



Life sciences businesses battle a new world of risk

Managing third-party risk grows critical as regulations, technology and fraud advance



Unprecedented business disruption amid COVID-19, global volatility and economic uncertainty. Evolving regulatory requirements, heightened scrutiny and the threat of devastating financial penalties. The alarming and potentially crippling trend of supply chain risks, including those related to fraud, bribery and corruption. The increased threat of information security breaches and data loss due to cyber theft.

Today's pharmaceutical and life sciences organizations have perhaps never faced a more challenging global business environment and its profound impact on third-party risk when, for example, on-site reviews cannot be done.

Yet, as revealed in the [KPMG Third Party Risk Management outlook 2020](#), a survey of third-party risk management (TPRM) executives, many are struggling — if not in the dark — amid a troubling lack of strategies, investments, skills and technologies considered critical for the consistent selection, assessment and monitoring of their third-party relationships.

Third-party relationships are a significant source of competitiveness and growth for life sciences organizations operating in today's increasingly complex global markets. But without holistic, technology-enabled oversight programs, those relationships can become a weak link that exposes businesses to an array of potentially catastrophic risks.

That's where TPRM comes in — understanding the organizational risks presented by third parties, assessing whether they can effectively manage those risks as needed, and establishing consistent third-party oversight and monitoring.

Roadblocks plague the journey to TPRM transformation

Our 2020 global online survey of 1,100 senior TPRM executives, including life sciences leaders, reveals that the journey to effective TPRM has, for many sectors, barely begun despite today's extreme challenges:

- Pharma and life sciences businesses cite cyber-risk management, data governance/privacy, cost efficiency, growth and reputation as business-critical initiatives. Yet, half of sector businesses overall lack sufficient capabilities in-house to manage related third-party risks and 57 percent believe their TPRM teams are "undervalued" despite their importance to operational resilience.
- Just 30 percent of sector businesses say TPRM funding is growing, while a total of 70 percent say funding to evolve and strengthen TPRM programs is "limited" (53 percent) or "scarce" (17 percent).
- Fewer than 40 percent say they are "highly proficient" in global compliance, managing global third-party issues, improving cyber defenses, collaborating with internal stakeholders/partners and fully understanding third-party risk. Most say their abilities in these areas are merely "adequate" or "requiring improvement."
- Businesses say they have the following TPRM processes in place: assessment of third parties before contract (34 percent), third-party monitoring (39 percent) or on-site assessment (35 percent), a risk-based monitoring approach (35 percent) and second-line (43 percent) or third-line (32 percent) oversight of TPRM and third parties.
- Principle challenges to TPRM transformation cited include: A lack of skills/capabilities (39 percent), integration (34 percent), regulatory concerns (34 percent), employee resistance (30 percent), lack of funding (28 percent) and data quality (29 percent).

Throughout this document, "we", "KPMG", "us" and "our" refer to the network of independent member firms operating under the KPMG name and affiliated with KPMG International or to one or more of these firms or to KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

Breaking through: A holistic view and technology innovation

Today's life sciences businesses are clearly struggling to make significant inroads on TPRM transformation that unlocks new capabilities for the selection, approval and management of third parties. Success demands a strategic approach that breaks through current obstacles via a holistic, top-down, organization-wide approach to third-party assessment and monitoring — ultimately raising TPRM to a new level of efficiency in today's increasingly complex and hypercompetitive environment.

This becomes particularly critical in today's evolving regulatory environment and the inherent risk of catastrophic settlements and reputation damage — particularly amid the alarming global trend of fraudulent third-party practices, notably with respect to bribery and corruption. Risk can become a 'ticking time bomb' given persistent regulatory oversight and enforcement. Cost pressures and the need for operational resilience and heightened efficiency, have companies chasing discretionary-spending cuts and cash preservation, even though TPRM is a smart cost for good compliance. Factor in the ongoing impact of both advancing digital technology and COVID-19 to dramatically reshape traditional business models and it's clear that TPRM transformation should be high on the agenda for every business today.

Progress on TPRM transformation largely hinges on the critical need for technological innovation that will vastly improve both processes and the use of data — via analytics, artificial intelligence and more — to better manage risk. For many firms, useful supplier and marketplace data and information exist in abundance — but insightful analysis, reporting and sharing to generate informed decision-making and consistent oversight is lacking.

KPMG's framework for success in a new era

As we work with clients pursuing TPRM solutions for an unprecedented era of needs and challenges, we have developed a unique and proven framework for TPRM transformation built on four pillars: *Governance, Process, Infrastructure, Data*. Each has specific requirements, as illustrated ahead.



