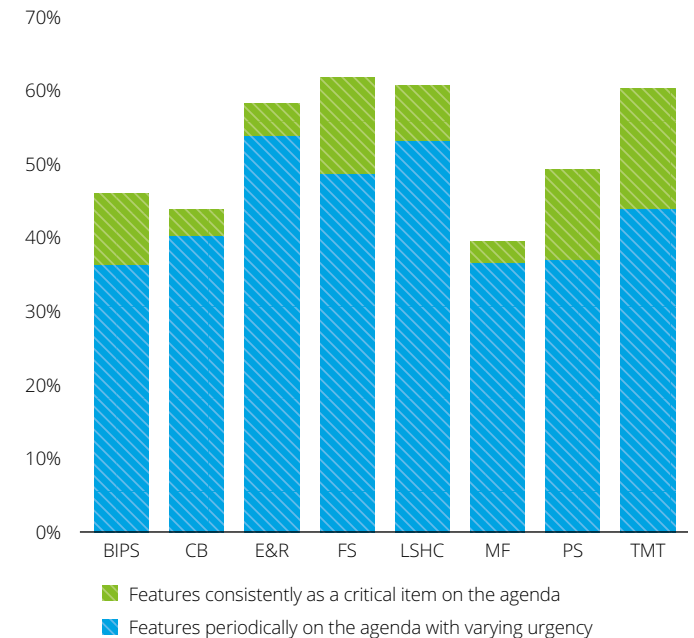
Industry highlights

Third-party risk management features periodically or consistently on the Board agenda with greater urgency and frequency in the FS, LSHC, TMT, and E&R industry segments with 62.6 percent, 61.5 percent, 61.1 percent and 59.0 percent respondents respectively and least in the MF segment (40.1 percent respondents).

Confidence in TPGRM processes is the lowest in LSHC, TMT, PS, and E&R with only 7.7 percent, 11.1 percent, 12.5 percent, and 13.6 percent respondents respectively expressing high levels of confidence. This is however in the FS sector with 22.7% expressing high levels of confidence in the same, indicating the significant room for improvement even in the leading industry segment in this regard.

Confidence in technology supporting TPGRM processes is the lowest in LSHC and TMT where not even a single respondent has a high level of confidence in that area. Confidence in technology is the highest in PS and MF, where the business environment has been relatively more stable compared to LSHC and TMT although such high levels of confidence are reposed only by 12.5 percent and 14.3 percent of respondents, once again indicating significant room for improvement.

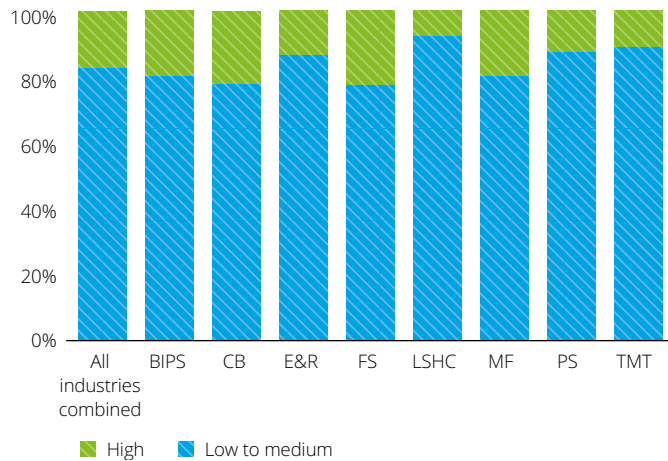
Third-party risk on the Board agenda by industry



Organizations should leverage the mandate provided by Board and C-suite ownership to address this execution gap at the earliest opportunity.

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Level of confidence in TPGRM processes across industry segments



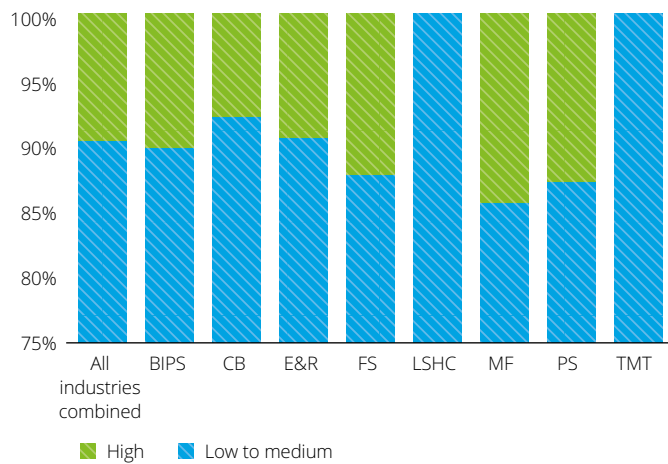
Geography highlights

Third-party risk management features periodically or consistently on the Board agenda with greater urgency and frequency in the Americas region (78.5 percent of respondents) than in other regions of the world. This is followed by EMEA with 56.9 percent and Asia/Pacific with 34.9 percent of respondent organizations who also do so periodically or consistently.

