THIRD PARTY VENDOR MANAGEMENT FOR BANKS:

Inside the New Guidance

Goals of the Guidance on Third-Party Risk Management

Modernize and integrate supervisory expectations

Offer an updated framework based on sound risk management principles

Outline requirements on the level of risk, complexity, and size of the organization

Goal: Modernize and combine supervisory expectations.
It replaces current guidance from each agency.

“Managing third-party risk is essential to the success of any organization.”

Managing Risk in Third-Party Relationships

The Interagency Guidance provides a comprehensive framework for managing third-party relationships and ensuring compliance with applicable laws and regulations.

Risk Management

Risk management is the process of identifying, measuring, monitoring, and controlling risks

Third-Party Relationship Life Cycle

- Planning
- Due Diligence & Selection
- Contract Negotiation
- Ongoing Monitoring
- Termination

Governance Oversight and Accountability

- Oversight and Accountability
- Independent Reviews
- Documentation
- Reporting

Supervisory Reviews of Third-Party Relationships

Assessing the effectiveness of risk management processes

Understanding Inventory and Risk Assessments

Emphasize Importance of Inventory

Maintaining a complete inventory of all third-party relationships is essential for sound risk management

Periodic Risk Assessments

Periodic risk assessments should be conducted for each third-party relationship to ensure risk management over time

Inventory and risk assessments are key components of sound risk management and should be regularly monitored and updated

Planning: Evaluating Risks in Third-Party Relationships

- **The Strategic Purpose of the Arrangement**
  Evaluating the purpose of the relationship and how it will benefit the banking organization
- **Benefits and Risks of the Relationship**
  Assessing the potential risk and rewards of the relationship
- **Nature of the Business Arrangement**
  Understanding the type of arrangements and its implications
- **Estimated Costs of the Relationship**
  Calculating the costs associated with the relationship
- **Impact on Customers**
  Analyzing how the relationship will affect customers
- **Information Security Implications**
  Considering the security measures needed to protect data
- **Physical Security Implications**
  Ensuring physical safety measures are in place
- **Selection, Assessment, and Oversight of Third-Party**
  Developing a process for selecting, assessing, and overseeing third-parties
- **Contingency Plans for Termination**
  Creating a plan for terminating the relationship if necessary

Due Diligence: A Critical Step – Looking Outward

Assessing third-party's ability to perform activity

Evaluate the third-party's capability to complete the activity as expected

Adhering to banking policies

Ensure the third-party follows all banking policies related to the activity

Complying with laws and regulations

Verify that the third-party is compliant with all applicable laws and regulations

Conducting activity in a safe and sound manner

Ensure the third-party is conducting the activity in a safe and secure manner

DUE DILIGENCE

is an important step in assessing a third-party's ability to perform an activity in a safe and sound manner, adhering to policies and complying with all applicable laws and regulations.

Due Diligence: Digging Deeper

- Business Strategy and Goals
- Ownership Structure
- Legal and Regulatory Compliance Capabilities
- Financial Condition
- Depth of Resources and Prior Business Experience
- Qualifications and Experience of Key Personnel
- Information Security Program
- Management of Information Systems
- Operational Resilience in the Event of Disruptions Or Incidents
- Incident Reporting and Management Processes
- Physical Security Measures
- Reliance on Subcontractors
- Scope of Insurance Coverage
- Contractual Arrangements with Other Parties

Contract Negotiations:

Key Considerations

Need for a written contract

Alignment with business goals and risk management needs

Negotiation of contract provisions

Tailoring contract provisions

It is important to understand the benefits and risks associated with engaging third-parties and particularly before executing contracts involving higher-risk activities, including critical activities.

Contract Negotiation: Factors to Consider

- Whether a written contract is needed
- Clear rights and responsibilities of each party
- Performance measures to evaluate the third-party
- Responsibilities for providing, receiving and retaining information
- Right to audit and require remediation of identified issues
- Compliance with applicable laws and regulations
- Cost and compensation arrangements
- Ownership and licensing rights to the bank's property
- Confidentiality and integrity of information
- Operational resilience and business continuity
- Indemnification provisions and limits on liability
- Insurance requirements for the third-party
- Methods of dispute resolution
- Permissibility of subcontracting
- Choice-of-law and jurisdictional provisions in the case of a foreign-based third-party
- Default and termination procedures
- Stipulating that the third-party's performance of activities is subject to regulatory examination and oversight

