THIRD PARTY RISK INSTITUTE LLC

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Managing 3rd Party Innovation & Risk

September 29, 2020

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Linda Tuck Chapman
CEO, Third Party Risk Institute
President, Ontala Performance Solutions Ltd.

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President, CEO
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Workshop Agenda

1. Introduction and Overview
2. Fundamentals of effective 3rd Party Risk Management
3. Role and Responsibilities
4. Innovative Third Party Technologies
5. Defining Success

Linda Tuck Chapman, C3PRMP

Advisor. Educator. Author. Expert.

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Linda is a **leading expert** in third-party risk management. As one of the first Chief Procurement Officers and Head, Third Party Risk Management in the financial services sector Linda lead creation of best practices in strategic sourcing and high-impact third party risk management. As an advisor she is a hands-on leader, working collaboratively to help assess, strengthen, and mature client programs and practices.

Linda's **best-selling book** "Third Party Risk Management: Driving Enterprise Value", now in its second edition, is mandatory reading for "**Certified Third Party Risk Management Professional" (C3PRMP).**

C3PRMP is the "gold standard" for risk professionals. Created by Linda Tuck Chapman, this instructor-led eLearning program is certified by NASBA for 66 CPE credits and GARP for 20 CPD credits.

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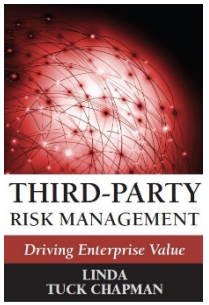

Career Highlights:

- CEO, Third Party Risk Institute (current)
- President, Ontala Performance Solutions Ltd. (current)
- Strategic Partner, Third Party Management, Bates Group (current)
- Strategic Advisor, Third Party Management, ENGAIZ (current)
- Advisory Board, Sapience Analytics (current)
- Chief Procurement Officer & Head Third Party Risk, BMO Financial Group
- President & CEO, Education Collaborative Marketplace
- Chief Procurement Officer & Head Third Party Risk, Fifth Third Bank
- VP & Chief Procurement Officer & Head Supplier Risk, Scotiabank Group

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Cyber Security Thinking – ONEteam Principles

The Old Way: Point Solution Mindset

- Reactive
- Focus on Individual Controls
- Fragmented and inefficient
- Spend a lot and not necessarily improve security

The New Way: Holistic Security Mindset

- Proactive
- Focus on Total Solutions
- Gap-Based & Risk-Based
- Spend less and improve security more

Fundamentals of 3rd Party Risk Management

What is a third party?

All business relationships, excluding those with your customers	
"Vendor"	Typically sourced with a sourcing/procurement function. Paid by Accounts Payable.
"Non-Vendor"	Typically acquired directly by the business line/segment. Financial remuneration is not rendered by Accounts Payable.

Source: RMA Third Party Risk Management Roundtable – Steering Committee

Third party risk management must:

- Be **risk-based** and **risk-adjusted**
- **Manage** risk and relationships **throughout the lifecycle**
- Enable **informed decisions** and effective **risk oversight**

The language of third party risk management

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Lifecycle management

Risk-adjusted practices

Enabling consistent risk management practices, commensurate with the level of risk and complexity of the relationship.

The language of third party risk management

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Inherent Risk

The risks that the third party presents to your company, “in the absence of controls”. The controls that are evaluated are the third party’s internal risk controls, not yours.

Risk Controls

The action firms take to reduce or eliminate threats and potential losses in a company's operations, such as technical and non-technical aspects of the business, financial policies and other issues that may affect the well-being of the firm.

Residual Risk

The type and amount of risk remaining after risk treatment, after considering the third party’s internal risk controls.

Lifecycle Management and Risk Governance

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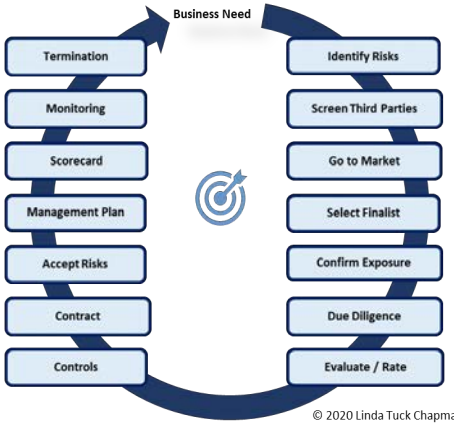
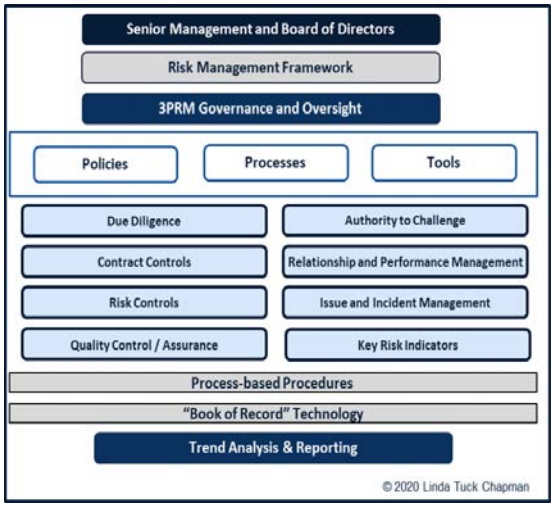
Lifecycle Management: identify, assess, manage and monitor third parties, calibrated for criticality and risk

