

RISKS IN YOUR SUPPLY CHAIN... COSTLY LIABILITIES

Assessing Vendor Risks Before They Impact Your Business



Supply chain interruptions and risks are an inevitable reality. However, to properly mitigate those risks, it's important to conduct a third-party risk assessment. **These assessments play a crucial role in managing third-party risks before they might become costly liabilities.**

WHAT IS A THIRD-PARTY RISK ASSESSMENT?

A third-party risk assessment is a valuable tool you can use to identify, evaluate, and manage the potential risks associated with outsourcing critical business functions to external vendors or suppliers across various risk domains, ensuring the resilience of your overall operations. It can help you practice due diligence when managing vendor risks and continuously monitor vendor performance to effectively minimize vulnerabilities within your supply chain.

WHY IS IT IMPORTANT?

At a glance, the risks of working with a vendor or supplier might not be immediately evident. Conducting third-party risk assessments is vital for your business, as it helps safeguard your organization against potential disruptions, financial losses, and reputational damage. By determining the risks associated with working with external vendors and suppliers, you can ensure that they meet your standards of quality, reliability, and compliance.

Additionally, a robust risk assessment empowers you to identify and prioritize critical dependencies within your supply chain, allowing you to make informed decisions and implement necessary contingency plans.

Companies engage with various third parties in the course of business, depending on their industry, size, and specific needs. Some common examples include:



- Call centers
- Marketing firms
- Suppliers and manufacturers
- Logistics providers
- Technology vendors
- Consultants
- Contract labor
- Temporary staffing agencies
- Outsourced maintenance
- Facilities management companies
- Payment processors
- Financial institutions

WHAT ARE TYPES OF THIRD-PARTY RISKS?

Different service providers create varying exposures for your business. For all third parties, consider these common areas of risk before entering a formal agreement that may compromise critical business operations:

- **Financial** (Can they demonstrate financial stability and creditworthiness?)
- **Operational** (Will they be able to deliver goods or services reliably and efficiently?)
- **Compliance** (How do they ensure adherence to industry-specific regulations and quality standards?)
- **Cybersecurity** (How do they identify and remediate potential vulnerabilities and respond to cyber risks?)
- **Geopolitical** (What risks does their geographical location, political climate, and regulatory environment pose?)
- **Reputational** (Does the vendor engage in behaviors that might tarnish your organization's reputation?)

10 STEPS TO CREATE A RISK ASSESSMENT MODEL



Because your organization and its risk tolerance is unique, there is no one-size-fits-all approach to risk assessments. However, there are some guiding principles that you should consider.

- 1 Identify all third parties** - Compile a comprehensive list of vendors, suppliers, and service providers you engage with in your business operations.
- 2 Establish a cross-functional team** - Include representatives from various departments, such as procurement, legal, IT, and compliance, to obtain diverse expertise and insights.
- 3 Categorize and prioritize relationships** - Group third parties based on their risk profiles and the significance of their contributions to your business. Focus on assessing high-priority and high-risk relationships first.
- 4 Determine risk factors** - Identify the specific risks, such as financial, cyber, operational, and geopolitical, associated with each third party.
- 5 Set clear expectations** - Communicate explicitly with third parties about your risk management and compliance expectations. Consult with your legal expert about how you might be able include these expectations in contracts.
- 6 Collect information** - Gather relevant data from third parties, such as company profiles, financial statements, certifications, and other documents necessary for risk evaluation.
- 7 Assess risks** - Analyze the collected information to evaluate the risk factors identified earlier, and rate them based on impact and likelihood.
- 8 Implement loss controls** - Develop risk mitigation strategies to address the identified risks, such as enhanced contract terms, remediation plans, or contingency measures.
- 9 Monitor and review** - Continuously monitor vendor performance, compliance, and risk factors, and periodically reassess and update your risk assessment to ensure its accuracy and relevance.
- 10 Report and communicate** - Share your risk assessment findings internally and discuss concerns with the associated third parties, fostering collaboration and accountability for risk management.

HOW DOES INSURANCE FIT IN THE PICTURE?

In the course of conducting a third-party risk assessment, you can ask specific questions to ensure your vendors have the right insurance coverage in place before entering a contract with them. Just as insurance can help you recoup financial losses from varying events, so too can it prove to be invaluable for your vendors and their business operations. You can also request proof of insurance as evidence of their insurance coverage. As always is the case when it comes to any formal agreement, be sure to consult with a trusted legal advisor, financial advisor, and insurance expert regarding your organization's preferred coverage requirements.

MANAGING SUPPLY CHAIN RISKS

As your business changes, managing supply chain risks might feel like playing a game of whack a mole. Vendors and suppliers may provide valuable goods and services to your business, but they also bring new layers of risk that you shouldn't ignore. A key step for an effective supplier risk management plan is regularly administering a third-party risk assessment.

As you seek to strengthen your approach to third-party risk, be sure to consult with an experienced BRP insurance advisor that can provide recommendations and resources about steps you can take to identify and contain potential financial losses and business interruptions stemming from supply chain issues, and insights regarding insurance coverage for your unique situation.

Connect with us today to learn more.

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