

A SURVEY E-BOOK BY COMPLIANCE WEEK

Compliance tech priorities focused on

TPRM

IN 2023

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Compliance tech priorities focused on TPRM in 2023

Respondents to a survey conducted by Compliance Week and FTI Consulting largely indicated third parties to be the most heightened area of risk to their businesses this year, with reporting and dashboarding and enhancing analytics capabilities among top priorities.

BY KYLE BRASSEUR

Nearly two-thirds of senior compliance executives anticipate third parties to be the most heightened area of risk to their businesses in 2023, according to the results of a new study. Regardless of company size; compliance program maturity; and, in most cases, industry, compliance professionals expect to dedicate increased attention to third-party risk management (TPRM) alongside other key risk categories.

Compliance Week and FTI Consulting polled 151 legal and compliance decision-makers as part of an online survey benchmarking the use of technology in compliance conducted between February and March. Respondents to the survey largely represented the technology (13 percent), banking (13 percent), healthcare (10 percent), and manufacturing (7 percent) sectors.

The survey asked respondents to choose all that applied from a list of top-of-mind risk areas they expected to require additional focus this year. TPRM was indicated by 62 percent of overall respondents, far ahead of litigation/regulatory exposure (45 percent); anti-bribery, anti-corruption (ABAC), anti-money laundering (AML), and fraud (38 percent); and environmental, social, and governance (ESG) matters (38 percent).

When filters were applied to the data based on varied company profiles, TPRM remained the primary area of focus.

"It's always a high priority for anybody in the compliance

realm," said Lindi Jarvis, senior managing director in FTI's forensic and litigation consulting segment. "They (third parties) are the group you have the least control over, and while you may have the best intent to make sure they are aware of your own company's policies and procedures ... you still ultimately don't have control because they aren't under the wing of your corporate umbrella."

Ann Marie Wick, a managing director in FTI's forensic and litigation consulting segment, added concern around third parties might be particularly higher this year as more organizations turn to outsourcing to address deficiencies that continue to exist with current labor shortages.

"There's a notable shift right now with companies who are starting to outsource more of their services," she said. "With that shift, third-party management will continue to be a challenge."

Technology priorities

TPRM was also the most popular risk area for which respondents currently employed technology in (55 percent), followed by ethics and compliance (50 percent); communications/transaction monitoring (47 percent); and ABAC, AML, and fraud (42 percent). Despite ESG ranking high as a height-

"We are seeing more global remit and responsibilities for compliance officers, so I think reporting and dashboarding is the best and lowest-hanging fruit where they can say, 'I really need tech because I need to get visibility into the things I don't really know much about because my role has grown and is more international.'"

- Al Park, Senior Managing Director, Technology Segment, FTI Consulting

ened area of risk, only 10 percent of respondents said they employed technology to address the matter.

When asked their top priority for upgrading or implementing compliance-related technology over the next year, respondents most commonly selected reporting and dashboarding (30 percent); transaction monitoring and audit tools (21 percent); enterprise data management (18 percent); and governance, risk, and compliance software (13 percent).

“We are seeing more global remit and responsibilities for compliance officers, so I think reporting and dashboarding is the best and lowest-hanging fruit where they can say, ‘I really need tech because I need to get visibility into the things I don’t really know much about because my role has grown and is more international,’” said Al Park, senior managing director in FTI’s technology segment. “It speaks to the Department of Justice (DOJ) notion around effectiveness.”

