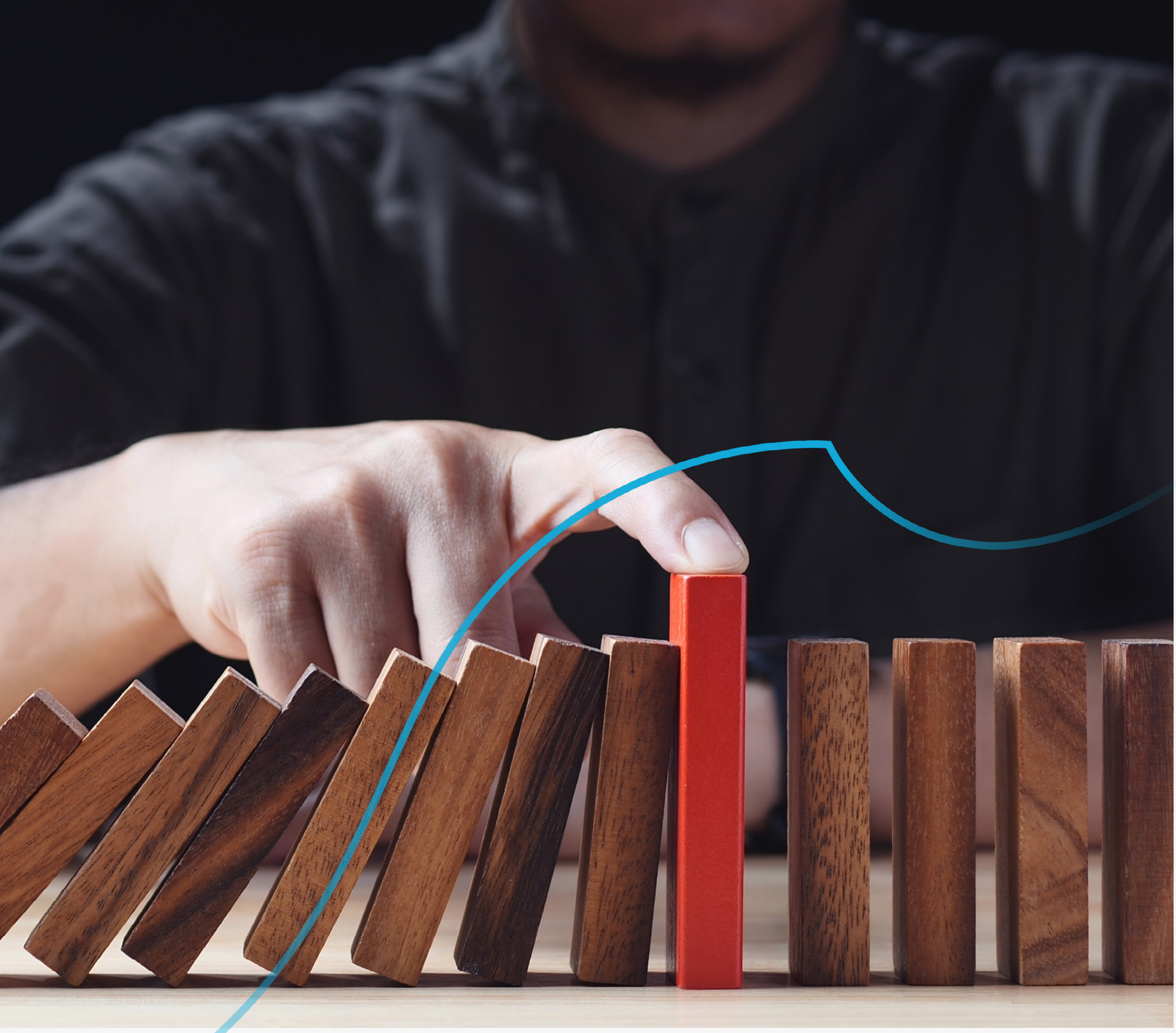


Opportunities to transform organizations through *Third Party Risk Management*

Capgemini invent

Executive Summary

The current business landscape demands for increasing visibility into company operations and transparency into company performance. There is an abundance of risks that firms need to continuously identify to minimize supply chain disruptions. Simultaneously, the marketplace has shown to have a growing appetite for environmentally and socially responsible considerations and reporting.

