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SCCE - Minneapolis Regional Conference

Third Party Oversight: A Case Study

March 6, 2020

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Third Party Oversight…

We cannot just <u>hope</u> our third parties will do the right thing

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Key topics for this session

- Third Party Risk Management: An End to End Review
- Case Study
- Lessons Learned

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Why is Third Party Risk Becoming so Important

In the past third party risk management performed mostly by very large organizations and was primarily focused on supply chain. Now third party risk has made become an important topic with senior leaders and the board.

1. **Availability of low-cost third party options** has increased significantly and organizations now have access to a multiple highly skilled, economic service providers that compete aggressively in the global market.

2. **Outsourcing of critical business functions and products/services** to focus on core competencies and services. This creates a greater level of dependence on third parties as the ability to bring certain products and services.

3. **Regulatory and auditor scrutiny has increased** due to technology advances that can produce a variety of products and services across the globe. This expansive reach of third parties exposes organizations to laws outside of the US

4. **Highly visible data breaches and events** have changed the regulatory landscape in a significant way. For example, the Bank failures in 2008 drew significant criticism against both the institutions and regulators for a lack of oversight. After this event there was significant pressure to improve identification and monitoring of risks.

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Understand your Third Party Environment

Starts with simple yet often times difficult questions to answer.

1. Who are your third parties and their subcontractors?
2. What business are we doing with them and why?
3. Which relationships expose your company to risk and to what risks?
4. What is the criticality of these risks to your organization and to individual business units?
5. How are we identifying, reporting and remediating these risks?

Questions your Governance team needs to be asking

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Understand Regulatory Requirements

1. Continued focus on managing Compliance and Privacy risks related to your third parties
2. Information Sharing between public and private sectors getting a hard look
3. Compliance of consumer information laws and regulations is back in the spotlight
4. Increasing the depth and breadth of due diligence requirements

Longer standing requirements…

- **HIPAA**
- **FDCPA**
- **OFAC**
- **GLBA**

Recent requirements…

- **OCC Cybersecurity Statement – 2020**
- **CCPA – 2020**
- **NY DFS Regulation 500 – 2019**
- **FDA CGMP Data Integrity Standards – 2018**
- **EU GDPR – 2018**

What impact has it had…and what's next?

- Cost of compliance has become an issue
- Compliance requirements keep increasing
- Company's are looking for ways to be more efficient and look ahead to cover critical risks

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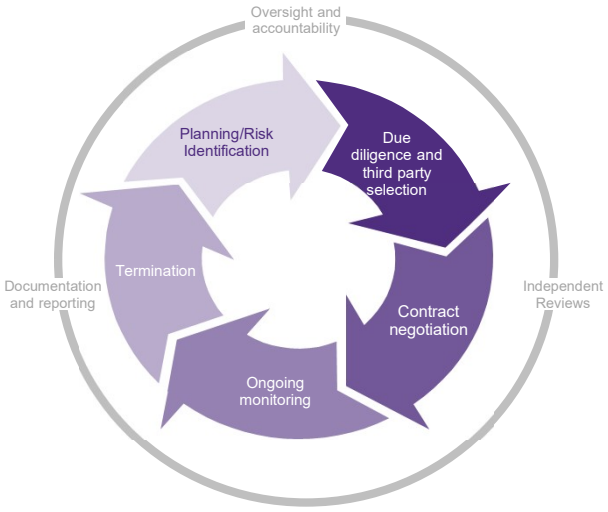
Third Party Operating Framework

Identify
- Third parties
- Services
- Risks
- Rank by criticality (impact, likelihood)

Mitigate
- Pre-contract due diligence
- On-site reviews (critical third parties
- Desktop reviews (lower rated risks)
- Daily new feeds (reputational risks)
- Issue identification & remediation

Monitor
- Post contract due diligence based on criticality
- Daily news feeds (reputational risks)
- On-site reviews (critical/high third parties)
- Desktop reviews (lower rated risks)
- Issue identification
- Remediation

Third Party Lifecycle



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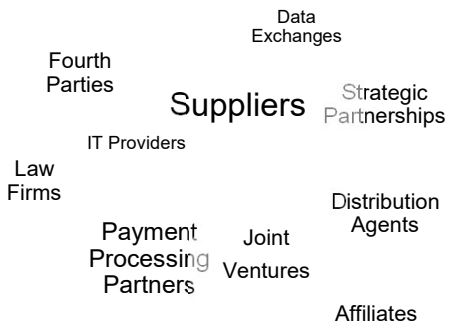
Identify your Third Party Population

Regulators and auditors have an expansive definition of third party – ***"A third party is any relationship between your company and another entity through a contract or otherwise"***. Reality Check – any relationship you have that may cause a reputational or regulatory risk to your firm.