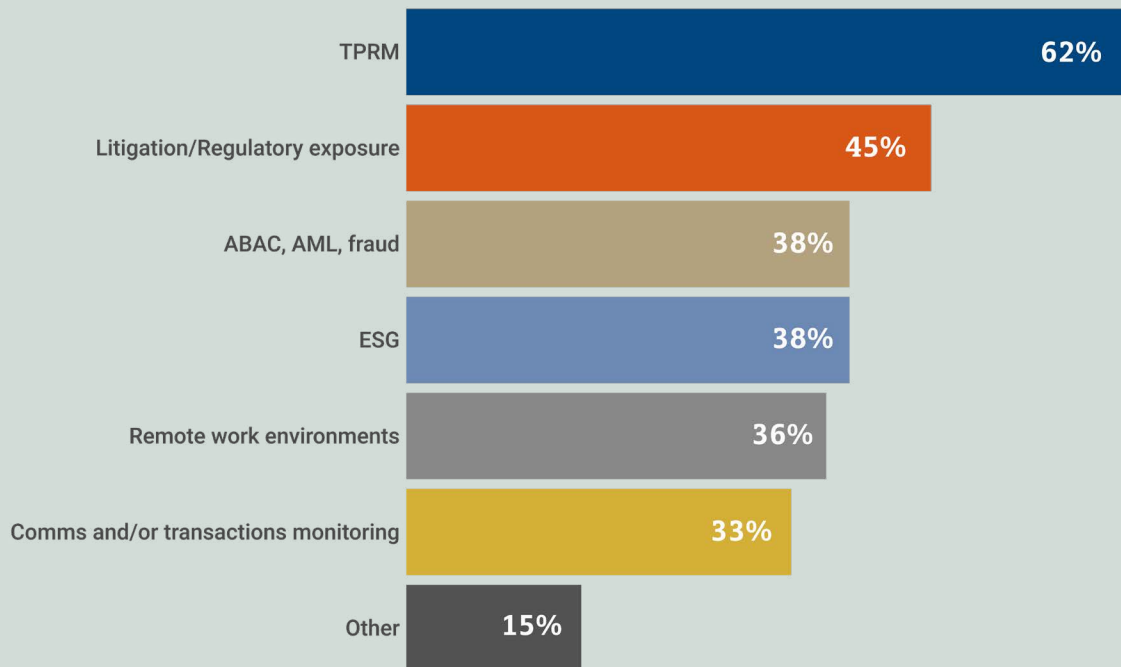
Wick also cited the DOJ and its renewed focus on ensuring companies are monitoring to identify red flags indicating potential risk areas, remediate as needed, and continually improve their compliance and risk management programs.

“There is also much more emphasis by board members on ensuring there is a sound compliance monitoring process specifically addressing what risks are being identified, are they identified timely, and how these risks are being managed and remediated,” she said. “All of that is helpful in reporting and dashboarding because you can synthesize that information and discuss it with your senior leaders and your board for meaningful actions.”

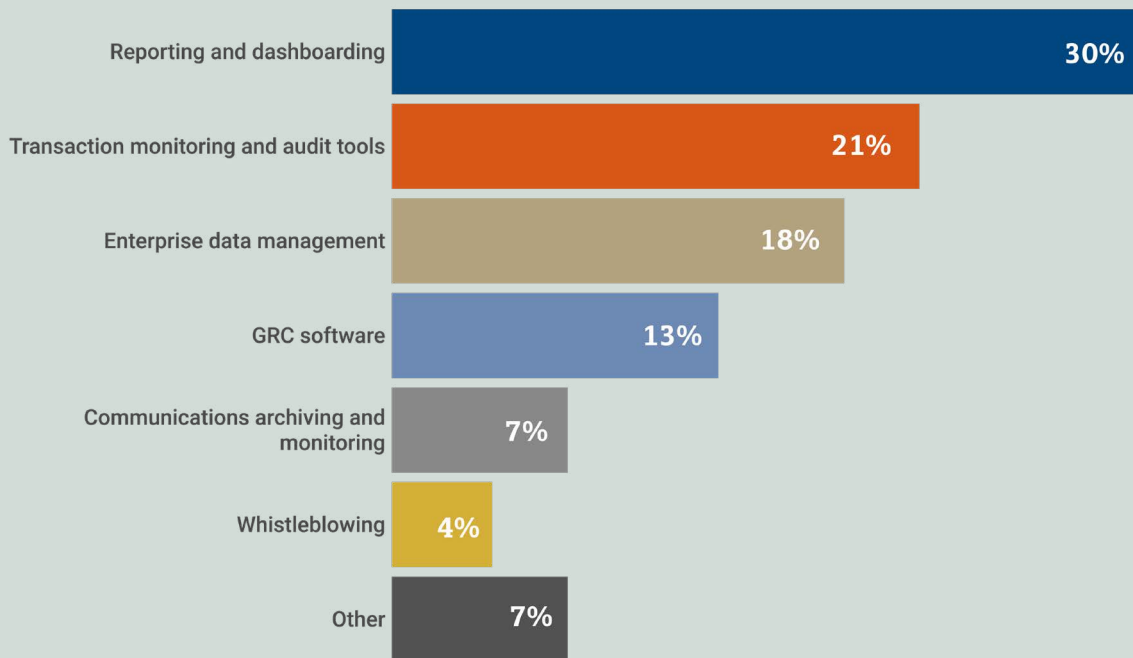
When asked to select as many business problems related to compliance they are trying to solve as applied, respondents most commonly chose more robust metrics, reporting, and data analytics (73 percent); replacing manual processes or outdated software (62 percent); and responding to regulations or compliance failure (44 percent). The most pressing pain points for using technology and data for compliance were lack of data integration/siloed data stores (26 percent), lack of a tech roadmap for compliance (19 percent), and reporting functionality (19 percent).

