BUSTING THE MYTHS THAT MAKE THIRD-PARTY RISK MANAGEMENT MORE PAINFUL

dun & bradstreet

ICA INTERNATIONAL COMPLIANCE ASSOCIATION

FOREWORD

Managing third-party risk often keeps compliance professionals awake at night, and consequently it is a key focus for ICA members and a core element in many of ICA's qualifications. The foundation of effective compliance is quality systems and controls, and therefore, it is the extra element of remoteness of the systems – which leads to a potentially lower level of control – that fundamentally enhances third-party risk. This e-book looks at how we might reduce some of this extra third-party risk by challenging some often-held myths and is essential reading for all regulatory and financial crime compliance professionals.

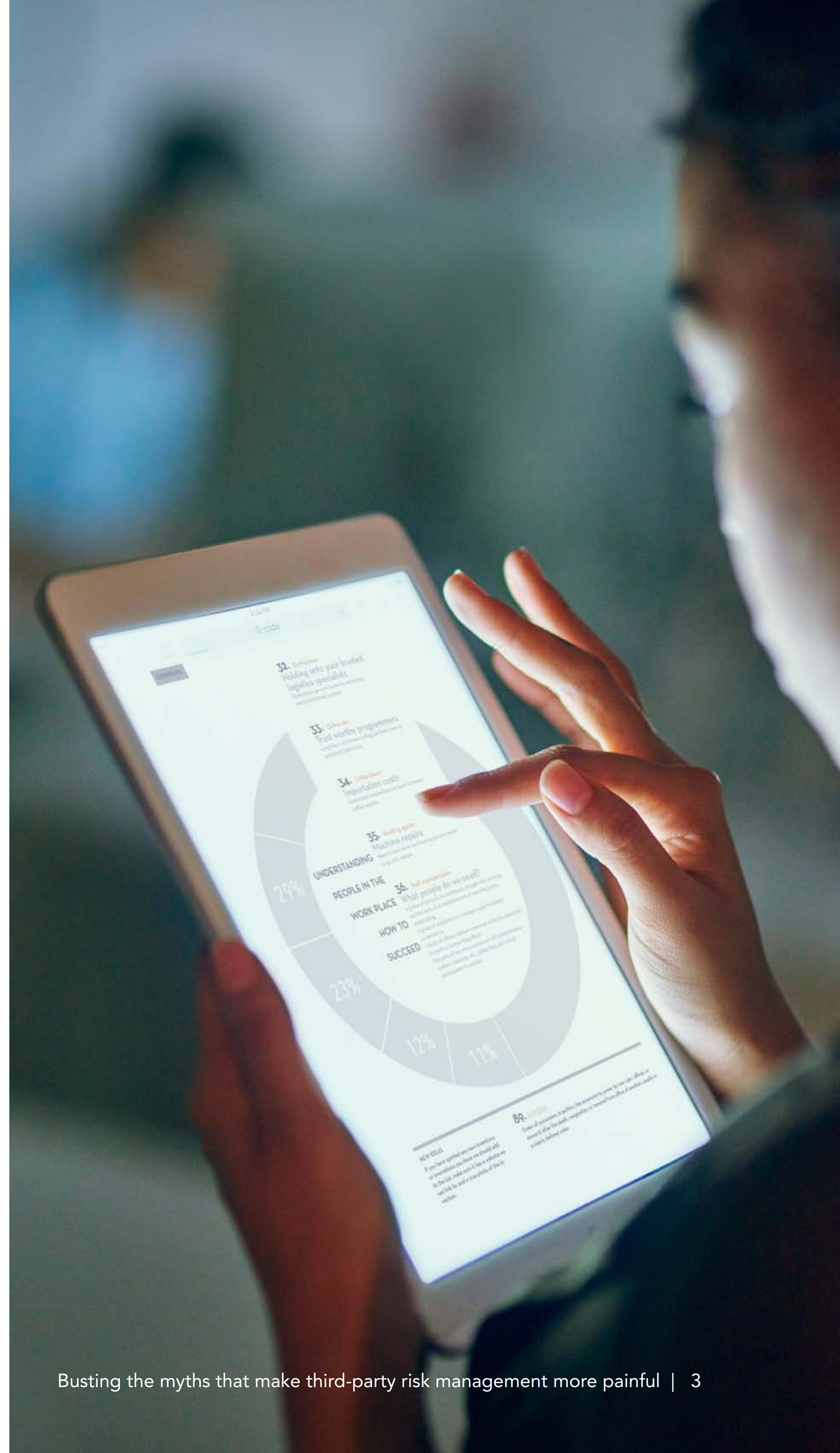
ICA INTERNATIONAL COMPLIANCE ASSOCIATION

INTRODUCTION

Managing third-party risk is vital to every business' reputation and long-term success. But with growing regulatory requirements, compliance skills shortages and numerous potential sources of information, managing third-party risk as an organisation can feel like a very painful process.

It doesn't, however, have to be this way. Data, and more critically automation, can enable compliance teams to meet the growing challenges they face, while protecting and even delivering additional value for the business. But the potential of these technologies is new to many in the industry and understandably can feel very unfamiliar.

This report will outline ten common myths about managing third-party risk that can often contribute to the challenge of compliance and offer insight into how data and automation can help.



MYTH Growing regulatory demands inevitably strain our team and our skills

Compliance teams often feel short-staffed. In the last five years, 51% say that it has become more difficult to onboard customers due to new regulation, according to the *Conquering Compliance report*, while suppliers must be brought into line with new requirements under GDPR.