Risk Governance: methodologies, and controls that enable alignment with risk appetite

- repeatable processes
- impartial evaluation
- consistent risk treatment
- informed decision-making



- methodologies
- controls
- metrics
- engagement



Interactive discussion

Does your firm have a formal program?

Do senior management visibly support it?

Is there a “chief risk officer” in your firm? Are they on-board?

Do you have a complete inventory?

Are relationships managed throughout the lifecycle?

Is your program mature, or how long will it take?

Roles and Responsibilities

Three Lines of Defense Framework

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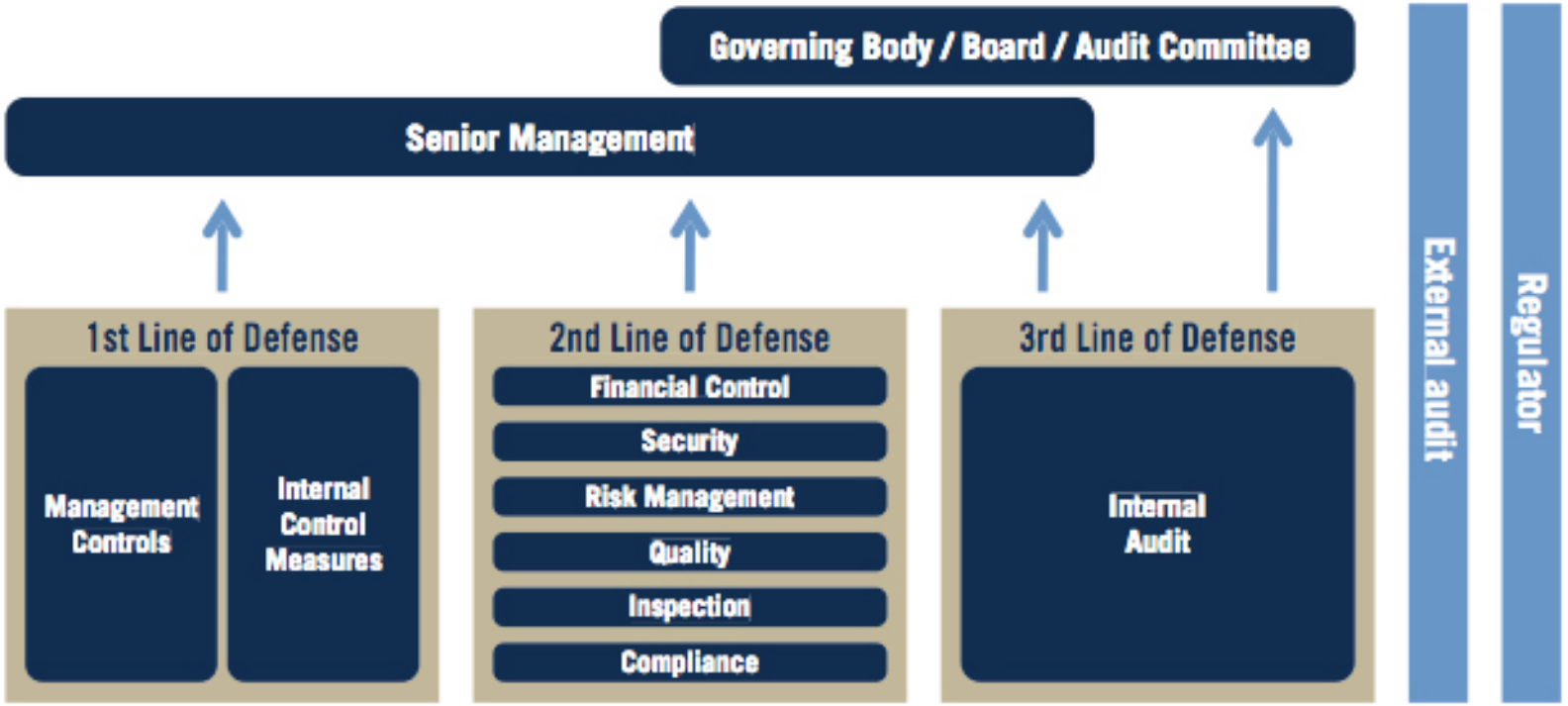
Defines the roles for internal stakeholders to deliver a coordinated program



Source: IIA Position Paper on the Three Lines of Defense in Effective Risk Management and Control (January 2013)
Adapted from ECIIA/FERMA Guidance on the 8th EU Company Law Directive, article 41

Interactive discussion

What are you:

Responsible for?

