

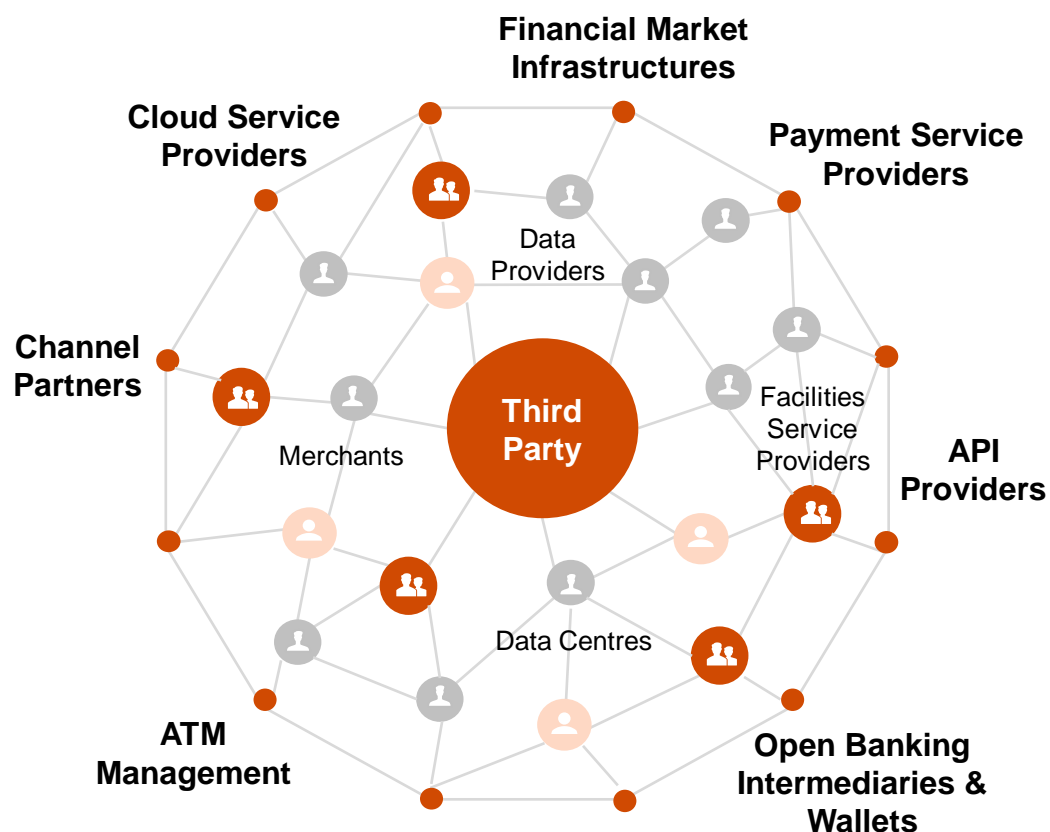
Beyond Outsourcing – Elevate agility over broader Third Party Risk Management



In today's digitalisation landscape, banks and other financial institutions embrace more third party engagements to achieve straight through transactions and enhance customer experience. While these partnerships are vital for business success, they also introduce new risks that banks must address.

In the wake of recent events, a concerning surge in third-party incidents has emerged affecting numerous financial services across the world. The reverberating consequences of these breaches have underscored the urgent need for institutions to rethink **Third Party Risk Management (TPRM)** in their organisations.

Third-Party Landscape



Key Concerns



33% Increase in Cyber Attack

1 in every 10 organisations worldwide was hit by attempted Ransomware attacks in 2023.

Source: Check Point Research in 2023



US\$1.2B Additional Regulatory Capital Requirement

Additional capital and business suspension have been observed as regulatory penalties against AIs after the banking services outages caused by third party disruption.