As a result, a third (32%)[1] of compliance leaders say they have had to build a bigger team in order to cope. In most businesses, however, the level of resource in the team has not grown concurrently, leaving compliance officers being asked to do more with less.

Although 55%[1] consider the use of technology to be a potential answer to growing customer due diligence needs, most compliance professionals have a background in regulatory and legal settings. It's common for compliance teams to feel that their team – and their skillset – are under strain.

BUSTED

Automation can be used to create a rules-based workflow that targets manual reviews where they are most needed.

[1] Conquering Compliance: Shining a light on customer due diligence

By adopting a risk-based approach to compliance, however, teams can reduce the time required on each review case. Entities can be classified into different risk categories, which then inform the most appropriate level of due diligence and determine the appropriate level of ongoing monitoring, enabling time to be focused on the riskiest decisions.

Working more smartly by leveraging automation throughout the process – including for the risk-scoring itself – can make third-party screening significantly less of a strain on resources.

A food and beverage manufacturer recently stated saving USD$1.6m by implementing an automated risk-based approach leveraging Dun & Bradstreet technology. This global, multi-brand manufacturer doesn't have the resources to perform enhanced due diligence on all third parties, so instead they rely on Dun & Bradstreet's risk scoring indicators to identify the most risky relationships and focus their efforts there.

MYTH Unfortunately, our customers will always share the burden of compliance checks