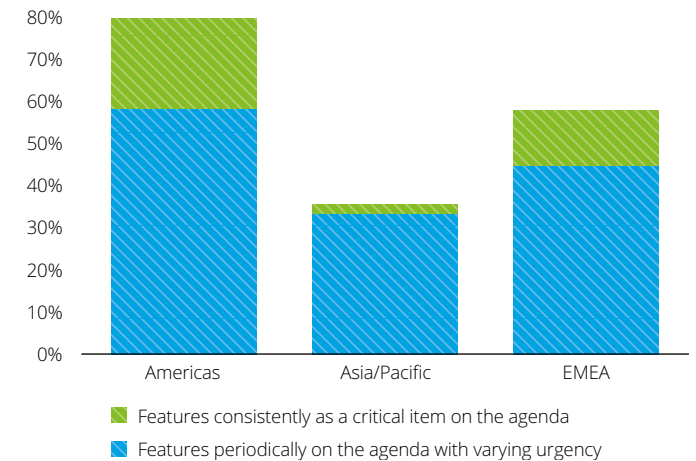
Level of confidence in TPGRM processes is the highest in the Americas region with 24.9 percent respondents expressing high confidence while the same is the lowest with 13.9 percent respondents in that position in Asia/Pacific. EMEA, on the other hand, has 18.5 percent respondents having high levels of confidence in TPGRM processes.

However, the level of confidence in technology supporting TPGRM processes is consistently low across all the three geographic regions with only 12.5 percent, 11.6 percent, and 9.5 percent of respondents expressing high levels of confidence across the Americas, Asia/Pacific and EMEA regions respectively.

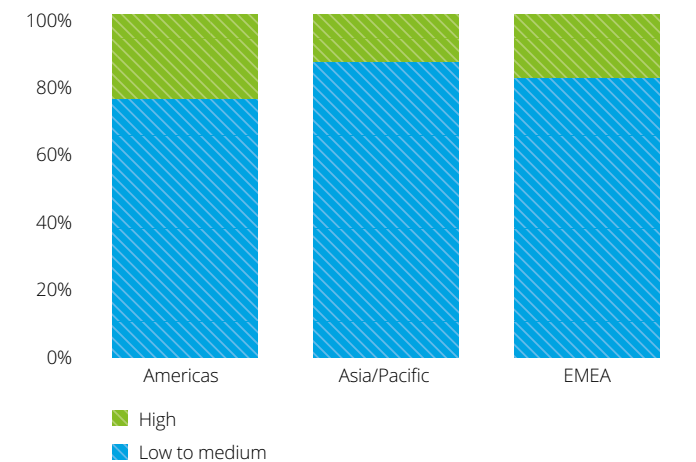
Level of confidence in technology supporting TPGRM processes across industry segments



Third-party risk management on the Board agenda by region



Level of confidence in TPGRM processes by region





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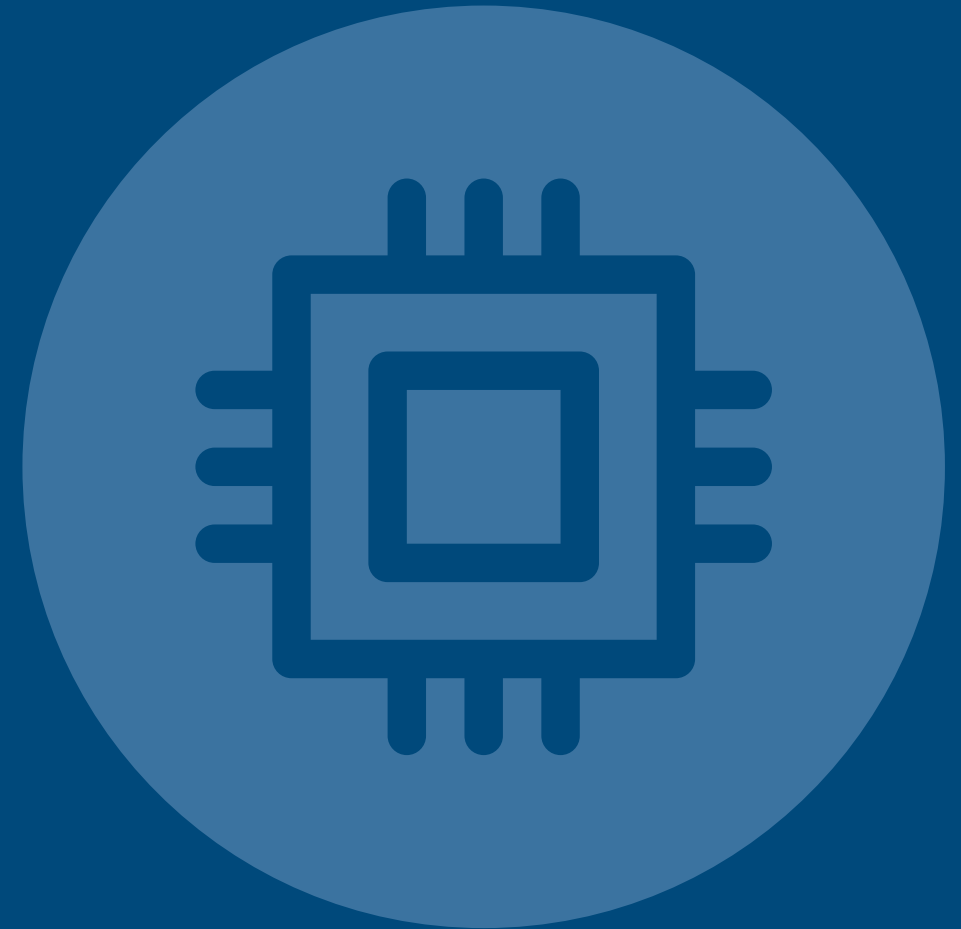
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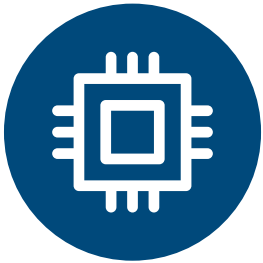
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4. Technology Platforms