Proactive and ongoing third-party risk management (TPRM) addresses these challenges to minimize risk across multiple domains and improve overall business performance. This entails the collection of data from suppliers that interface with an organization and identifying potential threats to company operations in addition to performance laggards. Any such threats should ultimately be mitigated before beginning or continuing partnerships with respective third parties. Risks to performing day-to-day services within the business should be assessed on a recurring basis and aligned to the overall organizational strategy. An end-to-end cloud solution digitally empowers all these activities through standardization and automation capabilities that streamline risk and performance management activities and enhance reporting effectiveness.

With the growing interconnectedness between firm and third party, the risks are now shared across party lines. This provides a wealth of opportunities for businesses to develop and solve for reducing organizational liability and points of failure with third party vendors. Through streamlined processes and digital enablement, TPRM provides a blueprint to a safer and higher performing organization.

The growing needs for *risk management* in today's marketplace

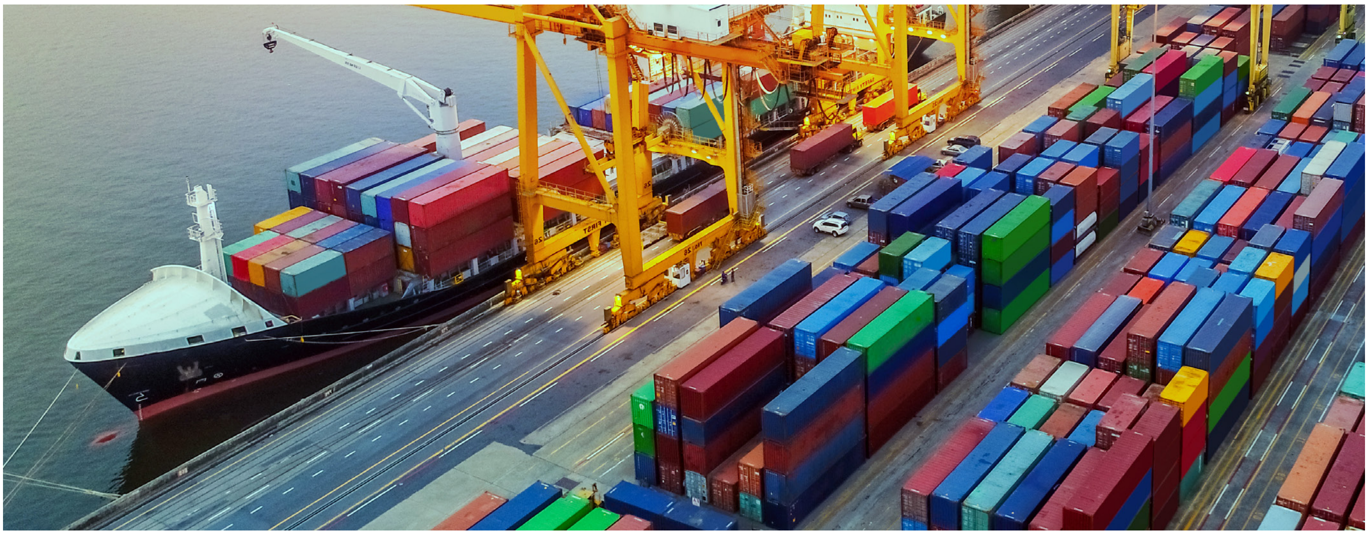
> *4-8% of average annual income losses in %EBIDTA were due to supply chain risks prior to COVID*

The increasing complexity and interdependence of global supply chains have amplified the risks posed by third-party relationships. Compliance violations, reputational damage, macro-economic uncertainties, and increased sustainability regulations are some considerations businesses face when engaging with external entities. These risks can result in significant financial losses, legal liabilities, and compromised customer trust. Consequently, regulatory bodies have recognized the urgency to mitigate such risks and have responded with stricter guidelines.