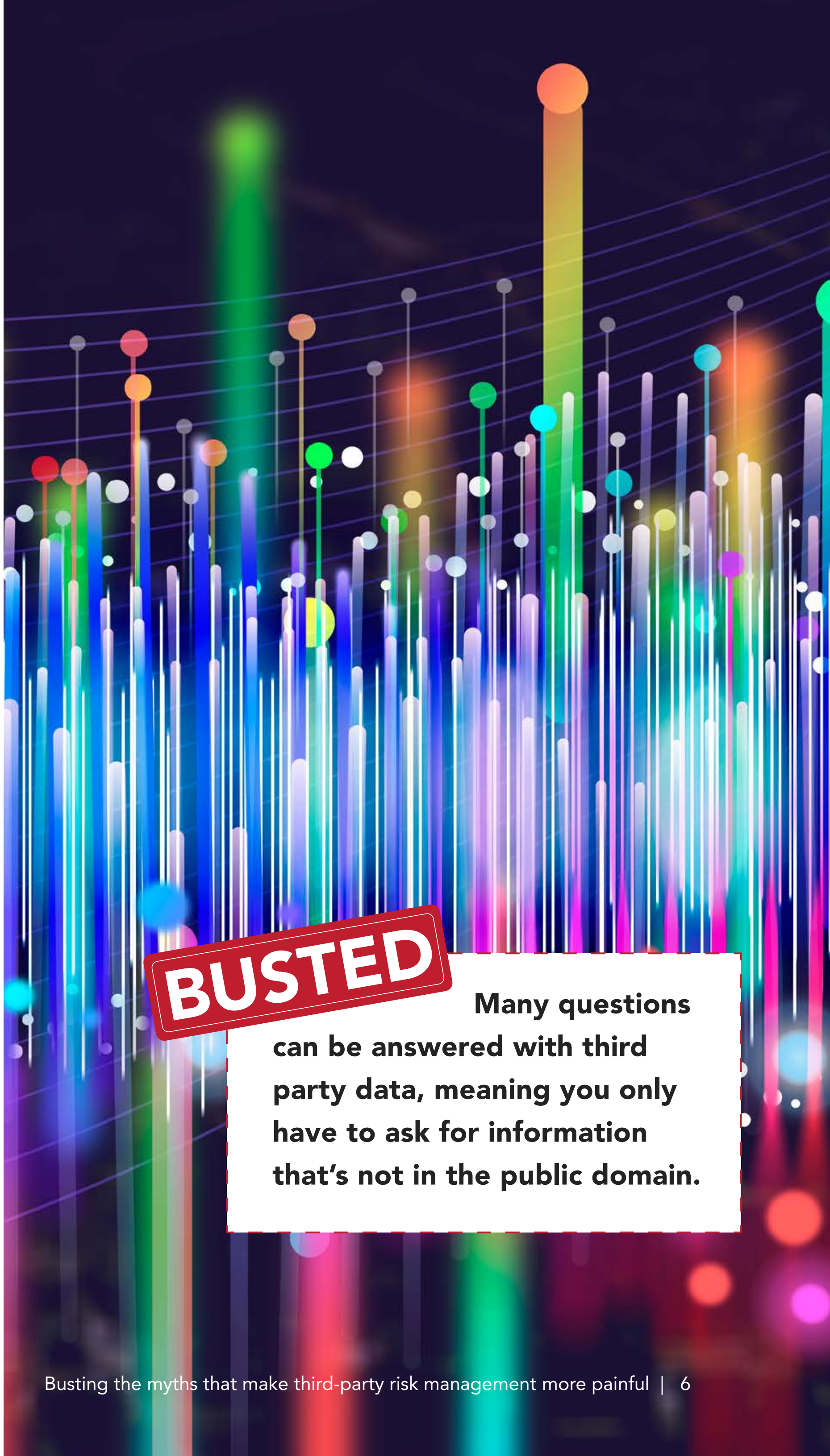
During the onboarding process, businesses require large amounts of information about new customers. Frequently this means that new customers themselves are required to provide extensive information to support compliance checks.

This can result in hold ups and, on many occasions, a poor first experience. In fact, three quarters of compliance professionals[1] say that delays relating to customer due diligence checks have a negative impact on the customer experience.

Delays can be exacerbated by company policies and particularly the desire to gain as much information as possible for the full customer journey. One cruise line business had an onboarding process that involved posing over 300 questions at the start of the relationship, rather than deploying data collection further down the road. A simplification process reduced the number of questions to less than half.

Using external data, organisations can acquire significant amounts of the information needed without having to ask the customer. Instead, any questions can be focused only on the information actually needed at that stage. This can significantly reduce the delay – and the burden – for new customers whilst still compiling all the data you need.

[1] [Conquering Compliance: Shining a light on customer due diligence]



BUSTED

Many questions can be answered with third party data, meaning you only have to ask for information that's not in the public domain.