4. Technology platforms are still being implemented in a piecemeal manner.



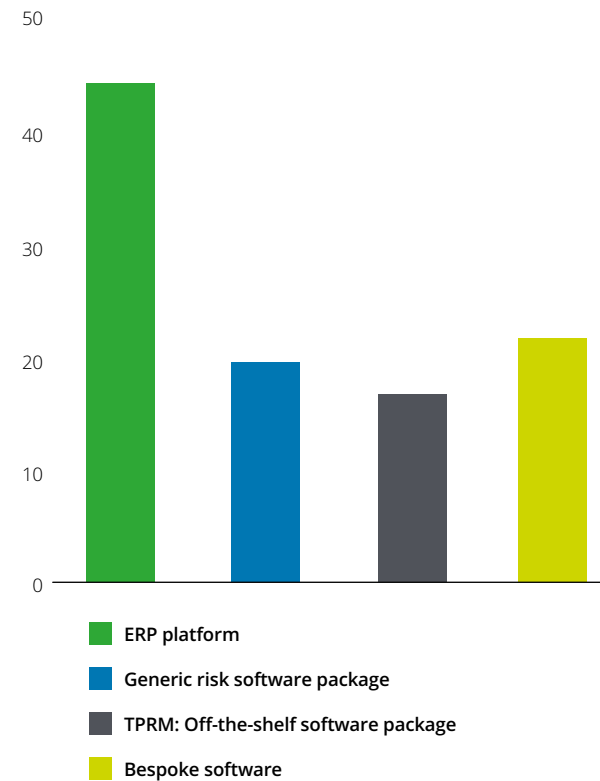


4. Technology platforms are still being implemented in a piecemeal manner.

55 percent of survey respondents now combine more than one technology platform to address TPGRM requirements.



The piecemeal approach to TPGRM technology



Key messages

Survey results indicate a piecemeal approach to the use of technology for end-to-end TPGRM is emerging in response to the desire for an integrated solution for TPGRM. The current piecemeal approach has its limited advantages in leveraging multiple dimensions of available technology, but is compelling many organizations to build in some spreadsheet or manual process-based intervention to bridge the gaps.

Fifty-five percent of survey respondents now combine more than one technology platform to manage different aspects of third-party risk or even different types of third-parties across various business units in a large global organization, operating with a partial or higher degree of decentralization.

The existing ERP system is still the most popular technology platform as outlined by 43.9 percent of respondents while 20.4 percent of respondents used bespoke solutions to support the ERP solution from a TPGRM perspective as well as achieve integration needs.

19.9 percent of respondents are using the TPGRM-relevant modules of broader GRC solutions, while 17 percent are using specific third-party risk management solutions.