Goes Beyond Your Typical Suppliers



Understand the criticality & risk(s) so you can most appropriately perform due diligence

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Mitigate Higher Risk Engagements

What third party risk factors qualify for more in-depth assessments?

Third Parties

- Service will **interact directly with customers** and have the ability to influence existing or perspective customers
- Service will have the **ability to influence**, without two-way interaction, to customers, e.g., marketing promises
- Store, process, or transmit **personal data** (internal, customer, etc.) on their own IT systems and network
- **High operational dependency** to maintain sales, customer satisfaction, etc.

Inherent Risk Model

Risk Rating	Due Diligence Requirements	Recurrence
High	On-site Assessment	Annually
Moderate	Remote Assessment	Bi-annually
Low	Self Assessment	Contract Renewal

Illustrative Examples

Data Sensitivity

Shared with/collected by/accessible to the third party:

- Customer information and prospective customer information
- Employee, employee family, applicant, and contractor personal identifiable Information
- Organization's intellectual property, proprietary information, and financial data, technical data/IP addresses

Residual Risk Model

Inherent Risk	Last Review Rating	Residual Risk	Review Frequency
High	Satisfactory	Medium	Biennial
	Needs Improvement	High	Annual
	Unsatisfactory	High	Annual
	No Prior Review	High	ASAP
Medium	Satisfactory	Low	Triennial
	Needs Improvement	Low	Triennial
	Unsatisfactory	Medium	Biennial
	No Prior Review	Medium	ASAP
Low with PII	Satisfactory	Low	Triennial
	Needs Improvement	Low	Triennial
	Unsatisfactory	Low	Triennial
	No Prior Review	Low	ASAP
Low	Review Not Required	Low	Biennial Refresh

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Monitoring with the Right Type of Governance

Strategy

Enterprise Risk Operating Committee

- Consists of executive leaders from the business, risk, compliance, operations, etc..
- Responsible for approving the strategic direction of the company's risk programs
- Responsible for reviewing critical risks and escalated issues and making business decisions based on those risks
- Provides top-down alignment of risk activities for dashboards and metrics

Third Party Risk Operating Committee

- Consists of mid-level leaders from the business, risk functions, legal, operational risk and third party risk management
- Responsible for defining the TRPM program requirements and strategies
- Reviews higher risk supplier contracts, risk mitigation strategies and escalated issues; provides decisions to TPRM operations and escalates to enterprise risk committee

TPRM Operations

- Defines execution strategies to present to the third party risk operating group
- Responsible for executing the TPRM operations and facilitating risk assessments and ongoing monitoring of third parties
- Provides risk and reporting expertise along with the operational skillsets to execute risk activities effectively and efficiently

Reporting

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Case Study

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Client Background

Fortune 100 diversified financial services group of companies including a inter-insurance exchange and subsidiaries offering banking, investing, and insurance. The organization currently has over 20 million members.

Large financial organization	~34,000 Employees
~$31 billion Revenue in USD	~20.8 million Members

Challenges

- Lack of formal third party governance for compliance risk.
- Missing segmentation of compliance for higher risk third parties.
- Internal resources were not staffed to handle the assessment workload.
- Needed to develop an internal plan and approach to assess critical and high risk third parties.

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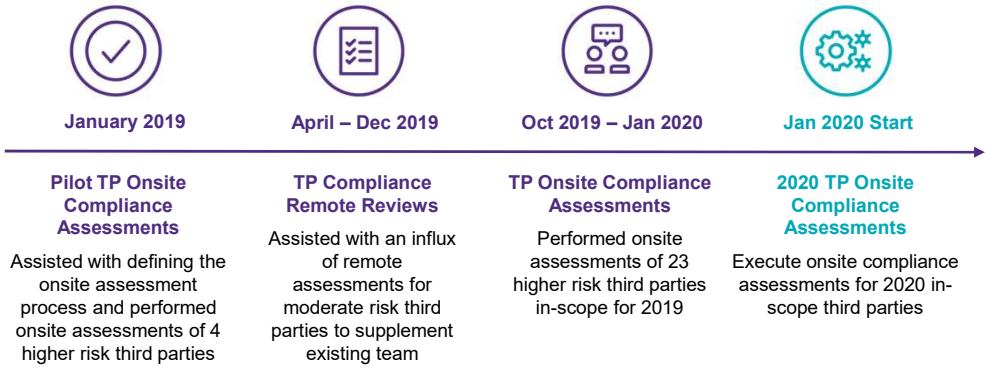
Timeline of Third Party Compliance Reviews

Grant Thornton has worked with the client to define, pilot, and execute third party compliance assessments for their critical and high risk third parties for over a year, based on regulatory and Internal Audit findings.



