

Third-Party Risk

Essentials for managing regulatory compliance and reputational risk

Third parties pose serious ethics and compliance risks to your organization and can have a devastating impact on your company's reputation and long-term financial sustainability.

While a critical consideration at any time, third-party risks have recently increased due to the rapidly changing business environment where organizations are being asked to onboard new vendors and suppliers quickly without the resources to undertake the appropriate levels of due diligence.

Below are the seven crucial factors your board needs to know about third-party risk.

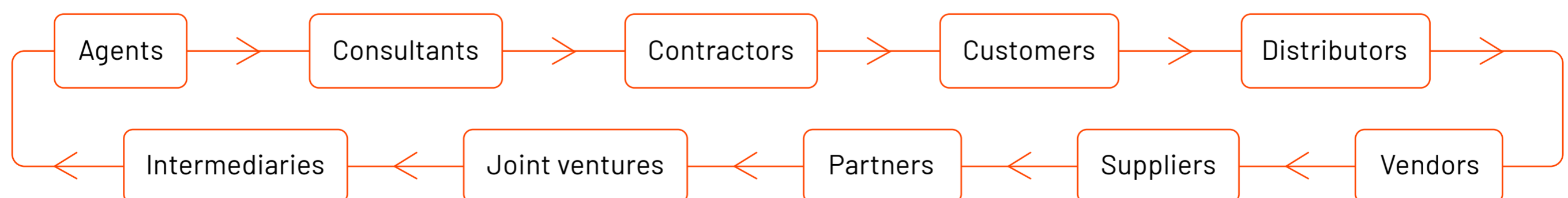
90%



of enforcement matters between 1978 and 2023 identified a third-party intermediary

Source: White & Case Global Compliance Risk Benchmarking Survey, 2023

WHAT IS A THIRD PARTY?



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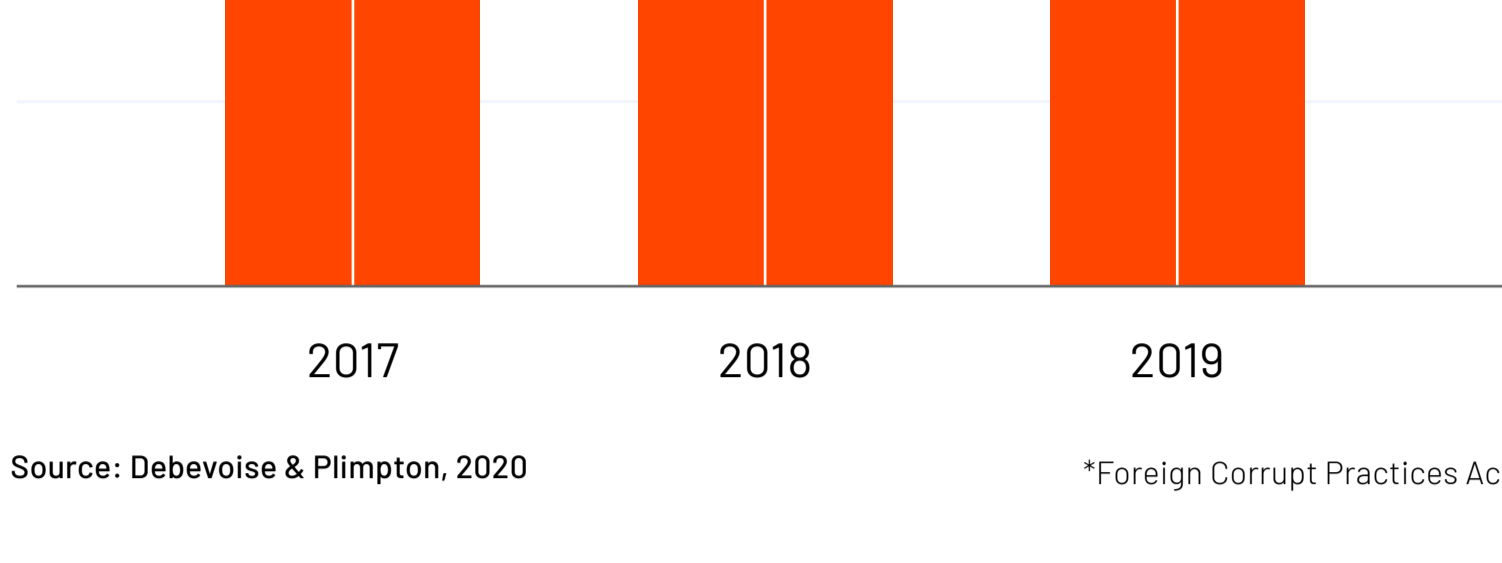
WHAT IS A THIRD PARTY?