MYTH

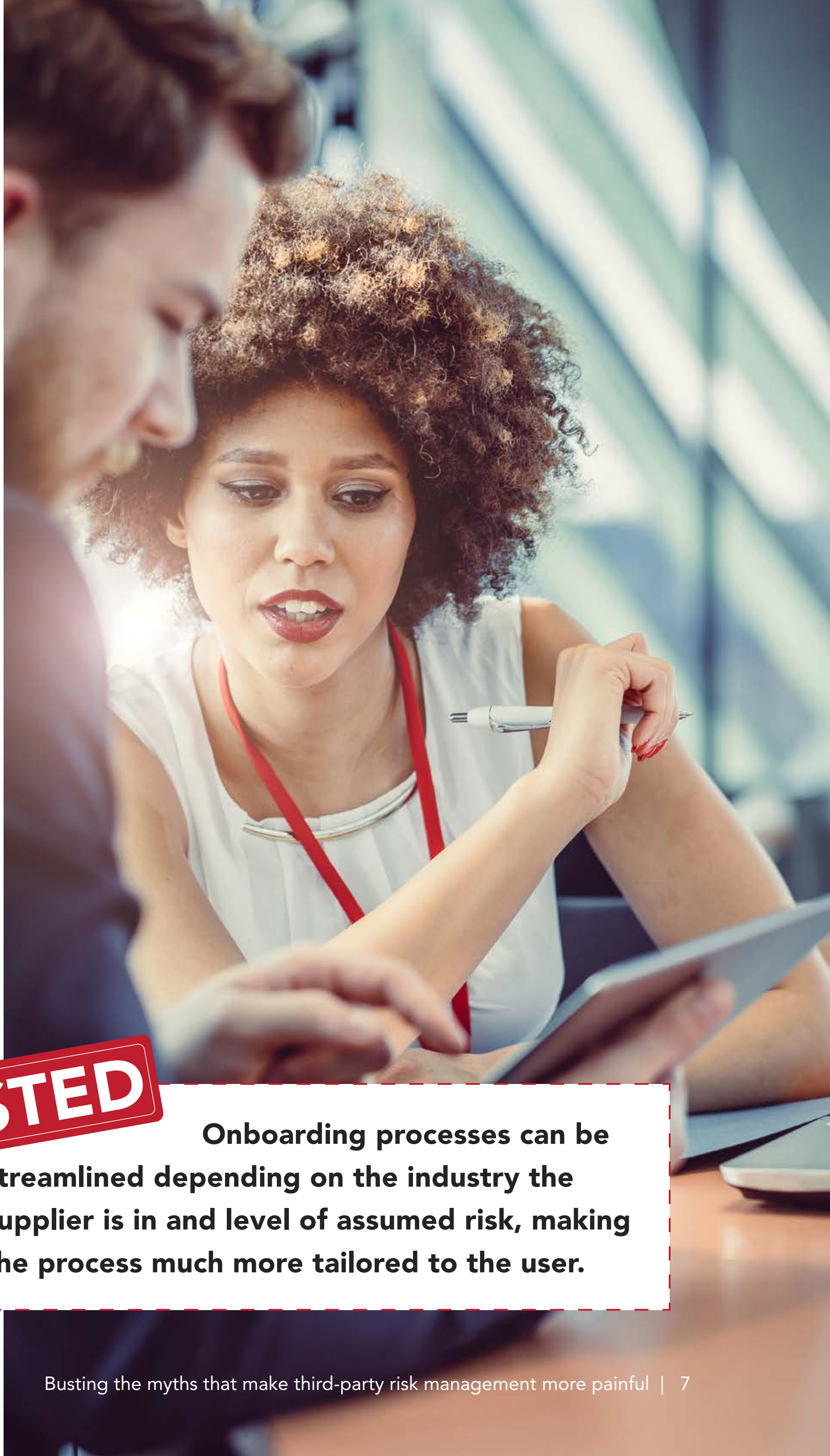
All suppliers need to follow the same onboarding process, whatever they do

Regardless of whether they are providing plumbing services or IT consultation, suppliers are often made to follow the same laborious onboarding process, with the objective of ensuring that all bases are covered.

This one size fits all approach can result in large volumes of information that may not be relevant; you probably don't need to know – and store information – about your stationery provider's IT security policies.

Treating all businesses the same will result in many reports being generated for organisations that have no screening violations, rather than limiting that level of analysis to the riskiest third parties. This can not only waste time on both sides but create strains in the supplier relationship. Importantly, overly burdensome checks can limit adoption within the business.

Using automation, it's possible to create a more dynamic process by assessing the areas of risk relevant to each supplier and the appropriate level of scrutiny. Supplier forms can be tailored to the nature of your relationship using conditional logic. This saves time for both the supplier and the compliance team.



