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Upleveling traditional third-party due diligence: A blueprint for collaborative compliance

By Suzanne Bullitt Monteer

In the complex world of compliance, third-party due diligence stands as a buffer against regulatory pitfalls and ethics violations. Today, many organizations consider third-party due diligence not just as a compliance exercise but as a cornerstone of transparency, showcasing a commitment to accountability and responsible business practices that reinforce stakeholder trust. In a time when trust is linked to profits and innovation, nearly 40% of leaders consider ethical behavior and business practices to be the most important area for building trust in their organizations.^[1]

Still, many organizations take a traditional approach to third-party due diligence, which falls short of operationalizing critical “know your customer” (KYC) and “know your partner” (KYP) compliance requirements. Siloed due diligence processes, combined with scarce resources and budget limitations, leave compliance teams struggling to align on comprehensive customer, partner, and third-party risk reviews. Furthermore, it places an unnecessary burden on a company’s customers, partners, and vendors—managing duplicative requests and excess data gathering.

To meet the needs of modern organizations, we need to evolve due diligence with a broader and more forward-looking approach. A comprehensive KYC/KYP program uplevels traditional third-party due diligence (financial, regulatory, and operational risks impacting suppliers and vendors). It assesses not only baseline supplier and vendor risks but also compliance risks impacting all business relationships across compliance functions, including anti-bribery and anti-corruption, sanctions, trade compliance, and more. A streamlined and cohesive KYC/KYP program identifies current business relationship risks along with predictive compliance risks as organizations, their customers, and their partners grow both organically and inorganically.

This article will provide actionable steps for organizations to mature their existing due diligence programs into a comprehensive KYC/KYP due diligence program that maximizes compliance resources while enhancing program effectiveness.

Stay in the know

First, let’s review the key KYC/KYP due diligence requirements.

Anti-bribery

Anti-corruption laws such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act prohibit payment by persons or entities to foreign government officials or employees of state-owned enterprises to obtain a benefit.

Compliance teams are required to access local and national criminal, financial, and ownership records, conduct third-party screening to understand the potential exposure to politically exposed people (PEPs), and prohibit any payments that may be construed as bribes.

Sanctions

Global sanctions regulations—such as those administered by the U.S. Office of Foreign Assets Control (OFAC)—include both economic (the blocking of assets) and trade restrictions to accomplish foreign policy and national security goals. Sanctions screening (restricted party screening) is mandated to identify third parties, partners, customers, and end users that could be subject to restrictions. Organizations must be able to identify and assess sanctions restrictions at the country, company, and individual levels, as well as understand sanctions' impact on transactions, including the screening of financial institutions and restrictions on payment structures.

Trade compliance

Country-specific export control and import regulations govern the shipment, transmission, or transfer of goods to foreign countries, persons, or entities. Exports and imports of controlled or regulated products, technology, or technical data may require an export or import license. Compliance teams must be able to identify the requirements governing import and export transactions and manage any/all license requirements.

Human rights

Human rights regulations prohibit the use of forced or indentured labor in a company's upstream supply chain, manufacturing, and production partnerships. "Know your supplier" requirements include documenting the materials and labor use of a product's entire upstream production. Organizations are required to fully understand their upstream supply chain and ensure compliance with forced labor regulations, including the presentation of importer certificates for some goods.

Other government agencies

Other government agencies may have specific KYC/KYP requirements governing particular products or services, including end user and end-use restrictions and detailed license application requirements. Companies are required to have a firm understanding of their products, services, third parties, customers, partners, end users, and/or end uses, as well as financial transactions to ensure all "other" regulated due diligence and/or licensing requirements are performed.

Where to begin?

Here are several ways organizations can get started.

Unify compliance objectives across functions

Traditional due diligence programs are often siloed into individual compliance policies, processes, and procedures dependent on their respective regulations, compromising the program's effectiveness. These siloes often lead to duplicative efforts and gaps in due diligence.

