

MARIM CONFERENCE 2017

Risk & Resilience in a VUCA World

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Redefining Third Party Risk Management in a VUCA Era

Daniel MacLachlan

Global Director, Due Diligence Strategy,
ethiXbase



REDEFINING THIRD PARTY RISK MANAGEMENT IN A VUCA ERA

Presented by
Daniel Maclachlan
ethiXbase

26 July 2017

ethiXbase



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Instant Due Diligence Report (IDR) FREE

Would you like to add more than one third party?

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OVERVIEW

- **Anti-corruption compliance landscape – challenges & expectations**
- **Redefining third party risk management best practices**
- **The role of technology for effective third party risk management**
- **Actionable takeaways**

PRESENTED BY

Daniel Maclachlan

ethiXbase

dmaclachlan@ethixbase.com

+65 6536 0084

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INTRODUCTION

ethiXbase assists organisations, no matter their size or budget, to shield themselves from allegations of bribery or corruption in their **third party network** through **cost-effective due diligence, ongoing monitoring** and **ethics and compliance education**.

FOUNDED IN 2011

by the same team of industry experts that shaped some of the most successful businesses in the governance, risk and compliance arena

GLOBAL PRESENCE

with 6 locations in Singapore (head office), Malaysia (research headquarters), the United Kingdom, Philippines, the United States of America, and India

ETHIXBASE 2.0

The latest innovation in compliance technology allowing users to screen **100%** of their third parties for free and escalate those which require further review through industry-leading workflows

50,000 END USERS

including professionals from corporates, regulators and commissions from across the globe spanning a wide range of industries

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ANTI- CORRUPTION COMPLIANCE LANDSCAPE

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ANTI-CORRUPTION COMPLIANCE LANDSCAPE

**DRAMATIC ERUPTION OF
SCANDALS**



**INCREASING REGULATORY
EFFORTS & EXPECTATIONS**



**THIRD PARTY DUE DILIGENCE
NEEDS TO EVOLVE TO MEET
INCREASING EXPECTATIONS**

OVERVIEW

- **The anti-corruption landscape has seen a dramatic evolution** in today's VUCA (Volatility, Uncertainty, Complexity and Ambiguity) era
- **Corruption and anti-corruption efforts are now at the forefront of the business and social conscious** – and are becoming increasingly visible and mainstream in each corner of the globe
- **Regulatory, enforcement and market pressure on organisations is similarly increasing**, as evidenced by notable high profile regulatory fines and media coverage
- **Ignorance, in terms of compliance and third party management**, has been outlawed
- **Third party risk management practices need to evolve to keep pace** with the constantly evolving landscape

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ANTI-CORRUPTION COMPLIANCE LANDSCAPE

DRAMATIC ERUPTION OF SCANDALS

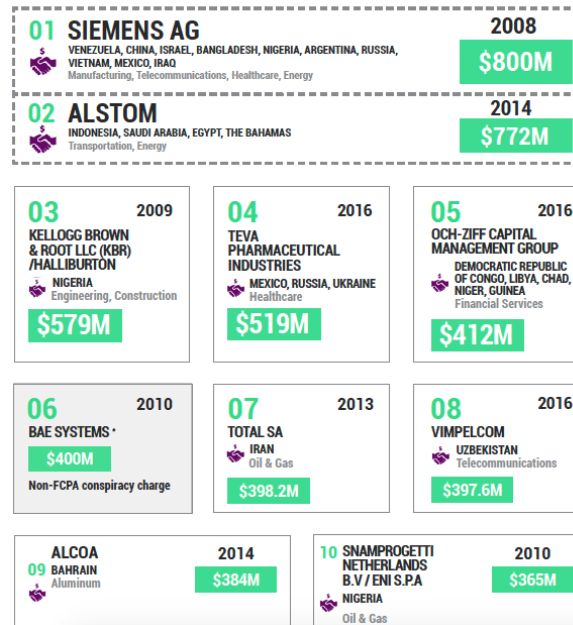
INCREASING REGULATORY EFFORTS & EXPECTATIONS

THIRD PARTY DUE DILIGENCE NEEDS TO EVOLVE TO MEET INCREASING EXPECTATIONS

THE TOP 10 FCPA-RELATED SETTLEMENTS

IN HISTORY BEGIN FROM 2008
(as of April 2017)

As anti-corruption efforts intensify, soaring exposure of corporate misconduct especially in recent years has been accompanied by increasing penalties. In particular, the last decade has stood out featuring some of the most significant FCPA-related cases and landmark settlements across 40 years of anti-corruption history.