“We see clients that can’t get metrics that matter because they can’t effectively pull data together across different sourc-

What do you anticipate being heightened areas of compliance risk for your business in 2023? Choose all that apply.



For the next year, what is your top priority for upgrading or implementing compliance related technology?



es for automated reporting,” said Lane Spears, managing director in FTI’s technology segment. “... You start with the systems you have, but it’s about integrating them—putting pieces together from internal audit, compliance, and other places—to provide a beachhead for measurement and monitoring.”

Assessing the maturity curve

Among respondents, 13 percent said they would describe the maturity of their compliance team’s use of technology as “very mature,” compared to 29 percent as “not mature.” The differences between these cohorts were largely unsurprising:

- » 100 percent of “very mature” respondents said they are effectively able to derive actionable insights from data to aid compliance efforts, compared to 50 percent of “not mature” respondents.
- » 100 percent of “very mature” respondents said their technology allows them to provide compliance-related data to their board/senior management, compared to 43 percent of “not mature” respondents.
- » 84 percent of “very mature” respondents said machine learning and artificial intelligence (AI) are important to

their compliance strategy, compared to 45 percent of “not mature” respondents.

“TPRM is a continuous process,” said Wick. “For those who do not have a mature program, the onboarding is typically not the roadblock. It’s the due diligence and continuous monitoring of third parties that is the challenge. Appropriate tools and technology can help organizations identify and address red flags during the due diligence process and assist in regular monitoring of their third parties to reduce outsourcing risks.”

Park and Jarvis noted even the mature cohort, despite their confidence, must understand new risks are emerging all the time. With AI, in-house staff expertise is often limited, Jarvis said. Meanwhile, remote workforces and increased merger and acquisition activity over the last five years have proven business profiles are ever evolving, said Park.

“It’s one thing to be reactive and maintain and do it well, it’s another to start proactively anticipating where that next greatest risk area is going to be,” said Park.

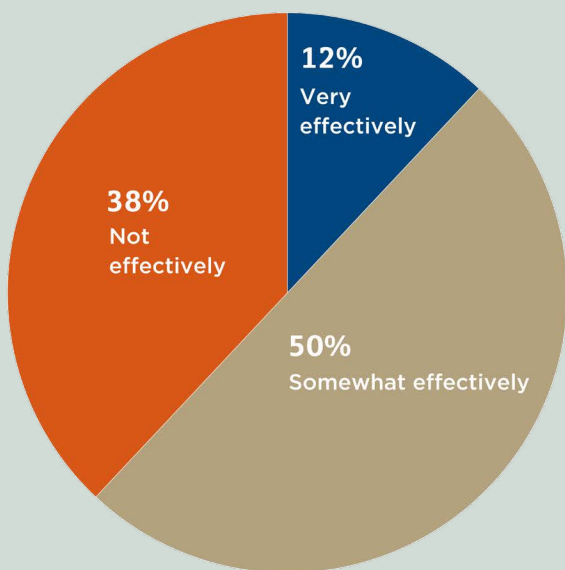
Leading risk candidate

Toward the end of 2022, representatives of the DOJ hinted guid-

Differences in compliance technology use

Respondents who described their team's use of tech to address risk as "very mature":	Respondents who described their team's use of tech to address risk as "not mature":
100% say they are effectively able to derive insights from data	50% say they are effectively able to derive insights from data
100% say tech allows providing compliance data to board/management	43% say tech allows providing compliance data to board/management
84% say ML/AI important to compliance strategy	45% say ML/AI important to compliance strategy
74% say they are effectively able to access data from off-channel comms	36% say they are effectively able to access data from off-channel comms
21% not utilizing data monitoring for compliance	34% not utilizing data monitoring for compliance

For compliance monitoring, how effectively are you able to access emerging data (i.e., Slack, Teams, WhatsApp, etc.)?



ance would be coming regarding companies' record-keeping obligations for employees' use of personal cell phones to conduct corporate business. That guidance arrived in March, stating the agency would, for the first time, "consider how policies governing [ephemeral] messaging applications should be tailored to the corporation's risk profile and specific business needs and ensure that, as appropriate, business-related electronic data and communications can be preserved and accessed," said Kenneth Polite Jr., head of the DOJ's Criminal Division.

In the survey, only 12 percent of overall respondents felt they were able to "very effectively" access data from off-channel sources, also known as emerging data sources, including WhatsApp, Slack, and Teams, while 38 percent answered "not effectively." Even among the "very mature" cohort, only 37 percent answered "very effectively."