By aligning these regulatory compliance requirements under a unified KYC/KYP strategy, organizations can evaluate their business relationships (third party, partner, customer, etc.) through a broad corporate lens and ensure a holistic approach to due diligence. This requires a concerted effort to bridge internal communication barriers and foster a culture of collaboration. Compliance teams should work together to identify common goals

and leverage shared information, leading to a more robust and coherent due diligence process.

Standardize data gathering

Standard data inputs are required across all compliance programs to properly conduct due diligence and determine KYC/KYP risks. Organizations should further evaluate opportunities to standardize and consolidate data gathering to alleviate duplicate and burdensome partner/customer requests, centralize compliance review processes, and enhance compliance resources through development and cross-pollination.

A centralized information repository can significantly enhance the effectiveness of third-party due diligence by breaking down silos and creating an integrated and unified compliance framework. By consolidating core business relationship data combined with screening results, PEP relationships, license requirements, and enhanced due diligence assessments, organizations can gain a 360-degree view of company risk across all business relationships. This repository should be easily accessible and regularly updated to provide real-time insights. Such centralization not only streamlines data management but also facilitates quicker decision-making and more accurate risk assessment while enhancing compliance resources.

Leverage technology for efficient data management

Technology can change the game in streamlining due diligence processes. Implementing the right compliance software and analytical tools can automate routine tasks, centralize data gathering, enhance data accuracy, and provide predictive insights. Artificial intelligence and machine learning algorithms can aid in identifying potential risks and patterns that might go unnoticed by human analysts. Embracing digital solutions not only maximizes compliance resources but also frees up professionals to focus on more strategic aspects of due diligence.

Foster a knowledge-sharing culture

Knowledge and expertise are the linchpin of effective due diligence. Encouraging a culture of knowledge sharing within and across compliance functions ensures that insights and learning are disseminated throughout the organization. Training sessions, workshops, and collaborative projects can help build a shared understanding of due diligence best practices. This collaborative learning environment contributes to a more informed and vigilant compliance workforce.

Adopt continuous improvement practices

The regulatory environment is not static, meaning modern-day due diligence must continuously evolve. Adopting a mindset of continuous improvement helps organizations stay ahead of regulatory changes and evolving risks. Regularly reviewing and updating due diligence processes, incorporating feedback, and benchmarking against industry standards can drive enhancements in the program. This proactive stance ensures that the due diligence framework remains effective and resilient in the face of new challenges.

Next steps

Ultimately, reimagining third-party due diligence through a collaborative, integrated, and unified program is not only a compliance imperative but a strategic advantage. By breaking down silos, creating an integrated compliance framework, centralizing data repositories, harnessing technology, fostering a culture of knowledge sharing, and embracing continuous improvement, organizations can enhance the effectiveness of their due diligence processes. This holistic strategy safeguards against regulatory and ethical risks, enables organizations to adapt swiftly to the ever-changing compliance landscape, and elevates the due diligence program as a strategic

partner of the business—working proactively to enable responsible business growth and build brand trust in an increasingly complex regulatory environment.

Takeaways

- Establish a unified critical “know your customer” and “know your partner” strategy, evaluating business relationships (third party, partner, customer, etc.) through a broad corporate lens to ensure a holistic approach to due diligence.
- Evaluate opportunities to standardize and consolidate data gathering to alleviate duplicate and burdensome partner/customer requests, centralize compliance review processes, and enhance compliance resources through development and cross-pollination.
- Embrace comprehensive compliance solutions that create opportunities for automation, centralize data gathering, enhance data accuracy, and provide predictive insights.
- Foster a knowledge-sharing culture that allows for a more informed and vigilant compliance workforce.
- Adopt a mindset of continuous improvement.

¹ OneTrust, *The state of trust: Data insights for leadership success*, accessed January 3, 2023, <https://www.onetrust.com/resources/state-of-trust-data-insights-for-leadership-success-report/>.

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