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Industry highlights

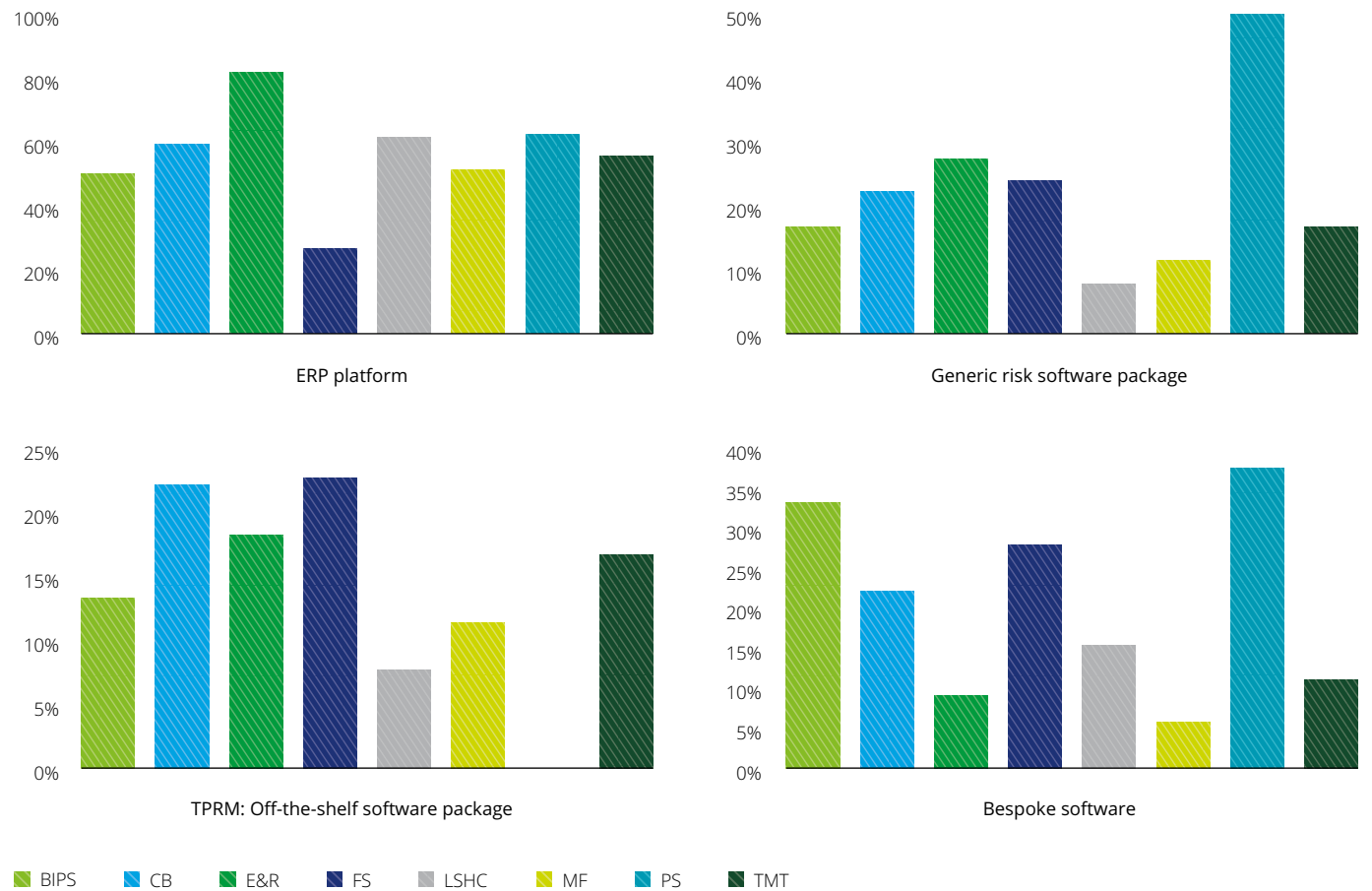
The use of ERP packages or modules to address TPGRM needs is the most popular in E&R, PS, and LSHC with 81.8 percent, 62.5 percent, and 61.5 percent of respondents from these industry segments using these systems. At least 50 percent of respondents from the other industry segments also utilize their ERP systems for TPGRM with the exception of the FS sector where this uptake is only 26.7 percent.

PS, E&R, and FS represent the three largest users of generic risk management software packages with 50.0 percent, 27.3 percent, and 24 percent respondents respectively while LSHC and MF represents the lowest users (7.7 percent and 11.4 percent respectively).

TPRM specific software packages are most used in FS (22.7 percent), CB (22.2 percent), and ER (18.2 percent) and the least in PS (NIL) and LSHC (7.7 percent).

PS, BIPS, and FS are the three largest users of bespoke solutions with 37.5 percent, 33.3 percent and, 28.0 percent respondents respectively with MF being the lowest at 5.7 percent.

The piecemeal approach to TPGRM technology by industry





Deloitte point of view

Deloitte believes that with the right technologies in place, companies can implement and manage TPGRM programs that drive efficiency, reduce costs, improve service levels, and increase return on equity. Deloitte experience indicates that organizations with a well-defined technology-enabled TPGRM framework typically tend to realize an additional four to five percent return on equity.

Better tools and technology can significantly reduce the time spent on pre-contract, post-contract, and ongoing tracking/monitoring activities, thus making available much-needed time for focusing on strategic areas of third-party risk management and value creation.

Most survey respondents desire integrated technology that would address as many of the dimensions of third-party risk management as possible (e.g. performing due diligence and ongoing risk assessments, recording and presenting KPIs and other performance data through dashboards, facilitating documentation, and escalation of issues etc.). The current piecemeal approach has its limited advantages in leveraging multiple dimensions of available technology, but is compelling many organizations to build in some spreadsheet or manual process based intervention to bridge the gaps.