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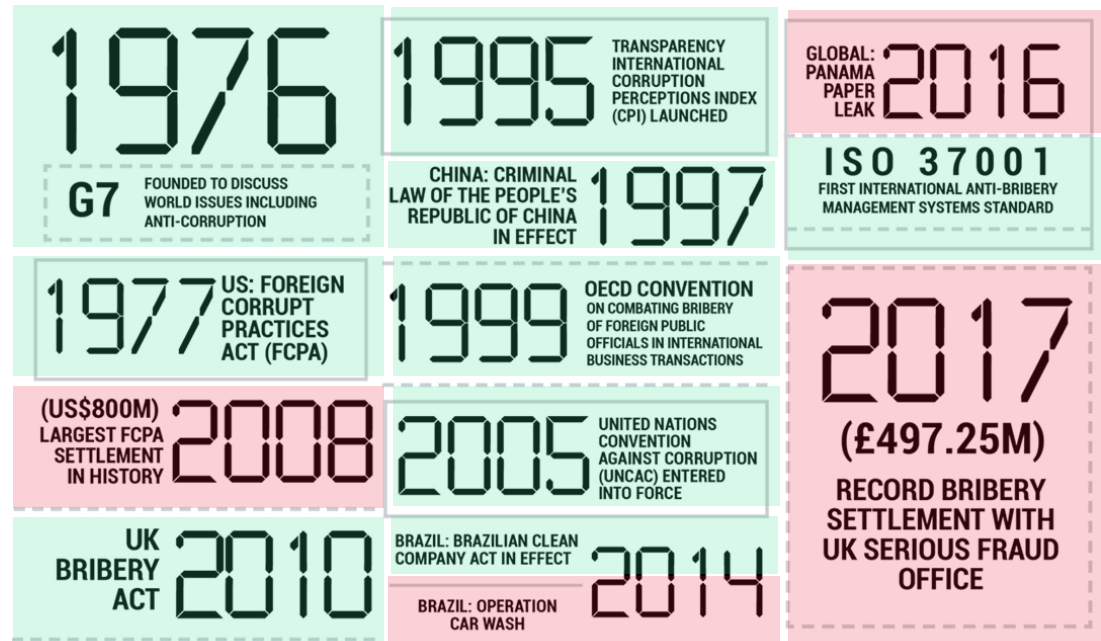
ANTI-CORRUPTION COMPLIANCE LANDSCAPE

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A SNAPSHOT OF SOME KEY ANTI-CORRUPTION DEVELOPMENTS IN



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ANTI-CORRUPTION COMPLIANCE LANDSCAPE



- Regulators may have different priorities and focus areas when it comes to anti-corruption compliance and third party management – but what are the commonalities we know of?
- Regulators generally like to see:
 1. Compliance frameworks that are carefully considered, based on sound decision making amid documented evidence
 2. A consistently applied approach
 3. A process of continual monitoring
 4. Structured regular reviews
 5. A process for re-categorising risk overtime

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ANTI-CORRUPTION COMPLIANCE LANDSCAPE

DRAMATIC ERUPTION OF
SCANDALS



INCREASING REGULATORY
EFFORTS & EXPECTATIONS



**THIRD PARTY DUE DILIGENCE
NEEDS TO EVOLVE TO MEET
INCREASING EXPECTATIONS**

ONGOING THIRD PARTY DUE DILIGENCE CHALLENGES

- Previously high due diligence costs
- Difficulties in accessing public data
- Managing high numbers of false positives
- Long turn-around times
- Ongoing monitoring as a manual process
- The result: Companies that adopt a risk-based approach to third party compliance may conduct due diligence only for higher risk third parties, exposing them to unknown corruption risks.

REDEFINE THIRD PARTY DUE DILIGENCE BEST PRACTICES

**The time is now for companies to know who they are
doing business with – for 100% of their third parties.**

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“ Many organisations have historically applied a ‘risk-based approach’ to third party due diligence and compliance management... It is logical to spend more time and energy on third parties with a perceived ‘higher’ risk... **In practice though the risk-based approach has meant that a large proportion of time and money has been spent on vetting just a small percentage of an organisation’s third parties, leaving the vast majority unchecked and exposing the organisation to unknown corruption risks.**”

Whitepaper: Anti-corruption Compliance – Achieving 100% Third Party Due Diligence
View [Here](#)

**REDEFINING
BEST PRACTICES
FOR 100%
THIRD PARTY
DUE DILIGENCE**

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REDEFINING BEST PRACTICES

1. UNDERSTANDING THE SCOPE OF YOUR THIRD PARTY NETWORK

At the beginning of any effective program is a discussion about the scope of the project, its limitations and definitions. Review objectives, define what a third party is to your organisation, how many you have and where information on these third party relationships is currently saved.

