

Third-Party Risk - How to Meet your Compliance Requirements and Balance Risk, Cost and Resilience

Balance Risk, Cost and Resilience



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Linda Tuck Chapman, C3PRMP

Advisor. Educator. Author. Expert.



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.

Career Highlights:

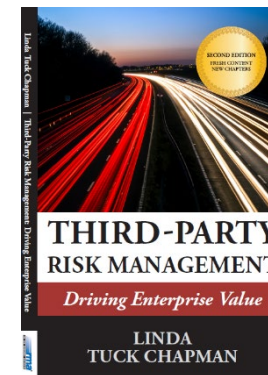
- CEO, Third Party Risk Institute (current)
- President, Ontala Performance Solutions Ltd. (current)
- Strategic Partner, Third Party Management, Bates Group (current)
- Strategic Advisor, Third Party Management, ENGAIZ (current)
- Advisory Board, Sapience Analytics (current)
- Chief Procurement Officer & 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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Agenda



- ◆ Definitions
- ◆ Best Practices for Strengthening Business Resilience
- ◆ Which Third and Fourth Party Relationships Really Matter
- ◆ What is Concentration Risk, and Why is your C-Suite and Board Interested in It?
- ◆ You Firm Needs to Comply with Reg's and Laws – Do Your Critical Third-Parties have Your Back?
- ◆ Why and How Services Companies Stay on Top of Supply Chain Risk and Logistical Challenges
- ◆ Key Takeaways
- ◆ Promotions

Some Definitions Before We Dig In!

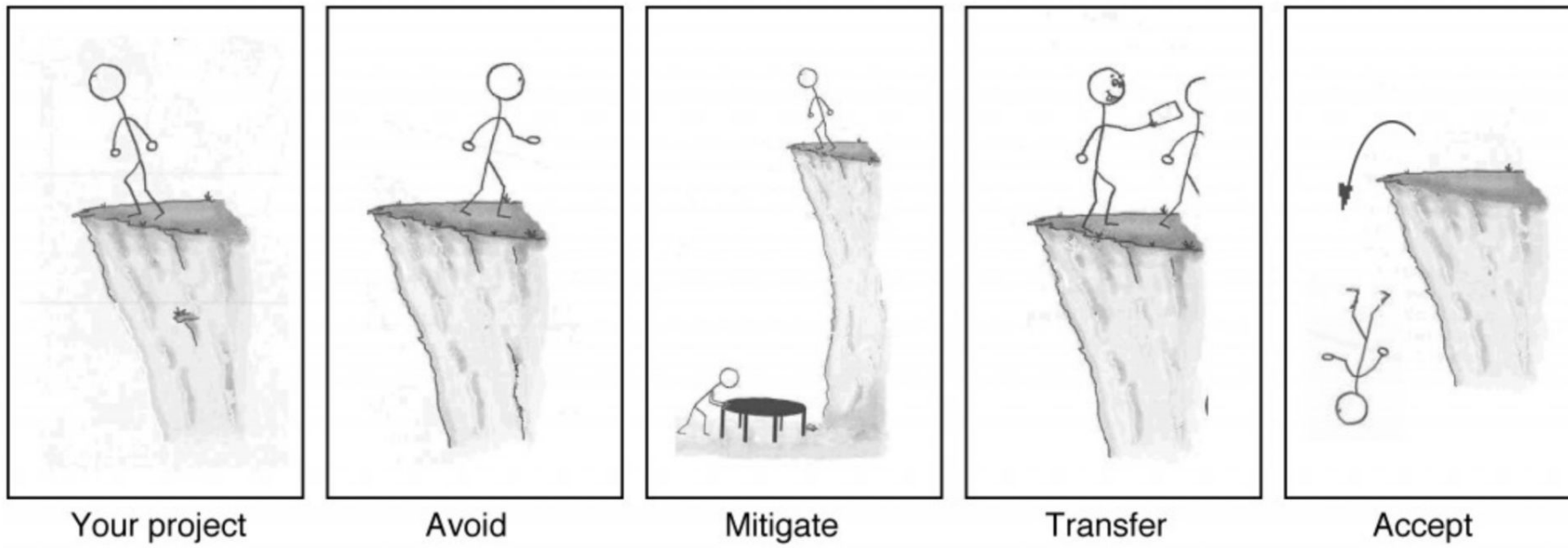
$$\text{Risk} = \text{Exposure} \times \text{Controls}$$