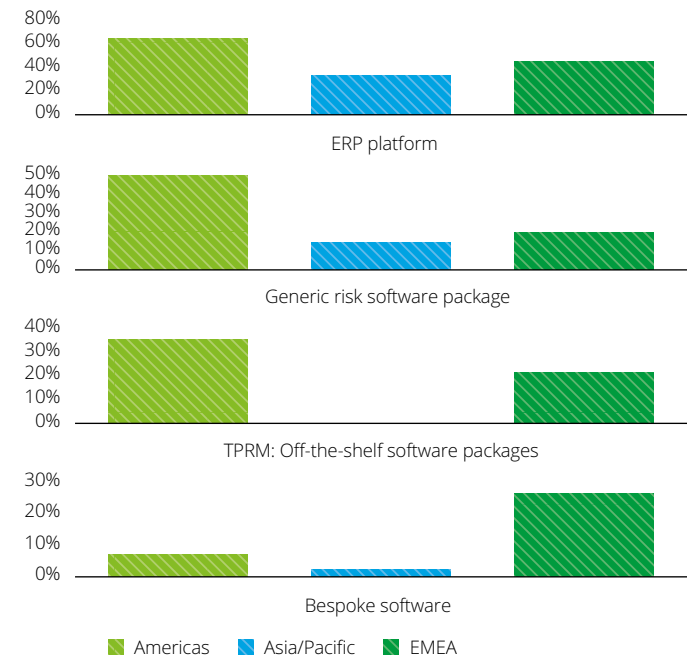
Geography highlights

The use of ERP platforms supported by relevant features of generic GRC packages and TPGRM-specific packages is most dominant in the Americas region, with 64.3 percent, 50.0 percent, and 35.7 percent respondents using these solutions.

The use of both generic and TPGRM-specific risk packages is significantly lower in EMEA (19.6 percent and 21.7 percent), which is balanced by a higher relative usage of bespoke software (26.6 percent).

Respondents from the Asia/Pacific region appear to be the least technology-enabled in managing third-party risks.

Distribution of TPGRM technology platforms by region





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Emerging Delivery Models

5a. Increasing use of Centers of Excellence (CoEs) as well as managed services models are bringing in sought after skills as well as consistency to address broader organizational decentralization.

5b. The formation of community information hubs available as marketplace utilities is a growing trend.



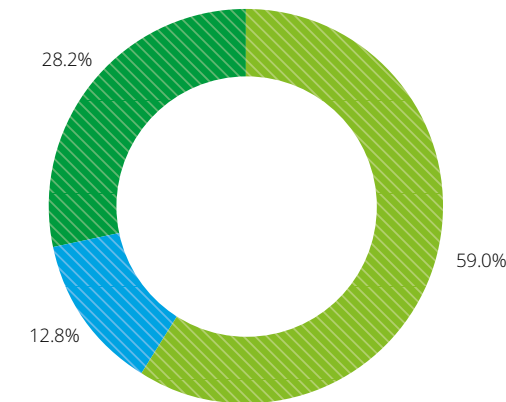


5a. Increasing use of Centers of Excellence (CoEs) as well as managed services models are bringing in sought after skills as well as consistency to address broader organizational decentralization.

Over **59** percent of respondents are moving to **increasingly centralized in-house functions to support third-party risk management.**



Emerging delivery models (In-house CoE/SSC vs. external service provider-based managed services model)



- Increasingly moving to a centralized in-house function
- Increasingly moving to an external service provider mode
- Neither of these / Not sure



Key messages

As in 2016, global organizations continue to be managed through higher degrees of decentralization across their various operating units and entities, with 62.4 percent of respondents being equally or more decentralized than centralized. This continues to present a potential challenge to a holistic and unified approach to the governance and risk management of third-parties. In response, various hybrid and innovative delivery models are developing that combine the characteristics of centralized and decentralized organizations and can enable the organization to remain agile and competitive in the marketplace.

The survey reveals that the majority of respondents (59.0 percent) have or are in the process of expanding the role of the corporate center to include Shared Service Centers (SSCs) and Centers of Excellence (CoEs) for EERM to bring in the desired standardization as well as specialized skills and sought after talent.

Around 12.8 percent of respondents, however, are progressively moving to external service provider-based “managed services” models, which reflects another emerging trend to achieve the desired consistency and sought after talent.

In addition, 28.2 percent of respondents remain undecided on the way forward, potentially preferring to observe what others are doing before committing to a decision themselves.



Deloitte point of view

The choice between centralized in-house models for TPGRM versus an external service provider-based “managed service delivery” model is a vital decision that can have far-reaching consequences and hence should be carefully considered.

Deloitte believes that organizations that are moving to a centralized in-house function in this regard are primarily driven by the need to retain organizational control over this critical activity,

However, a managed service option enables an organization to achieve its desired level of customization, which is not available from most utilities, while keeping the cost lower than running an internal team.

CoEs and managed services models enable setting consistent standards, defining uniform process, implementing common technology across business units with a longer term strategic focus, providing training, executing risk assessments, and providing guidance. All the while, business leadership retains the responsibility for managing risks and governance.