2. CONDUCT BASELINE SCREENING FOR 100% OF THIRD PARTIES

100% of third parties should undergo a consistent baseline screening process which includes, at a minimum, checks against key sanctions and enforcements. Where available ascertaining a third party organisation's registry details is also important along with obtaining directorship details and the background of associates if possible. Results of this process should be documented and ideally saved in a singular repository for future reference.

REDEFINING BEST PRACTICES

3. REVIEW POTENTIAL THIRD PARTY RISK INDICATORS & CATEGORISE RISK

Following first level screening third parties should be assessed and categorised into low, moderate and high risk based on the potential corruption risk they may pose to your business using various criteria such as:

COUNTRY RISK – a third party that is located in a country that is known to have lax financial and risk controls or a higher perception of corrupt activity may require further scrutiny.

PUBLIC PROFILE – in the internet age public information on allegations of the third parties' potential involvement in key risk areas such as corruption, human rights issues, financial crimes and other key risk areas should be reviewed as part of the categorisation process.

SIGNIFICANCE TO SUPPLY CHAIN – it goes without saying that the bigger the impact a third party has on your organisation the bigger the risk that third party poses should anything go wrong. Making a judgement call, either based on the size of the transaction, revenue stream, or the integral role a third party plays in your supply chain is important.

INDUSTRY/SECTOR RISK – some sectors, especially those that require substantial budgets and some level of state involvement, can be more susceptible to corruption than others.

LEVEL OF TRANSPARENCY – the accessibility of the ownership of an organisation will help to determine its risk profile. An organisation where the leadership is easily identifiable, as are their assets and interests, is less risky than one where the owners are difficult to trace.

RESULTS OF BASELINE SCREENING – should baseline screening in Step 2 indicate potential matches against sanctions and enforcements that cannot be immediately ruled out as a false positive then additional due diligence is required in order to adequately assess risk and decide whether to continue the business relationship.

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REDEFINING BEST PRACTICES

4. ESCALATION & REVIEW

Following a review of potential risk indicators and subsequent categorisation third parties which are deemed higher risk are the priority, but a risk-based approach is not a licence to ignore the third parties categorised as moderate or low risk. Devise a strategy based on regulators' expectations and organisational goals and schedule a regular review of this process – regulatory updates are increasingly frequent and third party information is subject to change. Here is an example of the [ethiXbase 2.0 risk-based escalation workflow](#):

LOW RISK

Initial baseline due diligence applied to **100%** of third parties against sanctions and enforcements along with verification of the legitimacy of the company and directorship details.

MODERATE RISK

Where third parties are flagged as moderate risk they can be escalated to online due diligence including not only sanctions and enforcements but also politically exposed persons (PEP) checks of associated individuals and a detailed adverse media search of specific risk areas such as corruption, financial crime, criminality, human rights, environmental crimes etc.

HIGH RISK

Enhanced due diligence that includes a review of civil litigation, regulatory, criminal and bankruptcy records (in English and local language) along with verifying financial ownership records and the background of key associates such as directors and senior management. It is also important to review local language media searches and conduct on-site inspections and interviews if necessary.

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REDEFINING BEST PRACTICES

5. ONGOING MONITORING

It is well known that a third party's risk profile can change over time. For this reason it is increasingly important to monitor third parties on an ongoing basis with alerts to any changes in their risk profile. Should a third party's profile change then they may need to be re-categorised and therefore require escalation to a higher level of due diligence than previously performed.

CHECKLIST: ACHIEVING A CONSISTENT PROGRAM

- ✓ Is baseline due diligence performed on **100%** of third party relationships?
- ✓ Are defined criteria used to assess and categorise third party risk?
- ✓ Is there a standard escalation workflow for moderate and high risk third parties?
- ✓ Is the program consistently applied?
- ✓ Are **100%** of third parties stored in a singular repository with proper recording and documentation procedures in place?
- ✓ Are procedures reviewed regularly and updated if required?
- ✓ Are third party due diligence reports and an overview of **100%** of third party relationships readily available to provide to management, internal audit and regulators?