- ◆ Known / Quantifiable
- ◆ Simple Math
 - ◆ to reduce Risk, reduce either likelihood or impact

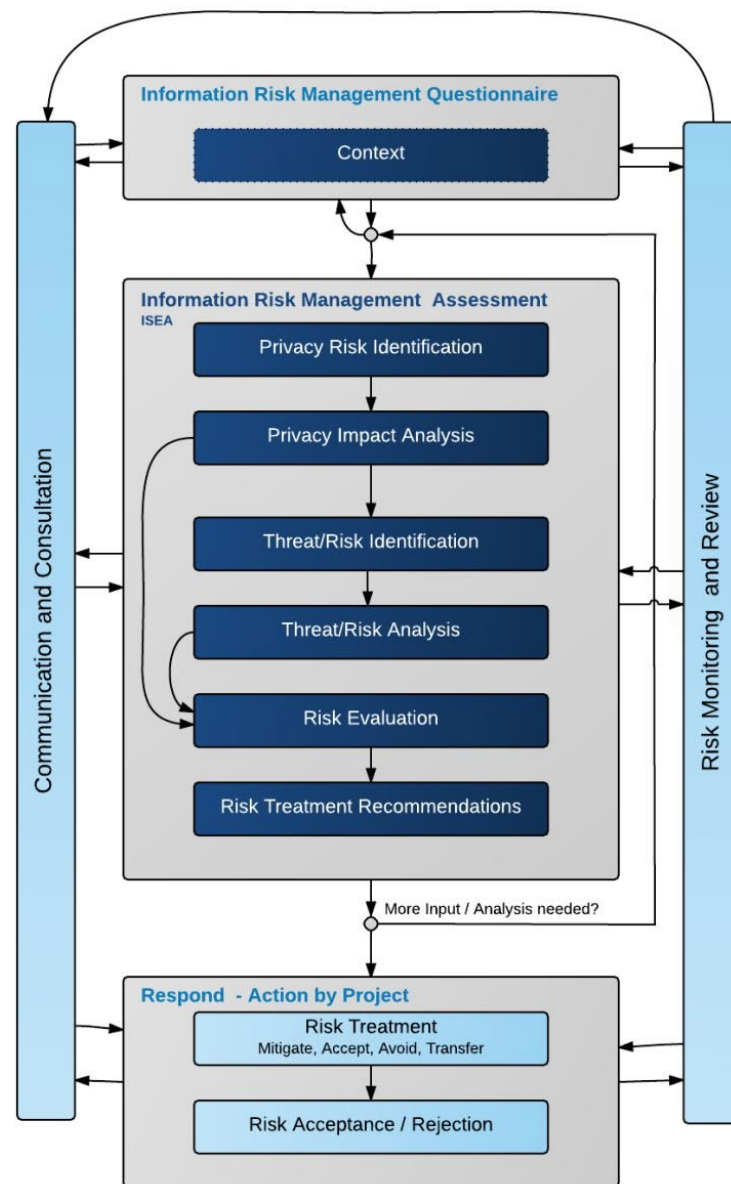
Four Types of Risk Mitigation



Risk Treatment



Information Risk



resilience:

“an ability to recover from or adjust easily to misfortune or change.”