BUSTED

Onboarding processes can be streamlined depending on the industry the supplier is in and level of assumed risk, making the process much more tailored to the user.

MYTH In reality, once our customers are onboarded we can only check them again every few years

While compliance teams are aware of the importance of ongoing monitoring for their customers and suppliers, often other demands on resources mean that this can only take place every few years at best. Significant changes such as filing for bankruptcy or a merger or acquisition could take place in this period, reshaping the third party's risk profile – and potentially exposing the organisation.

Automated alerts for the team can be used to indicate when periodic checks are due, so checks are carried out when needed, cutting time spent on admin.

Importantly, data triggers can also be employed to alert the team and alter the risk profile of businesses when circumstances change. Notifications on factors such as financial performance changes, mergers & acquisitions, human rights breaches or management changes can highlight when risk viewpoints have evolved.

Ongoing monitoring, as opposed to in-depth reviews, will also reduce the length of time taken for each check, enabling the team to carry them out when actually needed.

BUSTED

With a rules-based system, you can set guidelines for monitoring that ensure timely checks are carried out according to the level of risk posed.

MYTH A global compliance programme is hard to manage consistently

Every region has its own particular risks and compliance challenges. Compliance teams operating in large, multinational organisations, with complex structures and multiple locations, can feel that it's difficult to manage a global compliance programme consistently in every region – and as a result, simply accept that the same level of enforcement in every market is unrealistic.

But even extremely localised errors can have significant consequences. One large multinational organisation failed audits in some countries, because a number of its offices were simply failing to follow the company policy.

A rules-based approach will allow for the different risks in each region and the strategies required to mitigate them. Forms available in local languages will facilitate easier onboarding for customers and suppliers.

With a consolidated view of onboarding activity globally, it is easier to maintain oversight and audit trails, and hence also enforcement of policy. Businesses taking this approach are increasingly connecting the compliance systems to the payments processing as leverage to ensure compliance.

BUSTED

By leveraging a configurable and automated solution, organisations can pursue the same compliance policy worldwide but deploy it differently.

MYTH We’ll always be limited to some extent by the information that we’re given by our customers and suppliers

No one knows a business better than the people inside it – and as a result, many compliance professionals believe that the only way of getting certain sorts of information is directly from a supplier or customer. However, relying on self-disclosure data can fail to uncover areas of concern, so it’s important to verify the details provided.

In reality, there are many third-party resources available that can enable the organisation to validate the information provided and even to gather it themselves. This might be government-controlled datasets: for example, in the UK, it’s possible to check the health and safety records of companies using a government database.

Advanced platforms can even make use of unstructured forms of data to identify and highlight concerns, such as scanning social media for any references to malpractice. Using Google Maps to identify company headquarters can help to verify the legitimacy – or otherwise – of businesses.

Equally, deploying a master data approach can enable compliance teams to draw on all the information about a supplier or customer that already exists within the organisation, such as within the sales or procurement teams. Implementing a unifying data structure, by using the Dun & Bradstreet D-U-N-S Number® for example, will allow the ready identification of organisations in order to link internal and external information together.

BUSTED

Third-party data sources can be used to verify the information provided to you.

MYTH Automation will mean we're at greater risk of missing something

Automation by its very definition eliminates some human intervention – and understandably, compliance professionals can feel that the more processes are automated, the greater the risk that something pertinent will be missed.

Automation at every stage of the programme will free up even more resource within the team, from helping to identify specific entities and their relationships through to screening for sanctions and reputational risk.

Administrative tasks, such as manually monitoring review schedules, can be eliminated. Automation can also document adherence to established programmes, significantly reducing the time taken to prepare for audit.

By ensuring that human attention can be focused on the more complex, riskier cases, automation means organisations are at a lower – rather than a higher – risk of missing something crucial.

BUSTED

Automation does not mean moving to a hands-off approach. It means that varying levels of screening and automation are applied depending on the risk profile of each entity, keeping the team focused.

MYTH Data protection rules will limit the data we can access in compliance checks

With the rise of legislation like GDPR, organisations are correctly becoming much warier about the data held on third parties – including as part of compliance checks. As a result, there may be reticence or concerns about using third-party data to support checks.