“ As reported by the Organisation for Economic Co-operation and Development (OECD), of the 427 corruption cases resolved globally since 1999, 75 percent involved improper payments made through third-party intermediaries. **The continuation of this trend also underscores the importance of risk-based due diligence for third-party business partners, including background investigations, contractual protections, training and ongoing monitoring.**”

FCPA TRENDS FROM THE LAST 6 MONTHS, LAW 360

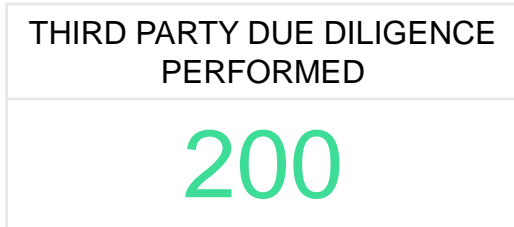
THE ROLE OF TECHNOLOGY FOR EFFECTIVE THIRD PARTY RISK MANAGEMENT

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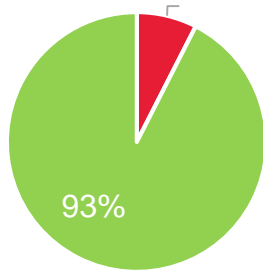
THE ROLE OF TECHNOLOGY TO MANAGE THIRD PARTY RISKS - **IN A SINGLE REPOSITORY**

- Regulators look favourably on a systematic process, one that is consistent and reviewed on a regular basis.
- Reporting and documentation is very important – if not properly documented, the best due diligence will be a waste of time and effort.
- It is strongly advisable to record all activity related to the processing of third party risk in **a single, accessible repository.**
- These best practice steps redefine the approach to third party due diligence by **leveraging regulatory technology (RegTech) and advanced data to provide previously unparalleled visibility of third party risk across 100% of an organisation's third party network.**

SNAPSHOT OF THIRD PARTY RISK IN A SINGLE, ACCESSIBLE REPOSITORY



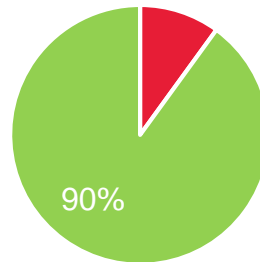
Baseline Screening Results (Sanctions & Enforcements)



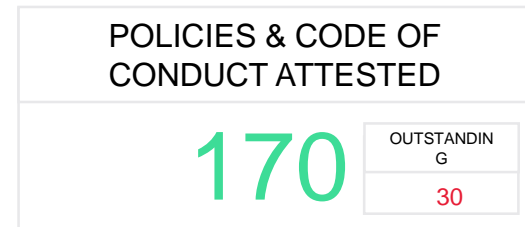
■ Alerted



Ongoing Monitoring - Alerts



■ Alerted



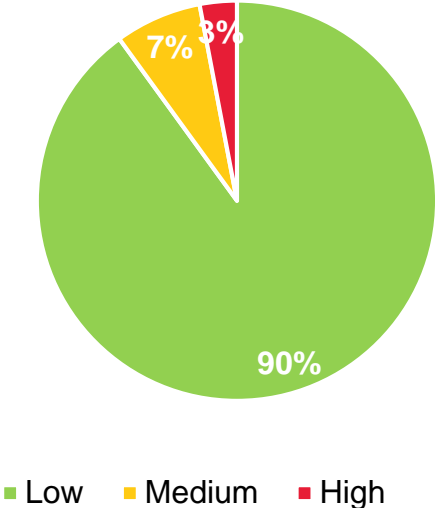
LEVERAGING ADVANCEMENTS IN DATA, TECHNOLOGY & DUE DILIGENCE

Assessing and reporting on third party risk

TOTAL THIRD PARTIES

200

Third Party Risk by Predictive Risk Indicator*



*The **ethiXbase Predictive Risk Indicator (PRI)** is based on a number of factors including three commonly identified risk data points:

- Industry risk
- Location risk
- Public risk profile

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ACTIONABLE TAKEAWAYS

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RISK ACTIVELY HIDES

TAKE PRACTICAL STEPS TO REDEFINE THIRD PARTY RISK MANAGEMENT

Understanding
the scope of
your third party
network

1

Conduct
baseline
screening for
100% of third
parties

2

Review
potential
third party risk
indicators &
categorise risk

3

Ongoing
monitoring

4

Escalation
& review

5

WHITEPAPER: ACHIEVING 100% THIRD PARTY DUE DILIGENCE

Visit the ethiXbase booth for your copy



REDEFINING BEST PRACTICES: STEPS TO ACHIEVE 100% THIRD PARTY DUE DILIGENCE

1 UNDERSTANDING THE SCOPE OF YOUR THIRD PARTY NETWORK

In the beginning of any compliance program, it is essential to understand the scope of the program. In this section, we discuss how to identify, assess, and categorize third parties to your organization, how many you have and where information on these third party relationships is currently stored.