—Merriam-Webster Dictionary

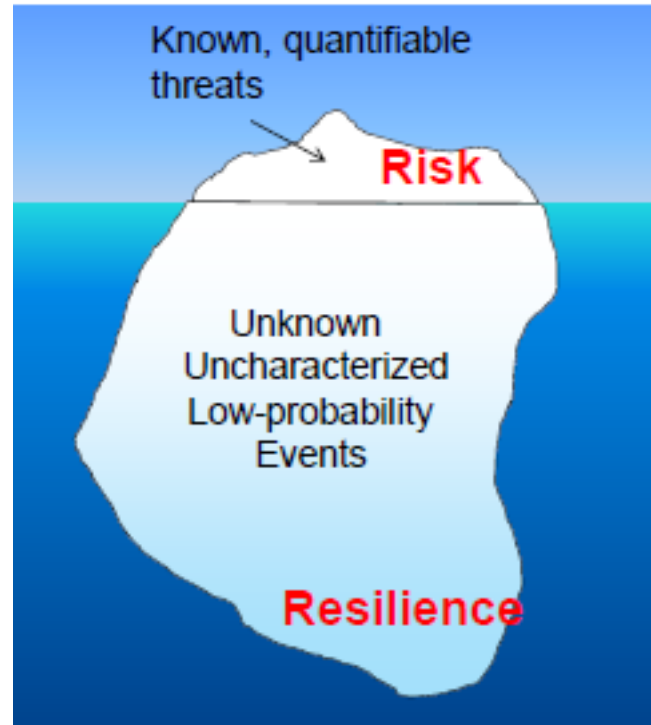
resilience:

“[t]he capacity of a dynamic system to adapt successfully to challenges that threaten the function, survival, or future development of the system.”

—Ann Masten, Professor, University of Minnesota
College of Education and Human Development

◆ Generally Unknown / Low Probability / High Impact

Resilience



Source: Risk vs. Resilience: Similarities and Differences, Igor Linkov, PhD

Risk/Resilience Integration?

Resilience as ...

goal of risk management:

Many documents describe resilience as the overarching goal of protection policies and risk management as the method to achieve this goal. *Resilience replaces or complements the concept of protection*, which was previously defined as the goal of risk management activities.

part of risk management:

Resilience is understood as a part of risk management. Activities to strengthen resilience are needed in order to deal with the so-called "remaining risks", i.e. risks that have not been identified or underestimated and are thus not covered by appropriate protection (preventive) measures.

alternative to risk management:

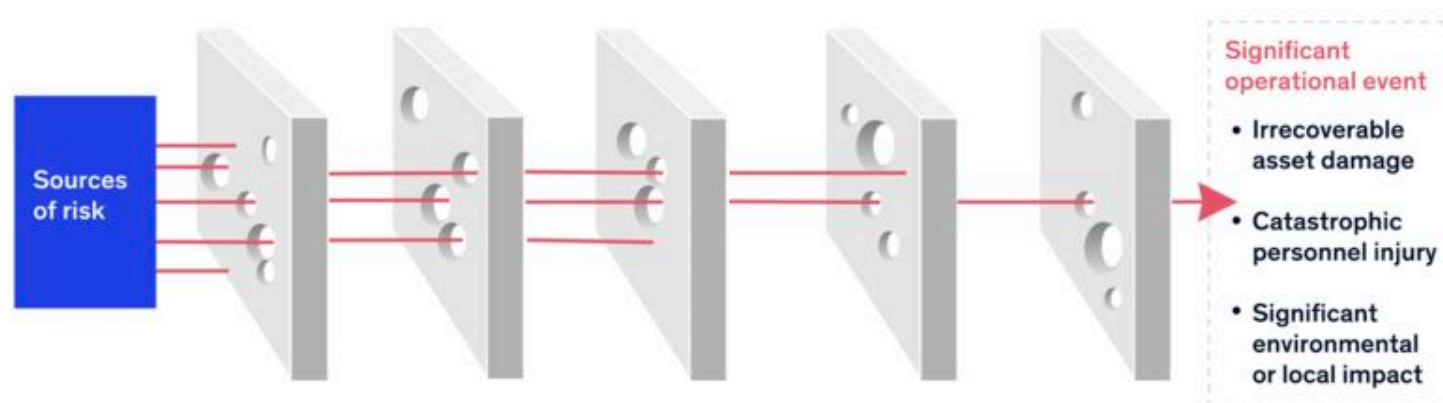
Challenges the traditional methods of risk management and promotes *resilience as a new way of dealing with risks in a complex environment*. It is argued that a probabilistic risk analysis is not an adequate approach for socio-economic systems that are confronted with non-linear and dynamic risks and are themselves characterized by a high degree of complexity. Instead of preventing risks and protecting the status quo, such systems should enhance their resilience by increasing their adaptive capacities.