01 Any employee can be held personally liable

Your board needs to know the risks that third parties pose to both your business and your people, and provide oversight to ensure an appropriate process is in place to manage these risks. Any employee, including your board and senior management, can be held personally liable for corrupt behaviour enabled by your third parties.

CHARGES AGAINST INDIVIDUALS IN FCPA* ACTIONS



Source: Debevoise & Plimpton, 2020

*Foreign Corrupt Practices Act

18%

of board members would be prepared to mislead external parties to improve their career progression or to receive remuneration

Source: EY Global Integrity Report, 2022

\$2m

in bonuses forcibly returned by former executives of an infrastructure firm after a SEC ruling

Source: Debevoise & Plimpton, 2022

02 Regulations governing third-party risk are increasing

Your board needs to know that your organization can be held liable for the actions of your third parties from a growing number of anti-corruption regulations. Ensure your board and senior leadership understands the importance of acting now to stay compliant with all current and future regulations impacting your business.

MAJOR COMPLIANCE REGULATIONS ARE BEING INTRODUCED AND UPDATED WITH STIFFER PENALTIES



03 Enforcement on third-party regulations is increasing

Your board needs to know that not only is legislation being enforced more often, but the size of fines is growing too. Global regulators are now working more closely together to enforce regulations and hand out multiple fines for the same infringement.

ENFORCEMENT ACTION IS INCREASING...