In the United States, several regulations have been introduced to ensure companies take adequate measures to manage third-party risks. In December 2021, the United States government passed the Uyghur Forced Labor Law (UFLPA), mandating that companies have complete visibility into their supply chain down to the farm level to ensure that all phases of production are free of Uyghur forced labor. Another example includes the New York Department of Financial Services (NYDFS) Cybersecurity Regulation, which requires financial institutions to establish comprehensive third-party risk management programs. Lastly, the California Consumer Privacy Act (CCPA) and the General Data Protection Regulation (GDPR) emphasize the importance of protecting customer data and hold companies accountable for the actions of their third-party partners.

Europe has also implemented stringent regulations to address third-party risk management. European Union (EU) Deforestation Regulation prohibits commodities and products from being imported into, exported from, or made available in the EU unless they are deforestation-free. Furthermore, the EU has also imposed a Carbon Border Adjustment Mechanism (CBAM) which will tax companies based on carbon emission. Companies need to manage suppliers and understand their carbon footprint or face significant costs.

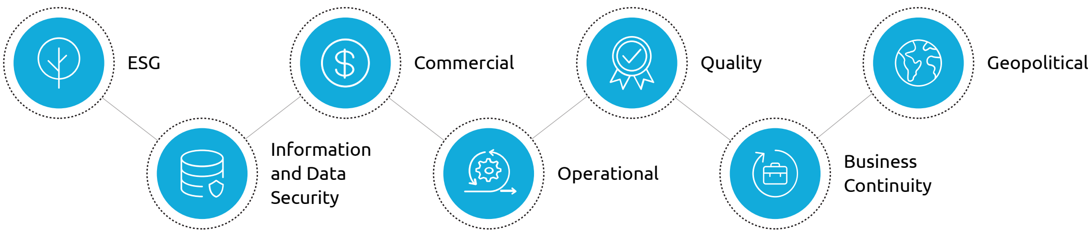
These regulations have prompted companies to reevaluate their risk management strategies and strengthen their control over third-party relationships. Organizations must now conduct thorough due diligence before entering any third-party relationships, ensuring that potential partners adhere to strict security and compliance standards. By implementing effective risk assessment frameworks and ongoing monitoring processes, businesses can identify, mitigate, and manage risks associated with their third-party ecosystem.



Addressing supply chain *risk & resilience* through procurement

When companies begin their third-party risk management journey, many leaders are wondering who should own third-party risk within our organization. With its primary role in identifying, selecting, and managing third-party vendors and suppliers, Procurement possesses a deep understanding of the risks associated with external partnerships and is in an ideal position to help ensure comprehensive oversight and accountability for managing these risks throughout the supplier lifecycle.

As a strategic partner within the business, Procurement is also aligned with the organizations business objectives and already maintains cross-functional relationships across the company that are needed to drive a cohesive and integrated approach that often requires inputs from legal, finance, compliance, and other relevant teams. A comprehensive approach to third-party risk management will not only address regulatory and reputational risks but also:



Transforming an organization with a *third-party risk management* program

Third-party risk management is a capability that allows Procurement organizations to deliver more value to the enterprise. There are number of benefits that are derived from Third Party Risk Management beyond cost savings.

One example is a reduction in enterprise risk by effectively governing supplier risks. Another example is increased performance via the intersection of supplier risk and supplier management allowing for synergies that improve performance and collaboration. A third-party risk management program can also increase efficiencies through proactive risk management and planning to decrease supplier disruptions and allow procurement to focus attention to other value-add activities.

Adding these three factors together, the greater efficiencies, better performance, and reduced organization risk allows procurement to provide more value to the enterprise beyond traditional savings, resulting in procurement organizations providing a greater return on investment.

Capgemini's *third-party risk management* capabilities

Capgemini guides clients in their TPRM journey from strategy to implementation and execution, and on related topics such as supplier & category management to help deliver procurement outcomes and reduce enterprise risk.

Strategy advisory covers different dimensions of third-party risk, including sustainable sourcing, supplier visibility, and Third Party Risk Management design. Sustainable sourcing focuses on emphasizing environmental, social, governance during vendor selection; Third Party Risk Management addresses the risks of these vendors directly working with an organization; and supplier visibility identifies the vendors to those vendors for potential downstream risk.