Source: BNN Bloomberg News



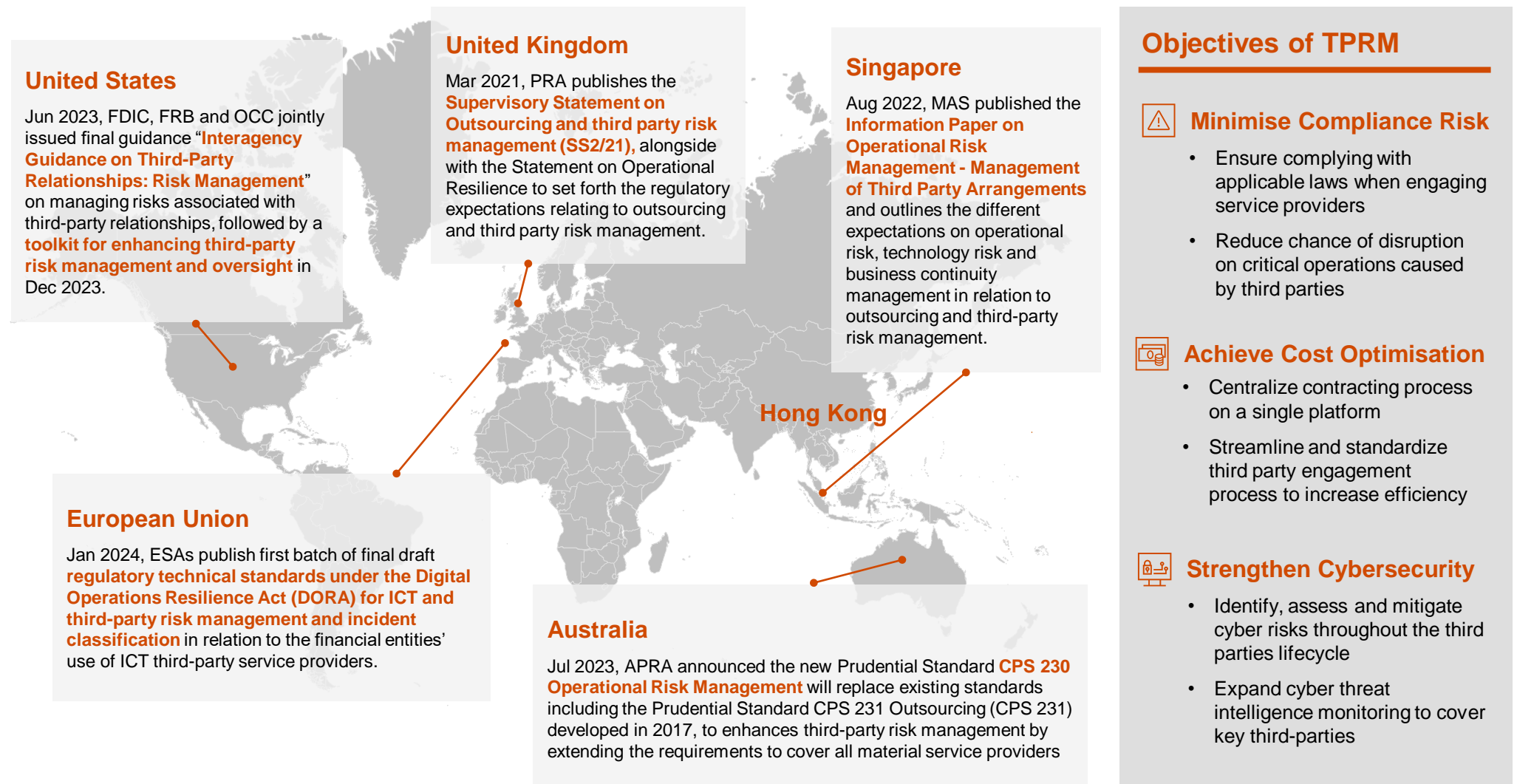
50% Increase in Local Data Leakage Incidents

Increase of personal data breach incidents was driven by hacking and system misconfiguration, especially for outsourced data warehouses.

Source: Legislative Council Paper (Report on the work of PCPD in 2023)