Focal Report 7 by Manuel Suter (2011) on Resilience and Risk Management in Critical Infrastructure Protection Policy: Exploring the Relationship and Comparing its Use

http://www.css.ethz.ch/publications/DetailansichtPubDB?rec_id=2207

Managing Unknown Risks

Layers of defenses help organizations manage unknown risks.



Risk management barriers	Design quality, configuration control	Equipment health, performance	Oversight, assurance methods	Decision-making processes	Worker, operator fundamentals	Event, emergency preparedness
	<ul style="list-style-type: none"> • Preserving margins • Protecting the design basis • Strictly controlling configuration 	<ul style="list-style-type: none"> • Overseeing maintenance strategies • Monitoring, intervening • Running and maintaining capital assets 	<ul style="list-style-type: none"> • Developing oversight structure • Strengthening independence and quality 	<ul style="list-style-type: none"> • Emergent-issue responses • Operational focus for resolution • Risk-informed 	<ul style="list-style-type: none"> • Frontline skills and behaviors • Clearly defined standards of performance 	<ul style="list-style-type: none"> • Operator, organizational readiness • Infrastructure, materials • Response, mitigation equipment

◀ Risk processes, standards, competency, organization, and culture ▶

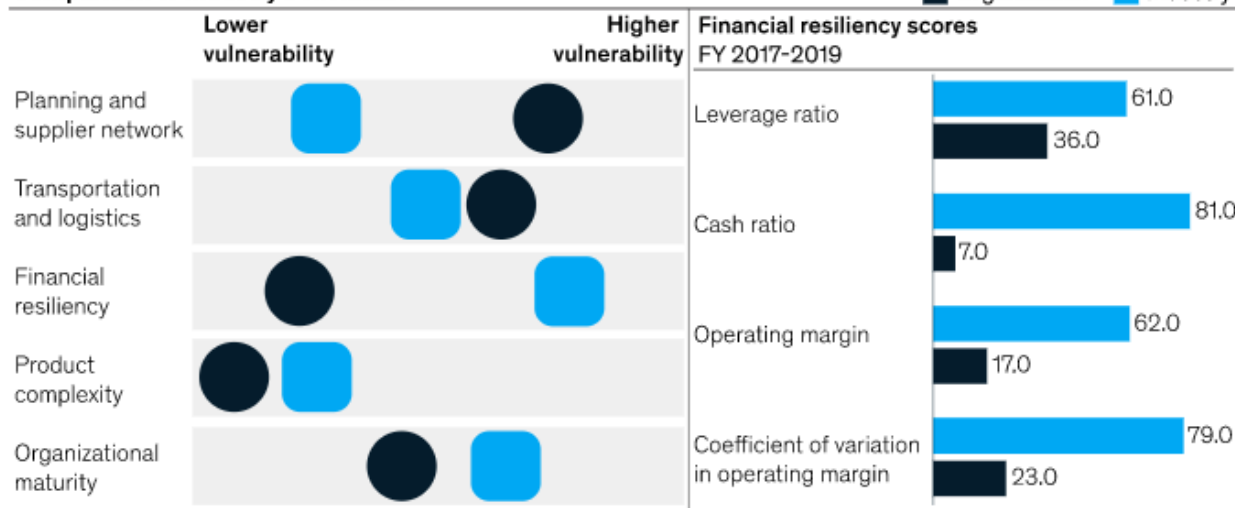
Supply Chain Risks

Exhibit 1

A vulnerability assessment reveals weaknesses in managing supply-chain risks.

Should financial resiliency erode, other vulnerabilities become more important

Comparison to industry benchmark



McKinsey
& Company

For more than a generation, organizations have relied on global, interconnected supply chains to improve margins. Since 2000, the value of intermediate goods traded globally has tripled to more than \$10 trillion. During the same period, indicators of supply-chain efficiency—such as inventory levels, on-time-in-full deliveries, and lead times—have improved for those businesses that succeeded in creating lean, global networks.