"In terms of compliance monitoring, I think companies are feeling they don't really know exactly what's expected," said Andrea Levine, managing director in FTI's technology segment. "... At the very least, once you know you're under investigation, you need to be retaining this kind of information. What that means for companies is it's not enough to say, 'We've told you (employees) not to use it.'"

Down the line, such obligations might extend to third parties as well. But for now, the priority for businesses should be to understand the importance of these data sources internally before looking outward.

"I don't think you can expect a company to look at its third-party suppliers in this respect until they've taken a look at how they're managing it," said Levine. ■

Ask a CCO: TPRM technology

Six senior compliance practitioners share the difference technology has made in their respective third-party risk management efforts, as well as where they are focused on improving in the next year.



SARA KENDALL

Deputy Chief Compliance Officer, Ryan Specialty Group

Years in compliance: 11

MIRIAM LAFUENTE

Head of Ethics and Compliance, Fluence

Years in compliance: 20+



FRANCESCA LULGJURAJ

Associate General Counsel and Compliance Director, Starr Insurance Holdings

Years in compliance: 13

JENNIFER NEWTON

Chief Compliance & Ethics Officer, Caddipay

Years in compliance: 10



MIA REINI

Director - Corporate Compliance and Ethics, The Home Depot

Years in compliance: 12

JUSTIN ROSS

Chief Compliance Officer, FedEx

Years in compliance: 8



DISCLAIMER:

The views reflected by the practitioners quoted are theirs alone and do not represent the views of their companies. Some answers have been edited for length.

Describe your team's role in TPRM at your company.

LAFUENTE:

The compliance function adds value to the supply chain management process by **conducting traditional due diligence on third parties**. We utilize **screening mechanisms** and ensure that information is memorialized so that the firm can engage in better decision-making when it comes to managing risk.



KENDALL:

Increased availability of data and improved AI capabilities support continuous and ongoing improvement of TPRM compliance risk management programs. New AI tools are supporting improved monitoring and remediation management efforts, risk projecting, and predictive analytics.

NEWTON:

Rather than focus on roles/responsibilities, I have found it more beneficial to adopt a **partnership-model view** for managing compliance risk, not just understanding our company's direct obligations under various regulations but **also understanding that of our partners** and focusing on **how we can best support each other's compliance**.



LULGJURAJ:

Our role is to **lead the effort on third-party risk globally**. As supply chains are being tested and risks are evolving, the **role of compliance is growing**. Compliance professionals have experience in identifying, assessing, and monitoring risk. It's only natural that compliance is taking on more of a role in this area.



REINI:

We have a brand-new **compliance program effectiveness team** within corporate compliance that works with our highest risk areas to set up real-time dashboards to monitor key compliance risk indicators. It is going well! We've received great feedback that **our dashboards are helping them make informed decisions**.



ROSS:

We serve as the **center of excellence for third-party compliance** across the enterprise. As the corporate compliance landscape evolves, we **continue to broaden the scope of our program** beyond anti-corruption compliance, taking a more holistic approach to TPRM.



Where has tech made the biggest difference in your TPRM efforts?

NEWTON:

Onboarding technologies and management software have been critical in **maintaining communication channels and managing the due diligence process.**



LAFUENTE:

Advances in **screening technology** have enabled compliance officers to have quick access to information ... which then **frees up time to tackle more complex problems.**



REINI:

Practical tip: We have found that writing **specific instructional documents** on how to use the Tableau dashboards our team creates has been helpful to the business. These instructions allow the business to use the dashboards from Day 1, and **corporate compliance can move to an oversight and monitoring role.**



ROSS:

Having the ability to **carry out actions in bulk**—whether it be screening individual and entity names for sanctions, watchlists, and adverse media or enrolling hundreds of third-party employees in an online anti-corruption training course—**has saved us tremendous time and resources.**



KENDALL:

We are still on our TPRM compliance journey with embedding technological enhancements but anticipate the greatest impact on **vendor due diligence and initial risk assessment processes.** TPRM technology can enable compliance risk management teams to **spend more time understanding and assessing the risks** the vendors pose to our business.



LULGJURAJ:

Recently, we have leveraged technology in **conducting risk assessments**, which allows for automated workflows and scoring.

What matters most for upgrading your compliance tech this year?



KENDALL:

Our 2023 and 2024 focus is to **centralize GRC data across multiple functional areas including ERM, information security, regulatory and compliance, SOX, and internal audit to enhance synergies**, to improve transparency and to leverage a data-driven approach.