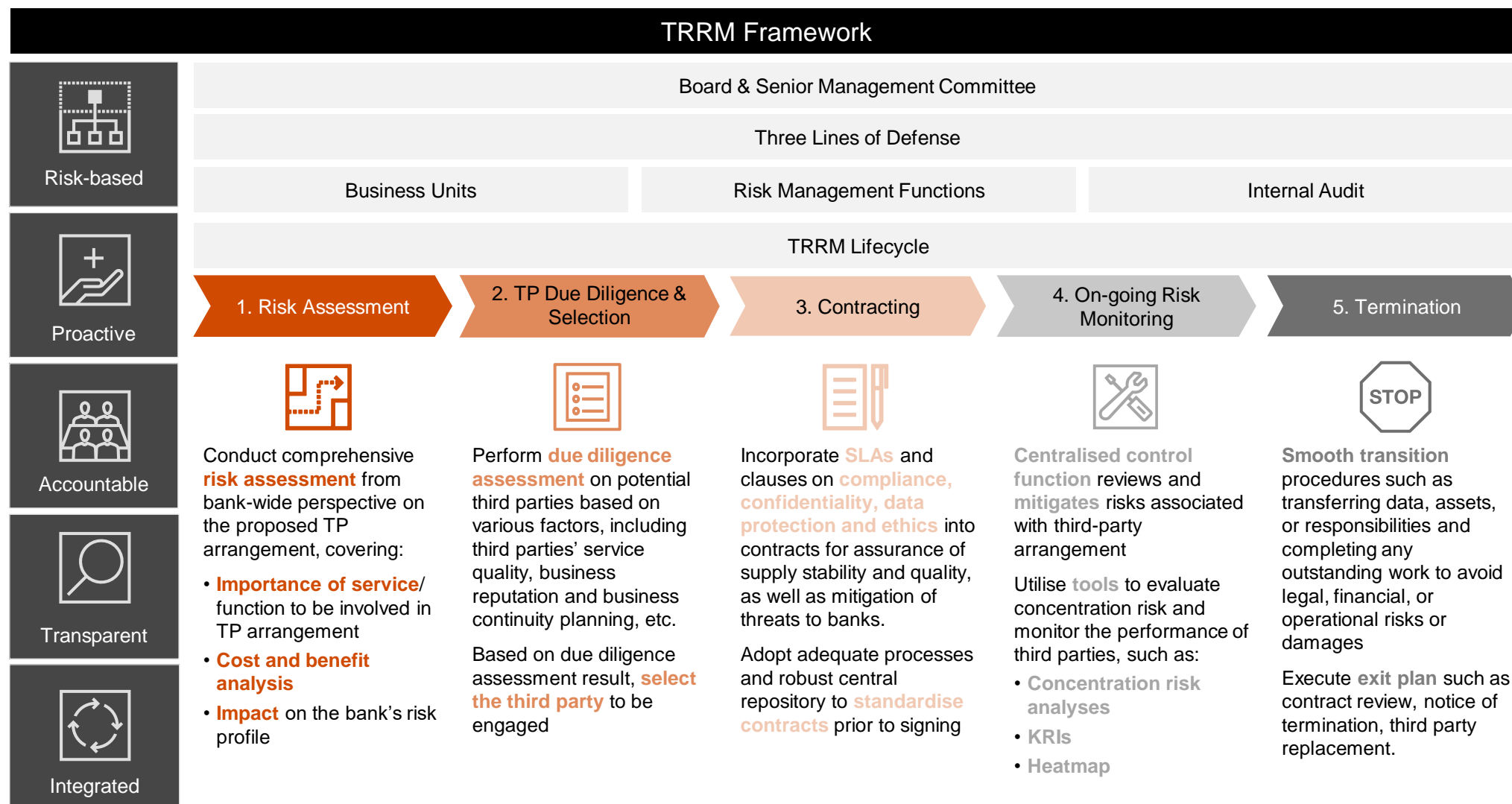


In the past, financial institutions have been enforcing risk management over outsourcing arrangements. Until recent years, the regulatory landscape surrounding TPRM has evolved to cope with the emerging risks associated with increasing use of third parties that fall out of the scope of outsourcing.



Third Party Risk Management Framework & Lifecycle

The nature and scope of third party risk management have been evolving over time, following is the example on the TPRM framework & lifecycle :