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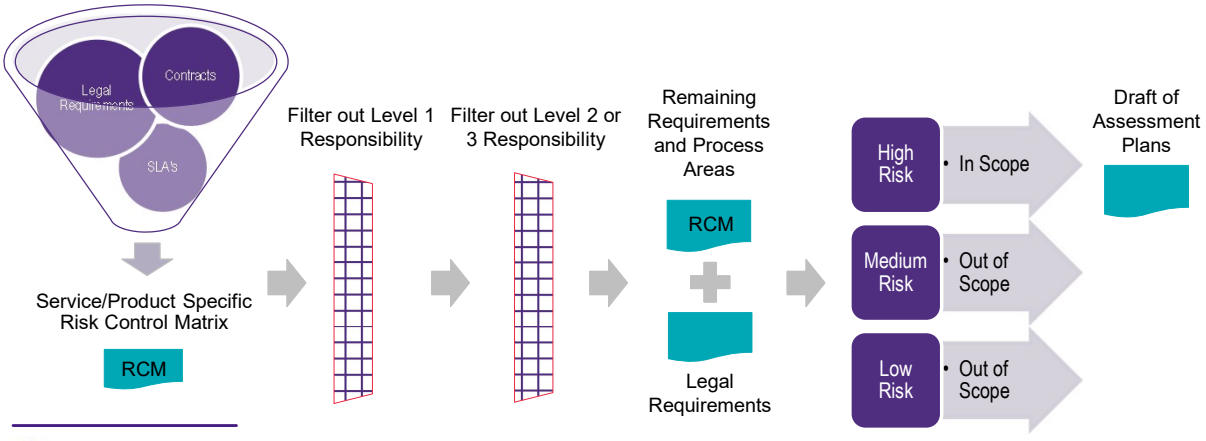
Scoping Approach for Onsite Assessments

The scoping process included a review of contractual obligations, along with any identified regulatory requirements based on the contract and service type. In partnership with the client's legal department, we then validated the requirements with business and compliance stakeholders to determine internal and external responsibility, and which higher risk requirements to include in the draft assessment plans.



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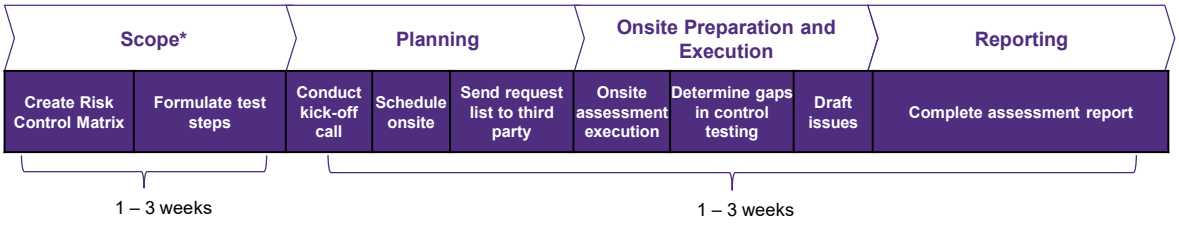
Compliance Onsite Assessment Process

The engagement workflow below was customized for the clients specific needs, however it is similar to standard workflows used across many client and industries. The **onsite** review process generally lasts between 2-6 weeks, where longer durations are usually due to third party delays and scheduling.



***Depending on the scope of the TPRM program and associated risk assessments, there might be standard assessment questionnaires to use. Within the security domain for example, NIST CSF and ISO27001 are common control standards.**

Sanctions Screening	ABAC	Legal / Compliance
Operational Risk	BC / DR	Technology
Reputational Risk	Information Security/Privacy	Financial Health

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Value Driven Results

The compliance onsite program has been well received across the organization and their third parties. It has also identified valuable process improvement opportunities with current providers.