2 CONDUCT BASELINE SCREENING FOR 100% OF THIRD PARTIES

100% of third parties should undergo a consistent baseline screening process which includes, at a minimum, checks against the international and national sanctions, watch lists, and other publicly available information. In addition, screening a third party against a public check is also important along with identifying ownership details and the background of executives if possible. Finally, if any entity should be screened and a check is not a complete repository for baseline information.

3 REVIEW POTENTIAL THIRD PARTY RISK INDICATORS & CATEGORISE RISK

Following the baseline screening that parties should be assessed and categorized into low, medium and high risk based on the potential corruption risk they present to your business and various other risk factors.

COUNTRY RISK – A third party that is located in a country that is known to have a high level of corruption risk or a high perception of corruption should be categorized as high risk.

INDUSTRY/SECTOR RISK – Some sectors, especially those that require substantial budgets and some level of client involvement, can be more susceptible to corruption than others.

PUBLIC PROFILE – An internet age public information on the internet of the third party's general involvement in key risk areas such as corruption, human rights issues, financial issues and other key risk areas should be reviewed as part of the categorization process.

INTERESTS TO IMPACT YOUR BUSINESS – A given third party that has a significant interest in your business or your organization, the longer the relationship, the more you should know about the third party. A given third party should be reviewed in the context of the business relationship and the length of the third party plays your organization's program.

REPUTATION AND SCREENINGS – Should baseline screening by step 2 identify potential corruption, financial issues and other information that cannot be confidently confirmed, then a more detailed screening should be required in order to adequately assess risk and decide whether to continue the business relationship.

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REDEFINING BEST PRACTICES: STEPS TO ACHIEVE 100% THIRD PARTY DUE DILIGENCE

4 ESCALATION & REVIEW

Following a review of potential risk indicators and subsequent categorization third parties which are deemed higher risk than the primary low risk-based approach to not a lower to greater third parties categorized as medium or high risk. There is a strong focus on regulatory requirements and organizational goals and schedule a regular review of this process – regulatory updates are necessarily frequent and third party information is subject to change.

An example of the ethiXbase 3-risk-based escalation workflow can be found below:

LOW RISK	MEDIUM RISK	HIGH RISK
ethiXbase due diligence applied to 100% of third parties against sanctions and information along with completion of the integrity of the company and monitoring checks.	Where third parties are flagged as medium risk they can be escalated to either the compliance or legal department for additional review and consultation. An additional report generated (every 6 months) of a detailed review needs to be completed on a regular basis to ensure that the company, financial issues, reputational issues etc.	Where due diligence that includes a review of and beyond compliance and legal requirements should be applied and third parties along with ongoing financial monitoring, annual and the background they conduct risk or financial and other management. It is also important to ensure that integrity checks and other compliance, financial issues, reputational issues and other information if necessary.

5 ONGOING MONITORING

It is well known that a third party's risk profile can change over time. For this reason it is necessary to ensure that parties are on ongoing basis subjected to any changes to their risk profile. Should a third party's profile change they may need to be re-categorized and further report conducted in a higher level of the diligence than previously performed.

ETHI XBASE AN ETHIXBASE 2.0 TO MONITOR THE DILIGENCE ON 100% OF THIRD PARTIES, WITH A RISK-BASED ESCALATION WORKFLOW AND ONGOING MONITORING OF ETHIXBASE INTEGRITY.

www.ethixbase.com/2-0 7

CHECKLIST: ACHIEVING 100% THIRD PARTY DUE DILIGENCE WITH ETHIXBASE 2.0

- Is baseline due diligence performed on 100% of third party relationships?
- Are defined criteria used to assess and categorise third party risk?
- Is there a standard escalation workflow for moderate and high risk third parties?
- Is the program consistently applied?
- Are 100% of third parties stored in a singular repository with proper recording and documentation procedures in place?
- Are 100% of third parties saved for ongoing monitoring?
- Are procedures reviewed regularly and updated if required?
- Are third party due diligence reports and an overview of 100% of third party relationships readily available to provide to management, internal audit and regulators?

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WHITEPAPER PREVIEW

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ETHIXBASE 2.0
TAKE A LOOK.
MAKE THE CHANGE.
JOIN THE
MOVEMENT.

**GET STARTED. COMMIT TO 100%
THIRD PARTY COMPLIANCE TODAY.**

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Daniel Maclachlan
dmaclachlan@ethixbase.com



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