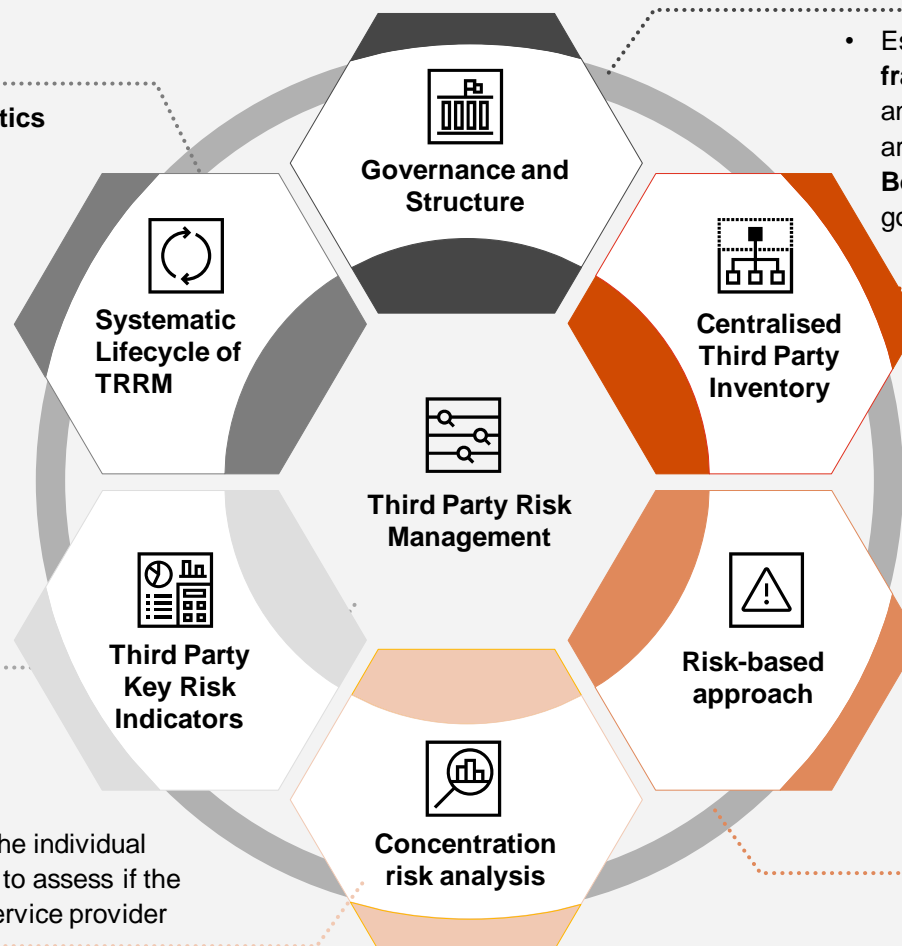
Potential Enhancement for TPRM

Key Dimensions of potential TPRM enhancement

- Implement **E2E lifecycle tools and analytics** to manage the full life cycle of third party arrangements, including a central repository and data management system

- Implement **third-party KRIs** to monitor the **performance of the third party arrangements**, including service level agreement breaches, vendor incidents, regulatory breaches, expired contracts, overdue reviews/control tasks

- Conduct **concentration risk analysis** at the individual service provider level and bank-wide level to assess if the Bank has any excessive reliance on the service provider



- Establish a **proper governance structure and framework** for adequate **management oversight** and attention on risks arising from third party arrangements, including engagement from the **Board and senior management** and a centralised governance committee

- Establish and maintain a **centralised third party inventory** to streamline third party management, including to effectively identify, assess, and mitigate risks associated with third-party relationships.

- Determine the level of controls required based on the risk level inherent to the corresponding third parties through **materiality assessment** and **risk ratings** over the third party relationship,

How PwC can support you...

Ensure Regulatory Compliance through Independent Assessment

Perform comprehensive review on third party risk management to assess effectiveness of the Bank's processes and controls related to managing third party relationships and ensure relevant regulatory compliance, assessment aspects including :

- Scope coverage of third parties
- Risk management effectiveness
- Operational resilience in relation to third party management, e.g. incident response and contingency plans

Establish a Holistic Framework with Future Operating Model

Develop a comprehensive framework for managing third-party risks within the Bank, encompassing the following aspects:

- Set up of third party risk management framework and governance structure
- Design of target operating model and definition on roles and responsibilities
- Establishment of policies and procedures regarding on third party risk
- Lifecycle management on third party arrangements

Deploy Robust Tools with Streamlined Implementation

Integrate analytical tools and digital strategies into third party risk management:

- Definition of risk metrics for ongoing monitoring, e.g. risk appetite, key risk indicators (KRI), etc.
- Establishment of inherent risk rating for risk segmentation of third parties
- Concentration analysis of third party portfolio
- Connectivity and synchronisation between third party contract management and procurement system
- Integrated digital dashboard to configure and enhance TPRM process covering due diligence and monitoring of control tasks and performance metrics



Call for action!

Start your journey to mitigate third-party risk within the institution and enhance operational resilience in managing third-party risk.

Contact us

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