

How Third-Party Risk Management Has Evolved

A timeline of the industry

Technology influences how we live and work every day and seems to be the driving force behind the standards we use to measure every aspect of our lives.

In the business world, changes resulting from the rapid advancement of technology, availability of data and the ability to work with organizations across the globe have revolutionized how business is done, for good and bad. Third-party risk management is no exception, and as a practice, has steadily changed its tune over the past few decades.

Let's explore the advances in third-party risk management over time.



Started with the Basics

The customer/vendor relationship was the focus

Customer Loyalty
Risk management was relationship-driven and customers and providers knew each other well. Reputation was (and still is) everything and vendors often enhanced customer loyalty through discounts or incentives, such as calendars, fruit baskets, dinners or golf. Relationships were usually not terminated unless there was a serious issue.

Limited Options
Local vendors catered to a single industry (e.g., financial institutions only) keeping choices minimal and difficult.



Shifted Towards Strategy

Began to worry about spend management

Focus on Price
The relationship was second to price and availability of product or service.

Increasing Variety
Business environments expanded globally and nationally.

New Hardware
The rise of the personal computer meant that data was entered into clunky spreadsheets and a lot of word processing, which resulted in endless paperwork and files. These processes were often time-consuming and prone to errors.



Technology Advanced

Vendor management (procurement) came into play

Wide Selection
The arrival of the internet opened up the competitive landscape.

Streamlined Quality
We began to see a lot of BPO (business process outsourcing) and the development of vendor management programs.

Operational Achievements
Processes were heavily focused on procurement, which produced more product at a lower cost.

Prioritizing Cost
Focus on cost over value didn't always yield the best results.



Regulations Emerged

Law began to get more specific to third-party compliance

Regulatory Matters
Vendor risk was evolving. Primary focus was quality and cost, with some early compliance issues such as anti-money laundering. The development of regulations began to address third-party relationships and the 2008 financial crisis brought many issues to light.

Early Automation
Third-party risk was managed by the database with the belief that the system can automate decisions.

Complexity Challenges
Data was housed in multiple systems in a single organization. It was difficult to look at the vendor relationship holistically.



The Landscape Diversified

Practices expanded into third-party risk management

Larger Ecosystem
There are now more vendors under management and many vendor risk categories under consideration.

Minimalism
Processes are largely paperless.

Regulatory Guidance
Risk is considered on the engagement level and the vendor level. Senior management and the board are expected to be involved.

Comprehensive Technology and Automation
Organizations have the choice of many high-quality Software as a Service based vendor risk management platforms and risk monitoring and alert services. Many tasks are automated and third-party risk management is now part of broader enterprise risk.

Top 3 Tips to Adapt to Industry Change

- 1 Stay up-to-date on regulations affecting your organization.
- 2 Review your third-party risk management processes to identify ways to improve to be proactive instead of reactive.
- 3 Ensure all roles throughout your organization are on the same page and provide insight into what can be improved or changed.



Just like we appreciate where music started with the experience of listening to a record and getting to know the music, it's important to remember where third-party risk management started... taking the time and effort to really investigate and know your most important third-party relationships. **Understand their organizations and build mutually beneficial business partnerships to ensure better visibility to risk and improved outcomes for both organizations.**

Download free samples of Venminder's vendor Control Assessments and see how they empower third-party risk professionals in mitigating risks.
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