18

reports filed in 2021 by the DOJ and SEC

Source: Stanford Law School, 2022

25

FCPA-related enforcement actions in 2022

Source: Stanford Law School, 2022

...AND TOTAL CORPORATE SANCTIONS ARE GROWING LARGER

2021

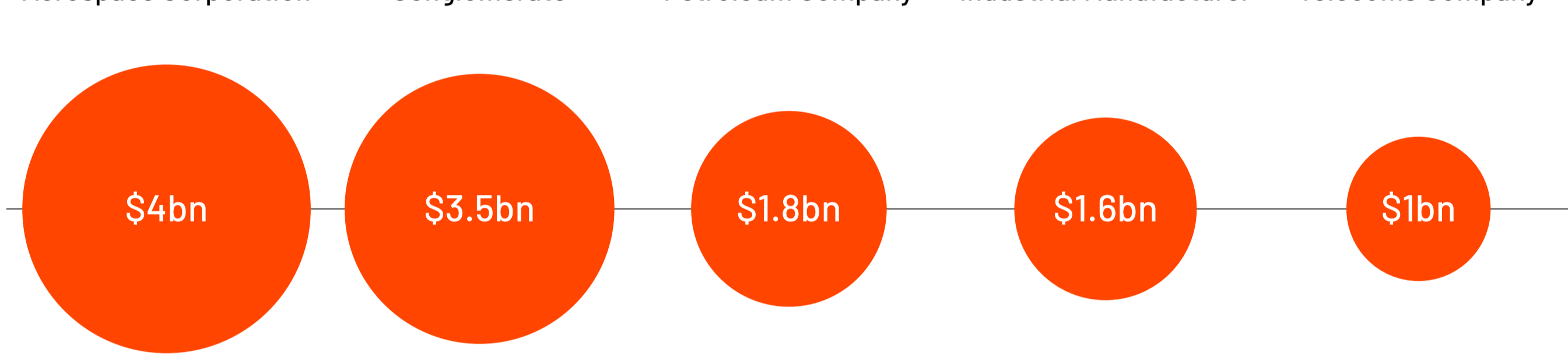
\$360m

2022

\$1.5bn

Source: Stanford Law School, 2022

TOP 5 BIGGEST CORRUPTION FINES INVOLVING THIRD PARTIES



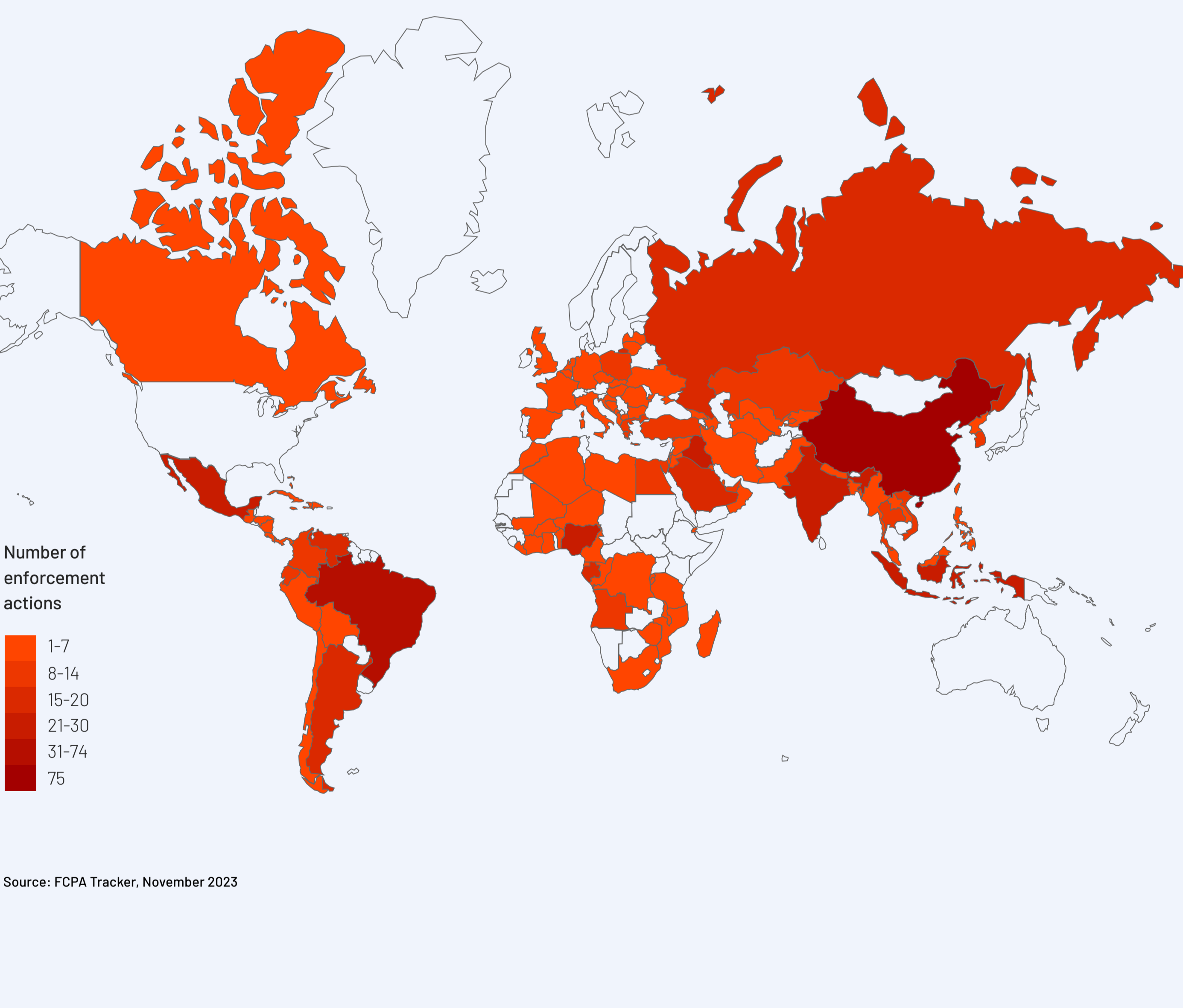
Legend: ■ Fine ■ HQ Location ■ Regulator ■ Date

■ Netherlands ■ Brazil ■ Brazil ■ Germany ■ Sweden ■ US, UK, France ■ US, Brazil, Swiss ■ US ■ US, Germany ■ US ■ 2020 ■ 2016 ■ 2018 ■ 2008 ■ 2019

04 Corruption in business is happening on your doorstep

Your board needs to know that corruption is not something that only happens in far off regions. In many cases, the organizations responsible are much closer to home. As legislation is more widely implemented, enforcement policies and cross-border cooperation greatly multiply the chances of an infraction ending up in the courts.