However, these efficiencies have not come for free. An ever-expanding set of global challenges has increased the surface area and magnitude of supply-chain risks, from climate change and the rise of a multipolar economic system to increased mobility and digitization. These global disruptions have meant that in every year over the past several years, at least one company in twenty has suffered a supply-chain disruption costing at least \$100 million.

Source: McKinsey & Company, *Is your supply chain risk blind – or risk resilient?* By Knut Aliche, Ed Bariball, Susan Lund and Daniel Swan

Supply Chain Risks



Best Practices for Strengthening Supply-Chain Resiliency

Supply Chain Resilience

Six strategies for supply chain resilience



gartner.com/SmarterWithGartner

Source: Gartner
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Gartner

Which Third and Fourth Party Relationships Really Matter?

What is Concentration Risk, and Why Is Your C-Suite and Board Interested?

- ◆ Commonly associated with lending, especially real estate lending
- ◆ It's really about more – managing concentrations of exposures that could collectively have a negative impact. This can be true even if each element is strong.
- ◆ Types =
 - ◆ Industry Concentration
 - ◆ Vendor Concentration
 - ◆ Over-reliance on single vendor
 - ◆ Geographic Concentration

Cloud Concentration



Problem Statement #4:

Cloud concentration risk for most firms is high, given the limited number of cloud service providers and the pervasive use of the same cloud provider as well as multiple different clouds interacting to supply a third-party product or service.

Your Firm Needs to Comply with Reg's and Laws. Do Your Third-Parties Have Your Back?

Knowledge Economy = More Dependency on Data



Source: KPMG International

Why and How Services Companies Stay on Top of Supply-Chain Risk and Logistics

TPRM Round-Table Discussions



Third-Party Risk Institute

ASMgi will pay member fee for attendees!

Gain Access to Round-Table Discussions

hosted by Linda Tuck Chapman, CEO Third Party Risk Institute Ltd. and experts like Steve Roesing of ASMgi – round table discussions include members from around the world, and are filled with actionable ideas and best practices.



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Third Party Risk Institute Ltd.

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What We Do

Third Party Risk Institute Ltd. inspires professionals and senior leaders to invest in world-class third-party risk management. It has never been more important to get on top... *and stay on top* ... of your extended enterprise and the ever-changing threat landscape. Protect your customers, shareholders, and reputation from harm.

As attendees today you can sign up and ASMgi will pay your member fees!

Contact info@asmgi.com or linda@3PRIInstitute.com

TPRM, 2nd Edition

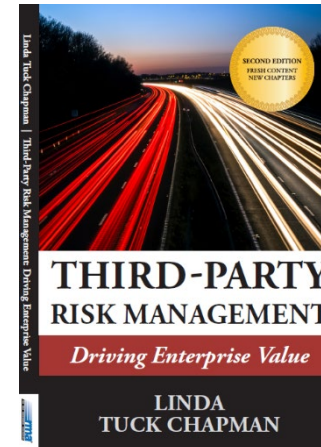


Third-Party Risk Management *Driving Enterprise Value* **2nd Edition**

By Linda Tuck Chapman

Attendees get a free copy by emailing ASMGi!

info@asmgi.com



Join ASMGi at the Arctic Wolf Summer SecOps Roundtable

with Special Guest Guy Fieri

June 23, 2021 | 3pm CST, 4pm EST

Expert panelists will discuss how the new paradigms of today's cybersecurity landscape, including hybrid work models, expanding attack surfaces, and sophisticated threats, are changing the way security teams operate in 2021.

Security isn't the only place where expert advice comes in handy. After the roundtable chat, we'll turn up the heat for a live cooking demonstration with the Mayor of Flavortown, Guy Fieri. He'll be serving up tips on how to create unforgettable appetizers, level up your grill game, and top off any party with the perfect summer cocktail #DDD style.

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Or put your **name, title, phone and business email** in the chat box and we will register you





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