Data protection rules influence what data to collect, when to collect it and how long to retain the data for your compliance and onboarding programs, not from collecting information you need. Setting up your automated workflow around the data protection use cases will take the guesswork out of what data is required and when.

Equally, working with a third-party platform like Dun & Bradstreet means that compliance checks are conducted within the data supplier itself.

BUSTED

Organisations have a legitimate business use for collecting data on suppliers and new customers, meaning that compliance teams are acting legitimately under data protection regulations.

MYTH Compliance will always be seen as a road bump – if not a cost-centre – for the business

The old adage that compliance is viewed as a business cost-centre is gradually transforming. Chief compliance officers are joining senior leadership teams, as businesses recognise the importance of compliance practices for avoiding penalties and protecting the company reputation. However, compliance can still be seen as a road bump, delaying the onboarding of new customers or suppliers – and failing to move at the speed of business.

Equally, it's important to note that the cost of non-compliance is rising. There has been a significant increase in the frequency and size of fines under the Foreign Corrupt Practices Act, for example; in 2018, there were 42 enforcement actions and $3.2 billion in sanctions, compared to 14 actions and $35 million in sanctions in 2005. To serve the interests of the company, compliance teams must balance timeliness with the need to complete all checks thoroughly and accurately.

BUSTED

Compliance is like insurance – you know you need it but hope you don't need to fall back on it. With automation, compliance can be faster, more comprehensive and deliver wider business benefits.

The benefits of a well-run and diligent compliance function are well documented. But reaching this level of performance can seem like a huge resource drain. However, with automation and access to third-party data, compliance teams can speed up their checks whilst maintaining the level of diligence needed. For example, in the Aerospace industry, America's biggest exporter is able to enrich about 1,000 new supplier profiles a month and maintain profiles for 150,000 suppliers in their system. Access to rich third-party data can also enable the compliance teams to access valuable insights on customers, such as their financial health and new divisions to target, to deliver benefits for the rest of the business.

MYTH Where we operate means my business is not at risk of modern slavery

Compliance programmes must ensure that new customers and suppliers are legitimate, stable and honest. To do so, it's vital to check for a wide range of risk factors, without making assumptions about where you're operating.

Particularly in developed countries, for example, businesses can assume that because of where they are operating they are not at risk of exposure to practices like modern slavery. Modern slavery, however, exists across the world in sometimes unexpected contexts, that can place an organisation at ethical and reputational risks. External sources can help businesses to identify elements of their supply chain and potential prospects that might risk exposing them to modern slavery, by monitoring a host of risk factors including country, industry and size of organisation. Drawing on external checks will enable organisations to identify and investigate potential areas of exposure, even supporting the global fight against practices like modern slavery.

BUSTED

Organisations can be at risk of exposure to modern slavery all around the world, but third party data helps to identify risk and support the global fight against trafficking and corruption.