Accountable for?

Consulted about?

Informed about?

Innovative 3rd Party Technologies

Staying current with innovation and change

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Complex Ecosystems

- M&A, rapid change
- Mono-lines, competitors, fin-techs
- Reliance on third and fourth parties …

Unpredictable Environments

- C-19 fallout from C-19, cyber, fraud
- Multi-location, multi-geography delivery
- Rapid turnover

Greenfield Technologies

- Artificial Intelligence (AI)
- Intelligent Automation (IA)
- Learning Machines (LM)
- Natural Language Programming (NLP)
- 5G Networks
- Digitization
- IOT
- Blockchain
- Advanced Analytics

My top 3 “game changer” innovations

Robotic Process Automation (RPA)

- third party **platform-based service** that replaces repeatable processes and rules-based workers with software “[ro]bots” that manage process execution
  - ✓ software typically sits on top of existing systems
  - ✓ implemented without altering existing systems

+

Cloud + Big Data Analytics

- quantitative and qualitative analysis of large volumes of data
  - ✓ **connect data** from any source

+

Cognitive Automation: Artificial Intelligence (AI) & Intelligent Automation (IA)

- software with embedded models and algorithms
  - ✓ **“machine-learning”** capabilities

AI, IA, NLP: automated "cognition"

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- **Trains itself** or can be trained to automate more complex and subjective work through *pattern recognition*
- **Processes natural language** (NLP)
- Processes **structured** and **unstructured data**

- **"Learns" to** process and **decision new data** and its variations over time
- **Adapts and learns new ways** to process and manage data, information, and business rules … all without human intervention

Controls, ongoing testing, and governance are still more of an art than a science

Powered by models and algorithms

Models and algorithms are:

- **Dependent** on the skills, experience, and knowledge of creators
- **Reliant** on historical data; may assume that history will repeat itself
- **Limited** by the quantity, quality, and suitability of input data
- Unconscious **assumptions and biases**
- **Imperfect**
- **Difficult** to identify errors, rely on "false negatives" in testing
- **Static** until updated or changed

> "Models are opinions embedded in mathematics"
>
> Source: Cathy O'Neil: Weapons of Math Destruction (2016). Penguin Random House UK

5G Networks are more than a generational update

- 5G networks are already 10 times faster than 4G networks and expected to soon become 100 times faster.

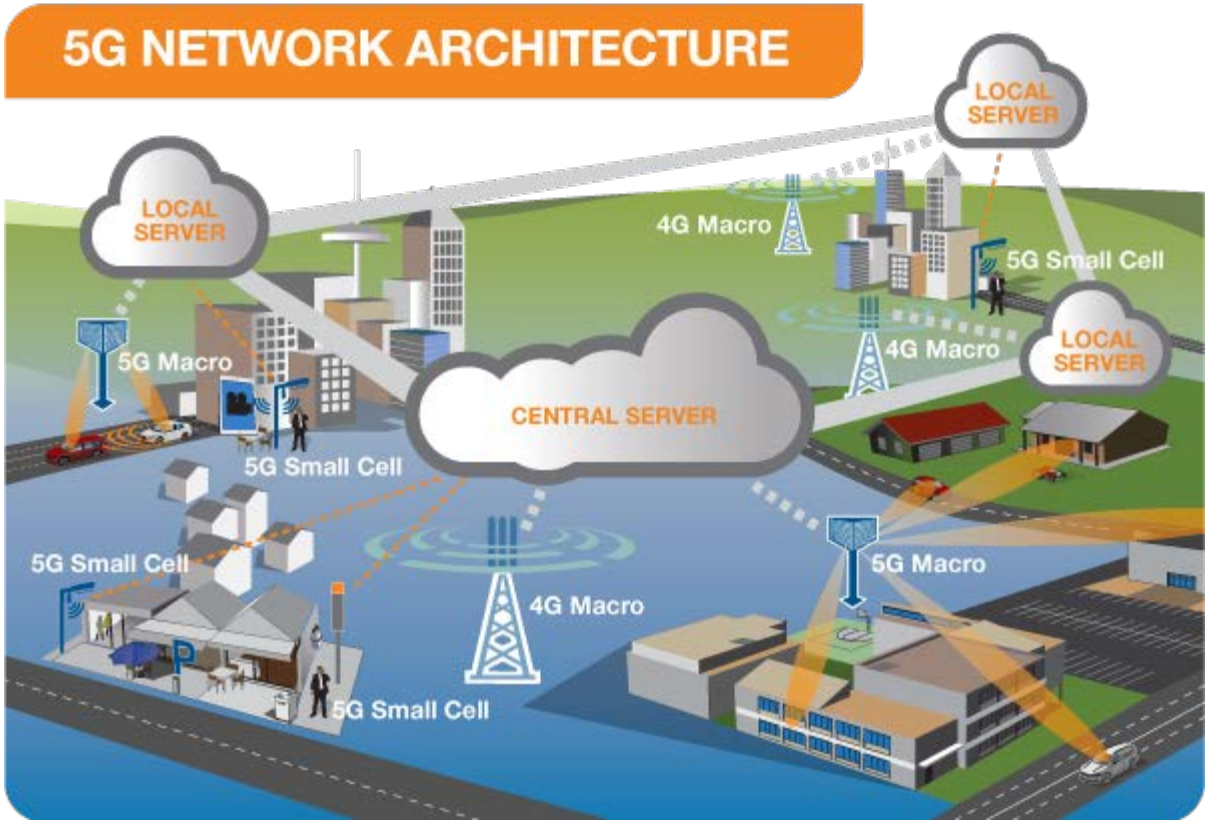
- Where 4G can support 2,500 devices per square mile 5G can support over 600,000. More capacity means an equivalent increase in data in transit.