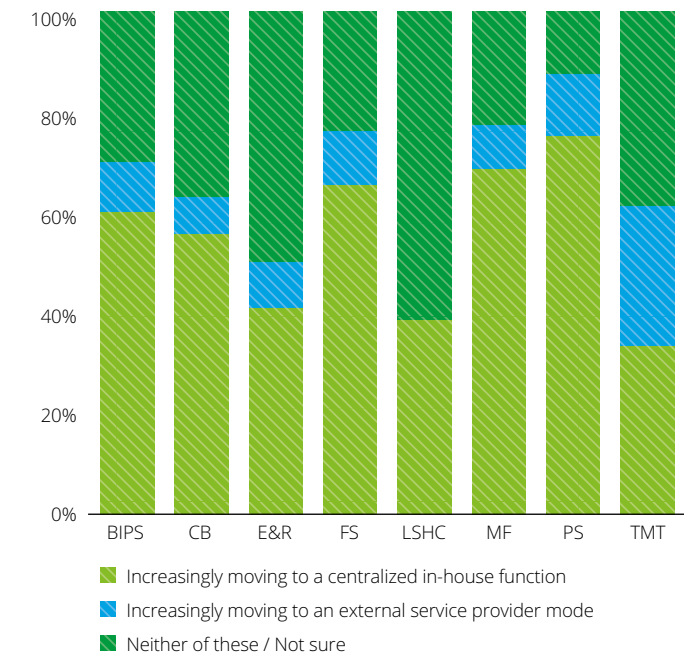
Industry highlights

PS, MF, and FS organizations appear to focus the most around the development of a centralized in-house function committed to supporting third-party risk management with 77.5 per cent, 68.6 percent and 65.3 percent respondents having strategic clarity on this approach.

On the other hand, TMT is the first industry segment that has seen a number of organizations really leveraging an external service provider-based managed services model (27.8 percent respondents).

LSHC do not have any respondent organization in the survey that is increasingly moving to an external service provider model and present the largest cluster of respondents who are yet to have strategic clarity on this issue.

Industry trends in emerging delivery models for third-party risk management





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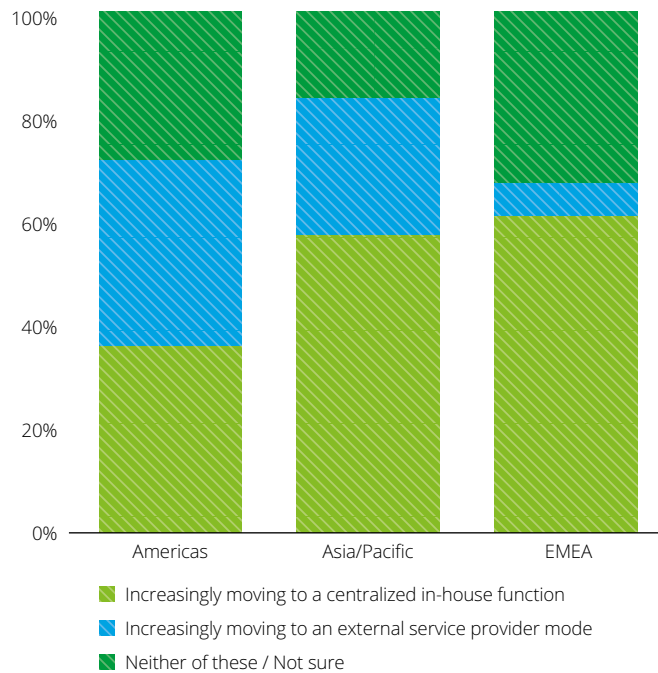
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Geography highlights

EMEA leads this thinking on increasingly moving to a centralized in-house function with 60.8 percent respondents in that category while respondents from the Americas present the largest group moving to an external provider-based model (35.7 percent).

Regional trends in delivery models



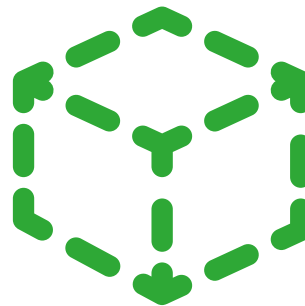
Various hybrid and innovative delivery models are developing that combine the characteristics of centralized and decentralized organizations and can enable the organization to remain agile and competitive in the marketplace.



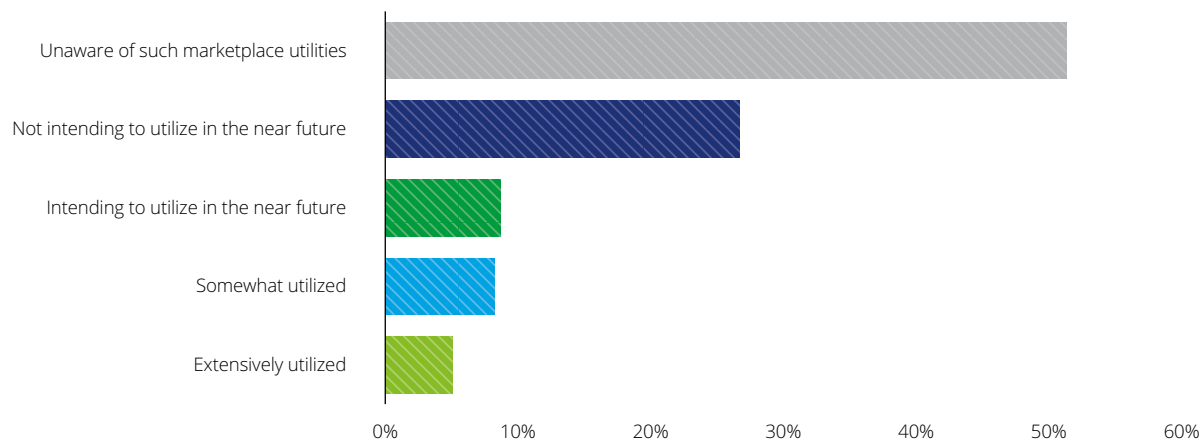
5b. The formation of community information hubs available as marketplace utilities is a growing trend.