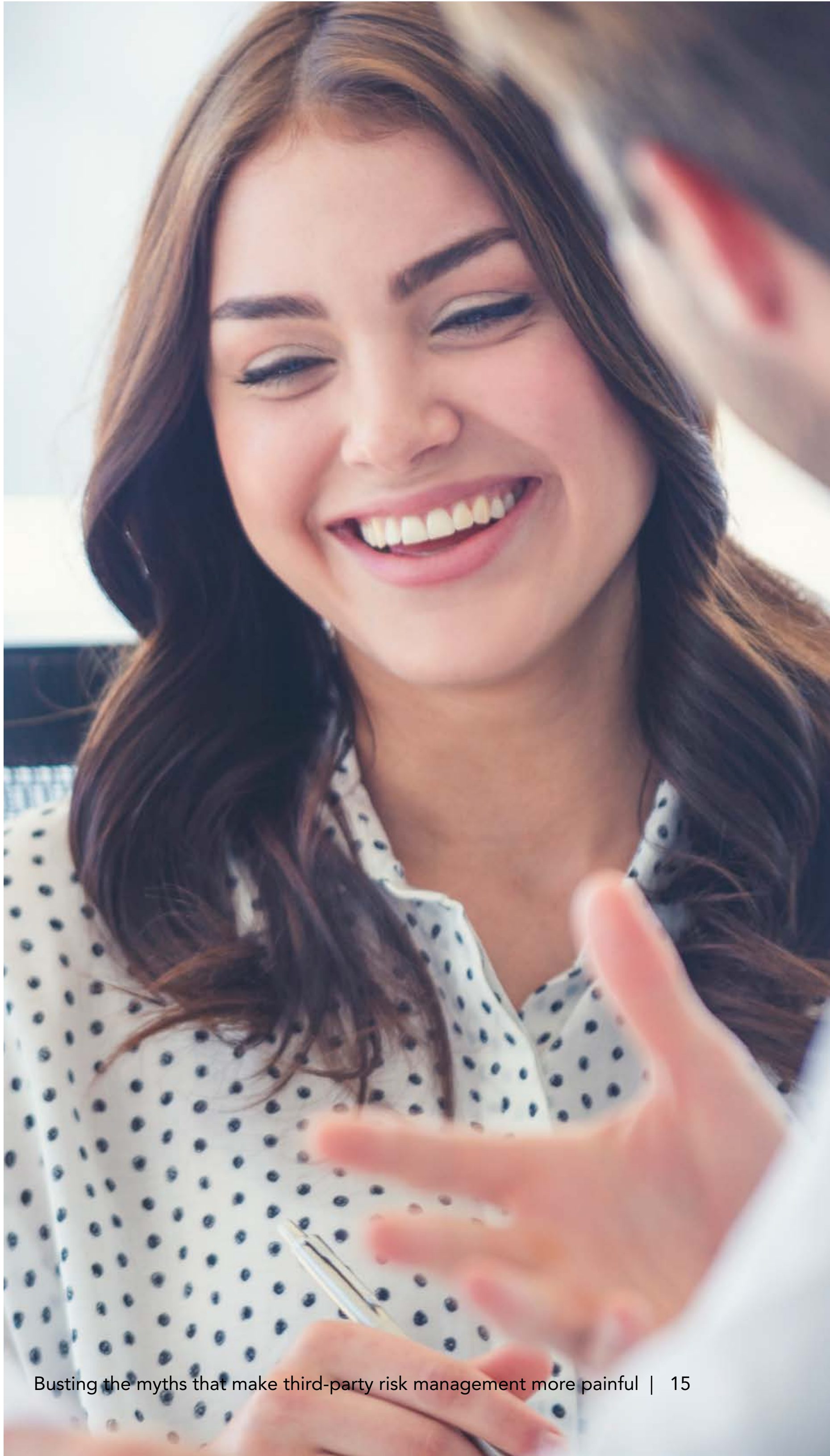
Making compliance less painful

There's no doubt that compliance professionals are being asked to do more than ever before, often against a backdrop of more challenging regulation, skills shortages and demands from the business for speedier checks. But equally there are some prevailing myths that can keep compliance challenging.

By understanding the benefits of a risk-based approach, automation and rich third-party data, it's possible to make compliance less painful – both protecting and delivering even more value for your business.

Speak to Dun & Bradstreet about how automation could make your risk management less painful.

dnb.com/contact-us.html



About the International Compliance Association

The International Compliance Association (ICA) is the leading professional body for the global regulatory and financial crime compliance community. It has enhanced the knowledge, skills and behaviour of over 130,000 professionals in 153 countries either through their internationally recognised portfolio of professional qualifications (awarded in association with Alliance Manchester Business School, the University of Manchester) or through accredited in-company training.

For more information visit: www.int-comp.org

About Dun & Bradstreet

Dun & Bradstreet, the global leader in commercial data and analytics, enables companies around the world to improve their business performance. The Dun & Bradstreet Data Cloud fuels solutions and delivers insights that empower customers to accelerate revenue, lower cost, mitigate risk, and transform their businesses. Since 1841, companies of every size have relied on Dun & Bradstreet to help them manage risk and reveal opportunity.

© Dun & Bradstreet, Inc. 2021 All rights reserved. (CREATIVEUX-1440)

@DNBUS | 0800 001 234

dnb.com/compliance