NEWTON:

A big focus will be **tech that supports the management and reporting of data, more automation, and utilizing technology platforms that ‘talk’ to each other to avoid duplication of work**. There is no reason to still be relying on outdated spreadsheets.



ROSS:

Our biggest priority is **increasing automated workflows related to due diligence and report generation**. We want to hand technology the reins on our more manual, administrative tasks, allowing us to **focus on addressing red flags and increasing compliance education among team members and third-party employees**.



LAFUENTE:

Training and education remain a unique challenge. It would be naïve to pretend that people enjoy going through their training modules. Moreover, **there is only so much you can do with slideshows**. How do you keep busy people engaged when they have to take hours and hours of training?



REINI:

We have created an **internal weighted survey** for our highest risk compliance areas based on the **DOJ’s Evaluation of Corporate Compliance Programs**. Our new compliance program effectiveness team is collecting policies and templates/best practices that address the DOJ guidance. We are **looking for a tool for corporate compliance** to house the weighted survey and the compliance documents we collect.



LULGJURAJ:

Leveraging the information and data we have on third parties to highlight insights and identify emerging trends **so that we can take appropriate steps to mitigate areas of concern**.



What's hardest about working with data for compliance?

ROSS:

Ensuring that we have the most up-to-date information on file is a challenge. We often find that the email address for a third party's point of contact has changed. This adds time and energy when sending out due diligence questionnaires and other forms.



LULGJURAJ:

We have a variety of really great resources, but because the information comes from multiple sources, **it can be difficult to integrate the data and analyze it to have meaningful insights.**



LAFUENTE:

The most pressing pain point is **figuring out how to make sense of the data.** What compliance stories are the numbers telling you? In addition, trying to keep up with the **latest 'upgrades' or 'versions'** is a continual challenge. Lastly, **managing and containing costs** will always be a pain point.



NEWTON:

With the volume of data at our disposal, **it can be a struggle to present data effectively** so as to be informative and not overwhelm your audience. I think it's critical to have someone within the organization who is adeptly **skilled at data analytics and visualization.**



REINI:

Data integrity is always a factor, especially when you are relying on third-party data. **Hiring strong data analytics experts who take the time to partner closely with the compliance leads and understand the business** area at a granular level has been key to working around data roadblocks thus far.



KENDALL:

Data from internal and external sources is **not consistently aggregated, easily accessible, or accurate. Obtaining data and creating tools to leverage that data requires IT and data and analytics staff.** To address these issues, it is critical that compliance risk management teams become integrated and part of enterprise-wide business intelligence strategy discussions.



How important are data analytics and AI to compliance efforts in the next 5 years?

KENDALL:

The DOJ has recently made clear that it will consider a company's use of data in its investigations into potential misconduct. Now more than ever, it is essential that compliance leaders have timely access to company data to detect material risks, make informed decisions, and measure results. By leveraging AI, compliance professionals can automate routine compliance tasks.



LAFUENTE:

The reality is that AI is not going to disappear. The challenge will be **how to integrate AI across industries and functions.**

When the internet first appeared, pundits predicted that work would end. Well, here we still are! There will need to be **extensive regulation** to help rein in the exponential risks associated with AI and data analytics, including hacking, privacy, etc.



REINI:

We have more than 80 large compliance areas, from EPA to OSHA to DOT to tax to customs to etc. **Creating data analytics dashboards of key compliance risk indicators for our highest risk compliance areas** is our answer to the questions from the DOJ compliance guidance.



NEWTON:

AI is certain to (and should) **replace manual and laborious tasks. I don't believe it will ever displace the necessity of the compliance professional,** which requires **judgment and emotional intelligence, relationship building, effective communication, persuasiveness, and credibility**—all 'human skills' that AI just can't replace.



ROSS:

Our goal is to shift from reacting to patterns or behaviors after the fact to **being able to predict compliance risks and gaps before they occur.** Data analytics and AI will help us accomplish this.



LULGJURAJ:

I know the existing AI models have a long way to go, but **I am confident that data analytics and AI will be a meaningful tool that can highlight potential areas of concern** for human eyes to review and verify.

About us

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Compliance Week, published by Wilmington plc, is a business intelligence and information service on corporate governance, risk, and compliance that features a daily e-mail newsletter, a quarterly print magazine, industry-leading events, and a variety of interactive features and forums.

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For more information on this survey, please reach out to Al Park (Al.Park@fticonsulting.com) or Jake Frazier (Jake.Frazier@fticonsulting.com).

An aerial photograph of a bridge spanning a body of water. A yellow car is driving on the bridge. The background shows a rocky shoreline and green water.

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