COUNTRIES OF ALLEGED MISCONDUCT IN FCPA-RELATED ENFORCEMENT ACTIONS



Source: FCPA Tracker, November 2023

05 The cost to the business is more than the fine itself

Running afoul of the regulations can incur huge fines and financial penalties. Your board needs to know there are more significant and long-term costs to also bear in mind. These include: reputational damage, share price drops, the ease of doing business, as well as ongoing legal and monitoring costs.

81.8c

of every dollar of share value loss can be attributed to reputational damage caused by imposed corruption fines

Source: Journal of Business Ethics, 2018

32%

average estimated loss of market capitalization for companies caught in financial misrepresentation

Source: Ethical Systems, 2020

\$1.5m

average monthly cost to an employer in connection with an FCPA investigation

Source: Fisher Phillips, 2023

39 months

average length of an FCPA investigation

Source: Fisher Phillips, 2023

\$58.5m

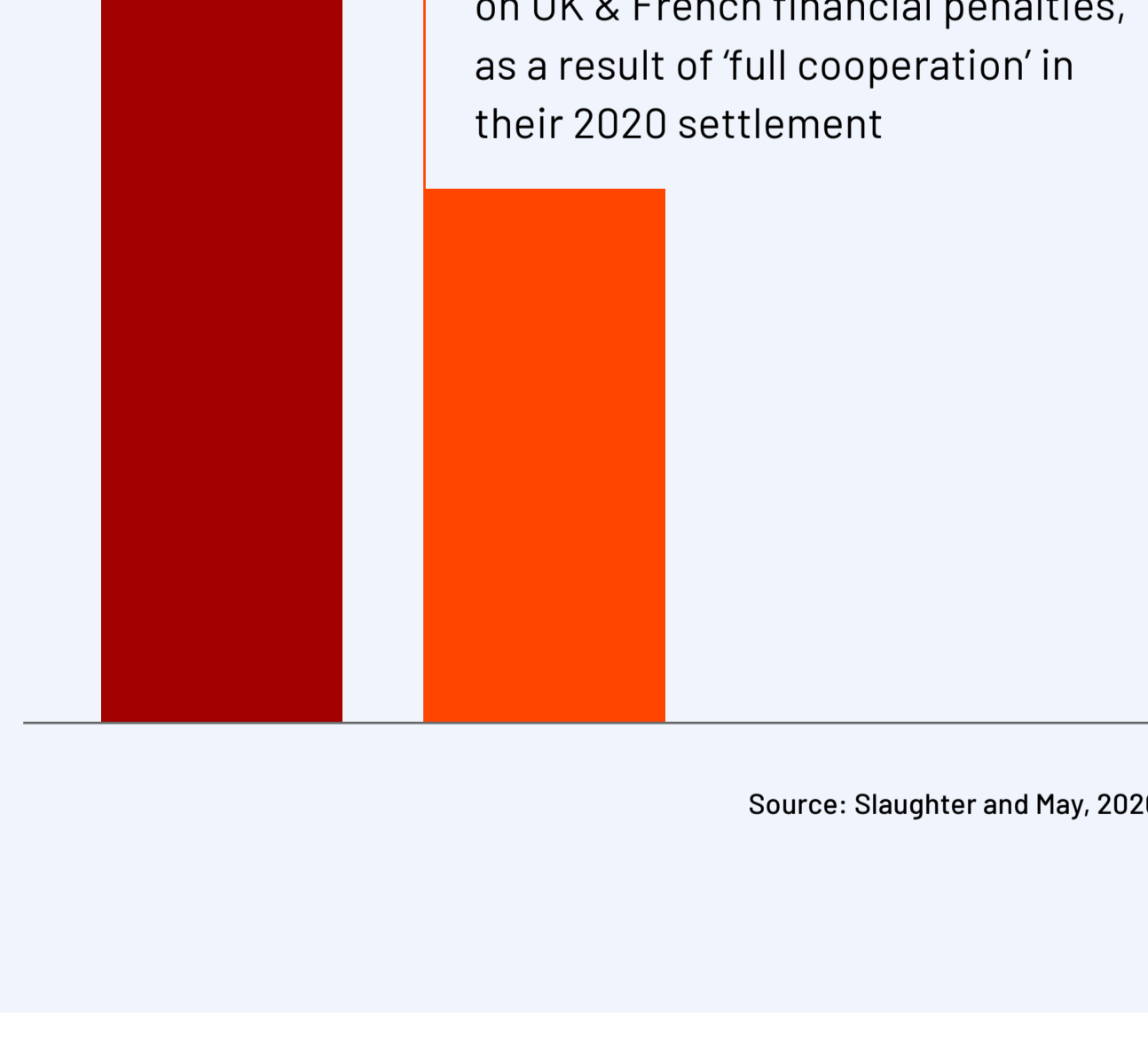
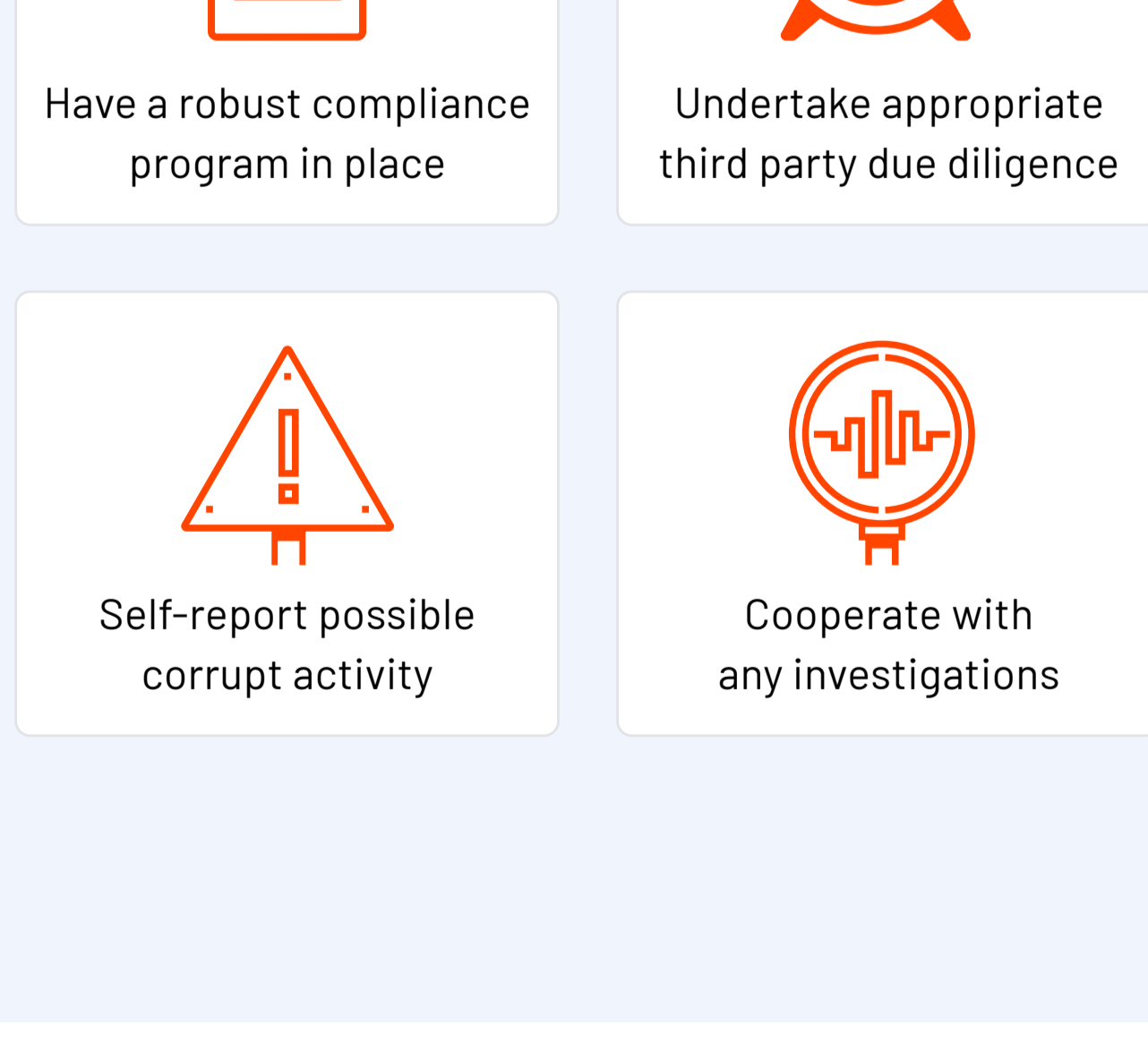
average cost to the employer over the lifetime of an FCPA investigation