Governance

What is required?

- A single leader of the program.
- A reporting structure to senior management and the Board.
- An enterprise-wide outsourcing and third-party strategy and a defined risk appetite.
- Clear responsibilities and accountabilities across the TPRM program and the end-to-end TPRM lifecycle.
- Policies, standards and a risk appetite that establish the scope and focus of the program.
- An inventory of third-party services to which the program applies, based on clear definitions of third-party services.



Process

What is required?

- Consistency of execution across the organization's business units to drive quality data for analysis and integration with the second and third lines of defense.
- Assessment teams possessing the right mix of skills, expertise and bandwidth.
- A risk-based approach to assessing third-party services, tied to the program's risk appetite.
- Risk assessment and due diligence that takes place prior to contract execution and decision making.



Infrastructure

What is required?

- TPRM technology architecture that supports efficient workflow, task automation and reporting across the entire business.
- A documented and well-understood audit trail.
- A service delivery model aligned to the company's operating style — centralized or distributed — that enables consistent management of risk across business lines and regions.
- Integration of TPRM activities and technology organization-wide into existing processes, such as procurement, legal and finance, and into existing risk-oversight functions and activities.



Data

What is required?

- Collection of real-time data around the TPRM program's ability to manage third-party assessment, onboarding and monitoring, and the ability to manage the performance of each third-party and their control environments.
- A comprehensive data model for collection of third-party information, including service details, risk scoring, contract information and performance monitoring.
- Internal data feeds that monitor and record specific events and incidents attributable to third parties, and external data feeds that monitor for real-time information on the third parties, such as adverse media, changes in business ownership, corporate actions, cyber vulnerability scores, financial viability ratings.
- A process to update third-party risk profiles when there are changes to the risk score.
- Real-time tracking of performance against service level agreements (SLAs) and real-time tracking of risks against key risk indicators (KRIs).
- Data-driven decision making, where risk assessments and performance monitoring influence contracts and decisions.

The journey includes a path to TPRM maturity

It is crucial that businesses pursue TPRM transformation that is optimized across these four pillars. Success demands a constant cycle of program uplifts, process optimization and innovation. On this front, we offer four key steps that sector businesses should not ignore:

Agree on the vision: A key consideration for an enterprise-wide TPRM program is designating program ownership and determining where TPRM sits within the organization. Clear ownership of the program is key given it cuts across all areas of the business and coordination across these is required for success.

Build the model: TPRM programs have many components to them from the business unit requesting the service, to the risk functions assessing how the risks will be managed to procurement and legal. Designing the right operating models is important because risk has to be managed both pre and post contract coordinating across these stakeholders.

Optimize the process: Technology coupled with a risk based process optimization drives efficiencies by focusing efforts on those contracts with the high risk.

Evolve and innovate: TPRM programs typically revolve around the gathering and assessment of third-party data. The future will demand rethinking on how data-driven, proactive risk monitoring via AI and machine learning will identify early-warning indicators for third-party resilience. Read more about the combinations of AI tools for TPRM, organizational capital and risk strategy that might best bridge the gap between visual and reality in KPMG in the US's report, [Third-party risk management: The road to AI](#).

In conclusion, as our survey of pharma and life sciences firms reveals, most organizations today view TPRM as a strategic priority for future competitiveness and success in a dramatically evolving world where risk is soaring on an array of fronts. But for most, the journey has barely begun as a world of change rapidly closes in on them. We believe innovation is inevitable and there is no time to lose in driving progress that manages risk for a new era of challenges and opportunities.

Contacts

Katie Dahler**Principal**

KPMG in the US

E: kdahler@kpmg.com

Jennifer Shimek**Principal**

KPMG in the US

E: jshimek@kpmg.com

Jilane Khakhar**Director**

KPMG in the US

E: jilanekhakhar@kpmg.com

Alexander Geschonneck**Partner**

KPMG in Germany

E: ageschonneck@kpmg.com

Vladislav Goryunov**Director**

KPMG in the UK

E: vladislav.goryunov@kpmg.co.uk

Lem Chin Kok**Partner**

KPMG in Singapore

E: clem@kpmg.com.sg

home.kpmg/socialmedia

Throughout this document, “we”, “KPMG”, “us” and “our” refer to the network of independent member firms operating under the KPMG name and affiliated with KPMG International or to one or more of these firms or to KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG International Cooperative (“KPMG International”), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve.

Publication name: Life sciences businesses battle a new world of risk

Publication number: 137112-G

Publication date: September 2020