- 5G signals travel only short distances and don't penetrate solid objects like buildings and trees very well. Familiar networks are expanded with small cell communication devices installed on streetlights, stop lights, and buildings, and with low earth orbit satellites (LEO), all with embedded software..

Source: Linda Tuck Chapman "Third Party Risk Management: Driving Enterprise Value" (2nd edition)

5G Networks exponentially increase risks for data in transit

The speed of communication is increasing



Source: http://www.emfexplained.info/?ID=25916

Interactive discussion

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What is your role for managing third party innovation risk?

Are onboarding processes fast and effective?

Does your firm have an air-gapped innovation lab?

Any advice you can share?

Practical Innovation Labs

- Reduce Risk
- Reduce innovation costs
- Increase adoption

Defining Success

Interactive discussion

How do you define success?

Deliver a “relatable” Value Proposition

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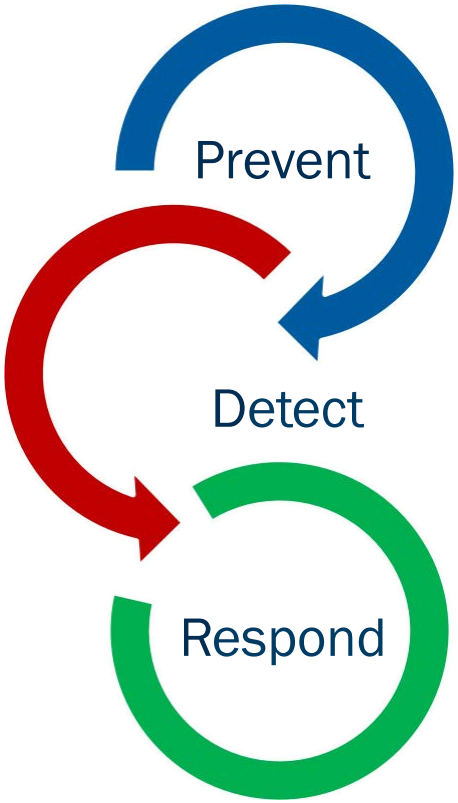
Informed decisions

Value for money

Defined accountability

Risk-adjusted work effort

Insight-based action



Protect your reputation from damage

Protect your stakeholders from harm

Protect shareholders from losses

Let's continue the conversation.....

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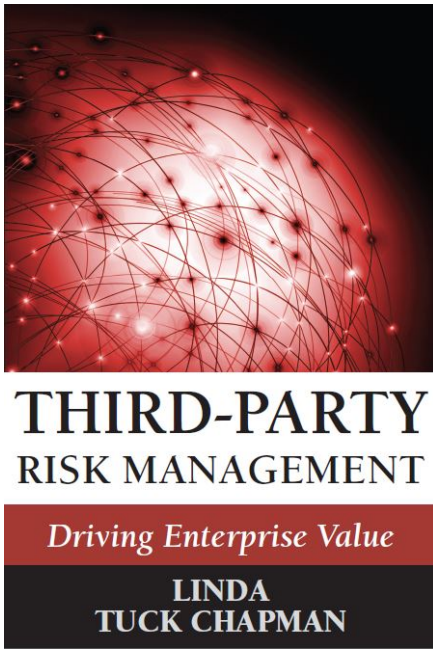
https://sig.org/sig-university/certification-programs



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