Value Delivered from the Assessment Process

Expertise
- Compliance SMEs across all business lines
- Regulatory insight to assist compliance with requirements
- Industry knowledge on how others are complying

Speed
- Ability to assess due diligence quickly prior to onsite visit
- Dedicated PMO improves communications with business and third parties

Scale
- Ability to quickly assign staff to conduct onsite assessments
- Multiple assessments occurring simultaneously
- Ability to scale up or down based on volume

Quality
- Multiple layers of quality assurance checks
- Accuracy of findings and documentation for both control effectiveness testing and control design evaluation

Lessons learned that will improve future efficiency and effectiveness:

Scoping of compliance requirements for each service type requires alignment with 1st line, 2nd line, and the business

There's a need to manually understand the service being performed by the third party, as contracts and SLA's may not always be accurate

Data analytics are beneficial to identify compliance trends across business units, products, and outsource service types (e.g., subcontractors & licensing requirements)

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Parting Thoughts

1 Third Party Population

Define your full population of third parties and services being provided and consistently segment them based on risk.

2 Governance

Governance, risk escalation, and reporting are critical components. Understand the business objectives.

3 Risk-Based Approach

Employ a risk-based segmentation of your third-party supplier base and rank your third parties and services by criticality.

4 4^{th} , 5^{th} , N^{th} Parties

Understand what third parties require subcontractors and the criticality of those subcontractors to your operations or service delivery.

5 Automation

Implement third party risk technology and integrate that technology to your supply chain and reporting engines. Drive consistency and efficiency into your process.

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Questions?

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Grant Thornton's Third Party Risk Experience

Experience

- National TPRM Practice
- 200 resources dedicated to third party risk management assessments and attestations
- Past Regulator Expertise

National Practice:

- Certified / trained practitioners
- Offshore support team
- Strategic alliances with leading third party risk technology vendors (OneTrust, Coupa Risk Assess, SAI Global, Archer, IHS-Markit, Process Unity, ServiceNow)

Program Enablers

Intellectual Property:

- TPRM diagnostic that harmonizes leading risk requirements and quickly assesses maturity of program
- Risk taxonomy and inherent/residual risk models
- Audience specific risk key performance metrics and dashboards
- TPRM Internal Audit RACM based on regulatory guidelines and leading practices
- Program Performance Metrics
- Pre-built risk questionnaires and controls for each risk domain

Thought Leadership

- TPRM conference presentations
- TPRM webinars & industry roundtables
- Whitepapers

Find out more by visiting:
http://gt-us.co/2u3S2wW

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Grant Thornton's Regulatory Compliance Practice

Grant Thornton offers a suite of services and solutions to assist organizations in right-sizing their compliance function, considering people, process and technology. Our subject matter expertise and proven methodologies address compliance holistically across the enterprise and supplier ecosystem.

Key Services & Solutions

BSA / AML / KYC / OFAC	AML independent program reviews and testing, AML payment system, KYC, and OFAC.
Compliance Management System Reviews	Assessments focusing on Board and Management Oversight, Compliance Program, compliance reporting, training, audit, and consumer complaint analysis.
Compliance Monitoring, Testing & Training	Perform testing, monitoring, and training of consumer protection regulations such as ECOA, EFA, EFTA, FCRA, FDCPA, Flood Insurance, RESPA, SCRA, TILA,TISA, UDAAP.
Community Reinvestment Act	CRA self-assessments, data analytics, diagnostic reviews, due diligence reviews, and training.
Fair Lending	Assessment of fair and responsible lending practices, conduct, data analytics, redlining, steering, comparative file review, and regression analysis
Sales Practices, Conduct & Culture	Perform conduct, culture and sales practices assessments, health-checks and diagnostic reviews, regulatory remediation, root cause analysis, training, etc.
UDAP / UDAAP	Conduct assessments focusing on potential UDAP/UDAAP issues for all consumer products and services, including auto lending, credit cards, deposit products, loan products, mortgage products, servicing, overdraft programs, etc.

Governance / Risk Management
Exam Readiness/Remediation
Risk Assessment
Regulatory Reporting
Data & Risk Analytics, RegTech

Select Client Qualifications

Top 4 U.S. Bank

Regulatory Response and Remediation

- One of the largest banks in the U.S. entered into Consent Orders with its primary regulators regarding compliance matters.
- We were engaged as the Independent Consultant to determine whether the Bank's policies, procedures, and practices are reasonably designed to ensure practices comply with various Federal regulations.

Fortune 50 US Bank

Regulatory Response and Remediation

- A large multinational bank needed assistance with sales practices-related matters requiring attention ("MRAs") issued by their Federal regulator.
- Grant Thornton provided consultative advice, perspective, and recommendations to directly contribute to the bank's goal of timely and appropriate completion of the MRA requirements and enhancing conduct and sales practice risk management initiatives.

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