Source: Fisher Phillips, 2023

06 Robust compliance can reduce the financial impact

Your board needs to know that robust compliance programs and proactive due diligence can lead to forgiveness from law-enforcement agencies resulting in non-prosecution or reduced penalties through Deferred Prosecution Agreements (DPAs).

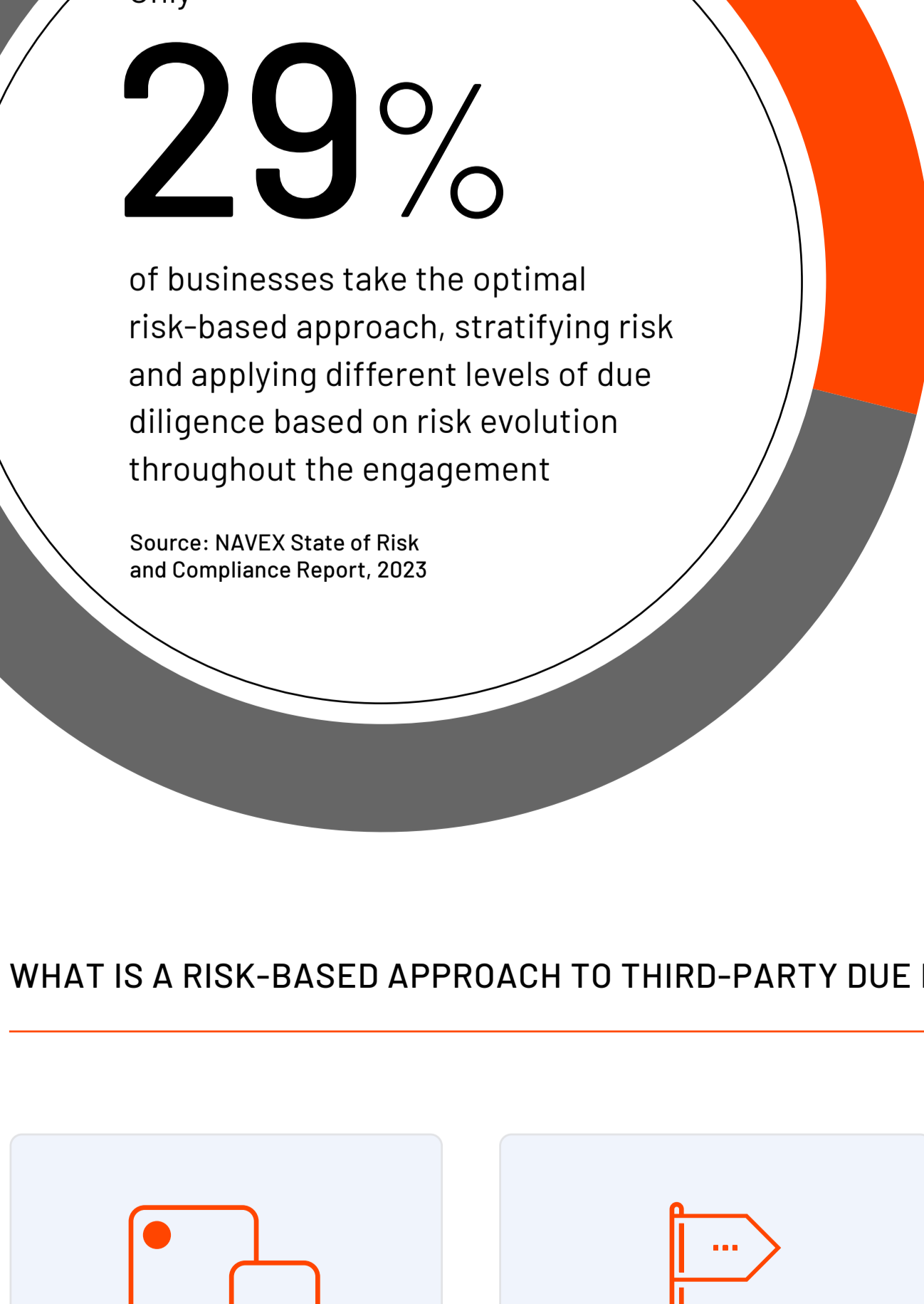
HOW DO YOU EARN A DPA DISCOUNT?