One in five respondents are already utilizing information hubs (community models) on third-party risk available as market utilities or intending to do so in the near future.

However, **51.3** percent of respondents are unaware of this emerging trend.



Utilization of market utilities



Key messages

Collaborative sharing of information across organizations is rapidly gaining popularity as a key enabler for successful governance and risk management in the networked world. In keeping with this top trend, information hubs (community models) available as market utilities on TPGRM have emerged.

Our survey reveals that around one in five respondents are currently utilizing these utilities or intending to do so in the near future and agree that this is an upcoming trend that would position them better to optimize their third-party risk management efforts in an interconnected world.

However, a relatively lower level of knowledge around these information hubs overall (51.3 percent respondents) can potentially slow down organizations in exploiting the benefits of collaboration arising from information-sharing around third-parties.

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Deloitte point of view

Deloitte specialists believe that these community models are heralding in a uniquely innovative approach where the members of the community (typically large global organizations with significant third-party ecosystems) work together to reduce duplication of effort in third-party pre-qualification and ongoing assessment.

These participating organizations agree common standards for third-parties as well as performance data and collaborate to collect it. Such collaboration is often facilitated by external infomediaries who are making these community information hubs available as market utilities via a subscription-based service. Using cloud-based or other agile technologies, the infomediary then provides access to an independent hub for validated data and analytics, which help organizations manage risk. In this way, the controlled sharing of non-confidential information can increase efficiency, raise compliance standards and reduce costs for the community as a whole.

In addition to compliance with minimum standards for pre-qualification based on criticality of the third-party, potential areas where information related to ongoing governance and risk management of third-parties can be shared include, for instance, data privacy and protection, cybersecurity, regulatory compliance, corporate social responsibility (CSR), ethics and sustainability, supply disruption and continuity, anti-bribery and corruption, safety and quality, EU procurement compliance and financial distress. Some of the available market utilities also offer independent audit capability and Significant Event Notification and Tracking (SENT), which allow member organizations to manage community-wide disruptive events proactively.

However, community models do not take away the need for organizations to continue investing in their own TPGRM frameworks and undertaking assessments specific to their standards and third-party arrangements. Some information-hub/market utility providers are also emerging as managed services providers, thus further accelerating the trend.

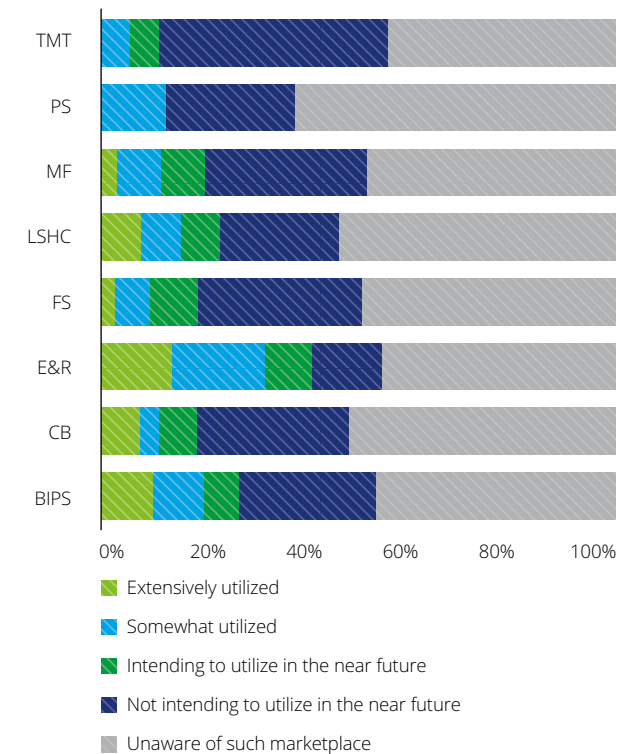


Industry Highlights

E&R represent the leading industry segment utilizing market hubs or intending to do so in the near future with 40.9 percent respondents.

On the other hand, the lack of awareness is the highest amongst respondents from PS, LSHC, and CB with 62.5 percent, 53.8 percent, and 51.9 percent respondents respectively.