Capgemini has extensive experience designing and implementing vendor risk management capabilities. For example, Capgemini helped a leading entertainment company define its strategy to address the UFLPA act. Capgemini successfully helped establish the vision and developed a framework to effectively manage supplier risk and meet the requirements of the law. The engagement selected a set of tools to satisfy the new business capability requirement needed to achieve visibility into N-tier supplier operations and mitigate risk exposure. N-tier supplier mapping aimed to enable enterprise level traceability and screening of the global supplier base for proactive planning and risk identification. Lastly, Capgemini helped build the process and organization responsible for performing the new processes.

Third-Party Risk Management

Assess all third-party vendors and new opportunities with external parties. This includes managing the intake of opportunities, developing criteria to measure opportunity risk, filtering suppliers based on contextual elements to organization and vendor, assessing the supplier based on initial risks identified, mitigating identified risks, and continually monitoring for additional risks after onboarding.

Capgemini is experienced in developing the framework, objectives, and data strategy necessary to vet a third party. Once a framework has been created, we design the processes, organization structure and tools needed to enable the objectives of the third-party risk management program. This design is built based on internal and external data sources to harmonize and consolidate information into a singular platform for reporting purposes.

Data Governance

Before directly addressing risks that can impact an organization, data governance needs to be established to improve data integrity. This is critical to ensure the number of existing vendors, contra¯cts, assessment cycle times, risk mitigation documentation, and other related elements around supplier onboarding is known and measured. These different elements will need to be understood by the organization to adequately design a framework and select appropriate tools to facilitate all associated data and risk management activities.

This offering encompasses people, process, and technology dimensions with a focus on maturing clients' ability to manage their data. It involves addressing data quality needs initially and over time evolves into an ongoing process continually monitoring data and adhering to a standard.

As an organization matures, the handing of data moves away from reactiveness and more towards a proactive or predictive environment. This enables the capturing of standard data metrics, development of standard data governance processes and policies at the enterprise level, and the creation of KPIs and dashboarding available at all levels.

Supplier Visibility

Establish traceability into N-tier suppliers of a supply base and understand the chain of custody for all products. This includes visibility to the facilities, components, and raw material leveraged throughout the supplier base. In addition, Capgemini refines process and organizational integration and selection of a suitable 3rd party vendor to provide n-tier supplier visibility. Through an N-tier mapping of an organization's supply base, companies will have greater transparency throughout their supply chain. This improved visibility can enable mitigation of compliance risks as well as make impactful changes in areas of sustainability, performance, and quality.

Sustainable Sourcing

Focus on the integration of social, ethical, and environmental performance as part of the sourcing and supplier selection process. Companies are increasingly looking to incorporate sustainable sourcing into their supply chain to capitalize on new opportunities created by increased environmental awareness among consumers and investors. It enhances supply chain resiliency through enhanced engagement of suppliers, more efficient use of existing resources, and development of a more diverse supplier base. The increased diversification of suppliers mitigates organizational risk in the event of a supply chain disruption due to any number of factors including, but not limited to, regulatory, financial, or environmental impacts.

Our process to achieve these outcomes is by developing a scalable & robust framework to assess the maturity of suppliers' sustainability through a rank and score. This requires the enhanced transparency across the organization's supplier network and understanding the current supply base and cost structures. We design a transformation roadmap to enable organizations to implement the framework across spend and geographies with the goal of sourcing sustainable suppliers while balancing cost reductions.

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Capgemini Invent is an integral part of Capgemini, a global business and technology transformation partner, helping organizations to accelerate their dual transition to a digital and sustainable world, while creating tangible impact for enterprises and society. It is a responsible and diverse group of 340,000 team members in more than 50 countries. With its strong over 55-year heritage, Capgemini is trusted by its clients to unlock the value of technology to address the entire breadth of their business needs. It delivers end-to-end services and solutions leveraging strengths from strategy and design to engineering, all fueled by its market leading capabilities in AI, cloud and data, combined with its deep industry expertise and partner ecosystem. The Group reported 2023 global revenues of €22.5 billion.

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