Source: Slaughter and May, 2020

07 Regulators expect a risk-based approach to be taken

Your board needs to know that regulators expect you to undertake the appropriate level of due diligence and on-going monitoring of each third-party relationship. This is known as taking a risk-based approach where the level of due diligence should vary according to factors such as industry, country, size of contract, and nature of the transaction.



Only **29%**

of businesses take the optimal risk-based approach, stratifying risk and applying different levels of due diligence based on risk evolution throughout the engagement

Source: NAVEX State of Risk and Compliance Report, 2023

TWO OF THE MOST SOUGHT-AFTER IMPROVEMENTS IN THIRD PARTY RISK MANAGEMENT ARE:

52%

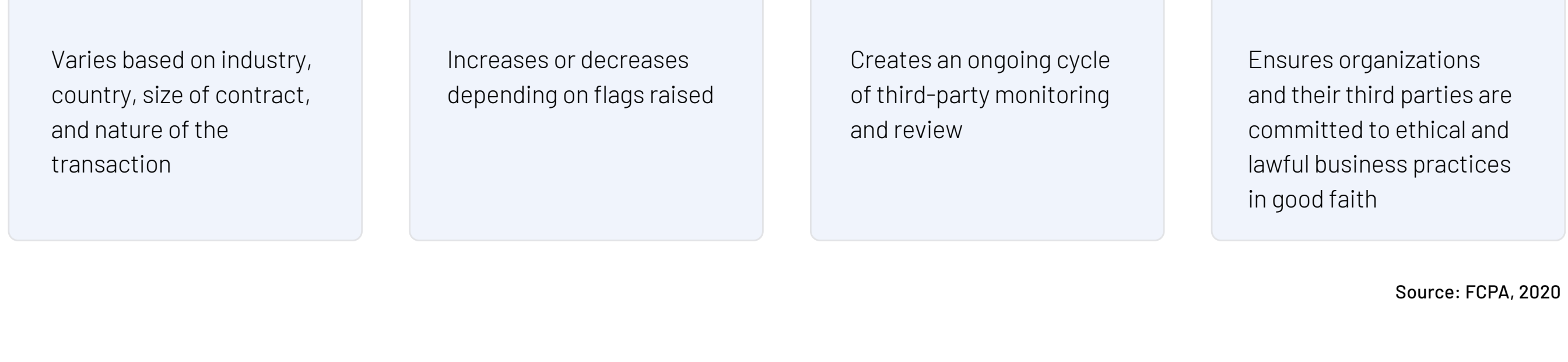
the continuous monitoring of all third parties

44%

the consistent application of a risk-based approach

Source: NAVEX, 2019

WHAT IS A RISK-BASED APPROACH TO THIRD-PARTY DUE DILLIGENCE?



Source: FCPA, 2020

NAVEX's RiskRate provides a risk-based approach to third-party due diligence by using automation and AI to screen and continuously monitor third parties to help protect your people, your organization's reputation and your bottom line.

Learn more about reducing your third-party risk now

NAVEX