Utilization of market utilities by market segment





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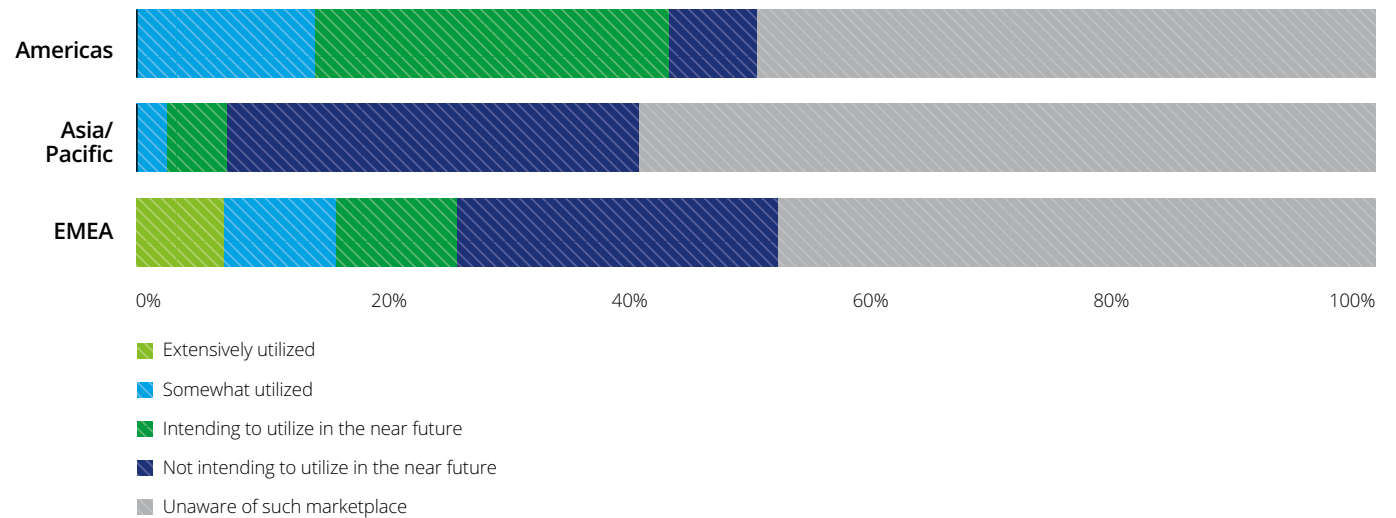
Geography highlights

The potential utilization of market hubs appear to be the highest in the Americas region with 42.9 percent respondents utilizing or intending to utilize these hubs in the near future. This is however the lowest in Asia/Pacific (7.2 percent) with EMEA in-between at 25.9 percent.

The lack of awareness is also the highest in Asia/Pacific with 59.5 percent respondents unaware of these information hubs.

Collaborative sharing of information across organizations is rapidly gaining popularity as a key enabler for successful governance and risk management.

Utilization of market utilities by region





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Kristian Park co-leads Deloitte's Global Third-party Governance and Risk Management team as well as the Extended Enterprise Risk Management team in the European Middle East and Africa (EMEA) region, helping clients with third-party risk, supply chain risk, and contract risk. He has worked across all industry sectors, from Life Sciences, Financial Services, Energy, Sports, Technology, Media and Telecommunications, and Consumer Business. As a UK based partner, Kristian focusses on Third-party Governance & Risk Management, working with clients to develop governance frameworks to identify and manage all types of third-party risks, looking at both process and technology solutions, performing inspections of third-party business partners on behalf of a client; and assessing third-party compliance with contractual terms and conditions. In addition Kristian is responsible for Deloitte's UK Software Asset Management and Software Licensing teams and assists clients manage their software licensing obligations – driving efficiencies and savings.



Mark Bethell

Director, Extended Enterprise Risk Management,
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Mark Bethell is a Director in the UK Extended Enterprise Risk Management practice. Mark re-joined Deloitte in June 2015 having spent 4 years working in industry at a global oil major. Whilst at the oil major Mark led the design and implementation of a global risk management framework designed specifically for joint ventures operated by others. Mark's other roles at the major included membership of the Internal Audit Leadership Team, with accountability for all internal audit work performed in relation to the extended enterprise (contractors, suppliers and non-joint ventures).

Since returning to Deloitte Mark has led a number of projects to help clients, across multiple industries, manage the risks associated with the extended enterprise. Mark has helped his clients to design, build and implement third party risk management frameworks and design and operate large scale, global programs of third party audits covering a variety of risk types.



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Danny Griffiths is a Director in our London based Extended Enterprise Risk Management (EERM) team. He has ten years of experience providing assurance and advisory services to his clients in the area of third-party risk. Danny leads the Third-party Advisory (TPA) proposition within our UK EERM team, and specialises in supporting clients in the development of Third-party Governance & Risk Management frameworks. He has worked extensively in the Financial Services sector in this regard as well as advising organizations across many of the other industry sectors and he regularly hosts roundtables and presents at forums on this topic.

In addition, Danny has significant experience leading compliance programs for large national and multi-national organizations, assessing third-party compliance against contractual obligations. Danny has led inspections across a range of third-parties including suppliers, outsourcers, marketing agencies, distributors, resellers and licensees. He has practical experience working in a broad range of industries including Financial Services, Technology & Media, Consumer Business, Sports Business, Energy & Utilities, Real Estate, and Public Sector. He has led projects in multiple jurisdictions within Europe, the Middle East, Africa, the Americas, and Asia.



Sanjoy Sen

Doctoral Research Scholar, Aston Business School

Sanjoy Sen is a Doctoral Research Scholar at Aston Business School, UK, specializing in strategic governance related to third-party risk, having earlier worked as a partner at Deloitte and another global professional services firm. He has over 27 years of experience in risk and governance in the UK, Gibraltar, and various countries in the Middle East and in India. This includes assisting clients in strengthening their corporate governance mechanisms, establishing enterprise-wide risk management frameworks to support governance mechanisms and reviewing/addressing specific business and technology risks.



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