Ongoing Monitoring

- Effectiveness of Relationship
- Changes in Business Strategy
- Financial Condition
- Insurance Coverage
- Relevant Audits and Similar Reports
- Ongoing Compliance Measures
- Changes in Key Personnel
- Reliance on Subcontractors
- Training
- Responses to Threats and Vulnerabilities
- Business Continuity & Resumption Plans
- Customer Complains and Responses
- Confidentiality & Integrity of Systems and Information
- External Factors that Could Impact Performance, Operations & Finances

Termination: Possible Reasons

- Expiration or Breach of Contract
- Failure to Comply with Laws or Regulations
- Seek an Alternate Third-Party
- Bring the Activity In-House
- Discontinue the Activity

Termination: Considerations

- **Options for an Effective Transition of Services**
  Exploring potential alternate third-parties to perform the activity
- **Relevant Capabilities, Resources, and Timeframe**
  Required to transition the activity to another third-party or bring in-house
- **Costs and Fees Associated with Termination**
  Including any impact on customers
- **Data Retention and Destruction**
  Information system connections and access control
- **Joint Intellectual Property**
  Handling of Joint Intellectual Property
- **Risks to the Banking Organization**
  Managing risk and any impact on customers

SECTION:

GOVERNANCE

Governance:

Oversight, Reviews & Documentation

Oversight and Accountability

Ensuring that all process are being followed and that all stakeholders are held accountable for their actions.

Independent Reviews

Periodic reviews of processes and procedures to ensure accuracy and compliance.

Documentation and Reporting

Maintaining accurate records of all activities and providing regular reports to stakeholders

Good governance is essential for any organization to ensure that all processes are communicated and followed, stakeholders are held accountable, accurate records are kept, and issues are remediated in a timely fashion.

Oversight & Accountability Responsibilities:

Board of Directors

Risk Appetite

Ensure consistency with strategic goals and risk appetite. Provides clear guidance on risk appetite.

Communication Periodic Reporting

Communicate throughout lifestyle.

Actions to Reverse Unsatisfactory Performance

Be prepared to take action to reverse unsatisfactory performance.

The board of directors or designated board committee must consider these factors when carrying out its responsibilities to ensure the banking organization is compliant and secure

Oversight & Accountability Responsibilities: Management

- **Review, Approve, and Execute Contracts**
  Ensure that all contracts with third-parties are properly reviewed, approved, and executed
- **Establish Organization Structures and Staffing**
  Set up the right organizational structures and staffing to support third-party risk management processes
- **Implement Internal Controls**
  Put in place an appropriate system of internal controls to manage risks associated with third-party relationships
- **Access Compliance Management System**
  Evaluate whether the banking organization's compliance management system is suitable for its third-party given the size, complexity and scope of the relationships
- **Access to Data and Information**
  Determine whether the banking organization has appropriate access to data and information from its third-parties
- **Escalate Significant Issues to the Board**
  Report any significant issues to the board and monitor any resulting remediation, including actions taken by the third-party
- **Terminate Business Arrangements When Necessary**
  End business arrangements with third-parties when they do not meet expectations or no longer align with the banking organization's strategic goals, objectives, or risk appetite.

Periodic Independent Reviews for Third-Party Risk Management

- **Alignment with Business Strategy**
  Ensure third-party relationships align with the banking organization's business strategy, and with internal policies, procedures, and standards

- **Risk Identification and Control**
  Identify, measure, monitor, and control risks of third-party relationships

- **Adequate Process and Controls**
  Ensure processes and controls are designed and operating adequately

- **Appropriate Staffing and Expertise**
  Engage appropriate staffing and expertise to perform risk management activities throughout the third-party risk management life cycle

- **Conflict of Interest Avoidance**
  Avoid or eliminate conflicts of interest when selected or overseeing third-parties

- **Respond Quickly**
  Thoroughly address issues or concerns identified and escalate concerns to the board

Examples of Effective Documentation & Internal Reporting

- **Current Inventory of Third-Party Relationships**
  Identifies relationships associated with higher-risk activities, including critical activities
- **Planning and Risk Assessments**
  Related to the use of third-parties
- **Due Diligence Results and Recommendations**
  Results of due diligence process
- **Remediation Plans and Reports**
  Addressing the quality and sustainability of the third-party's controls
- **Risk and Performance Reports**
  Required and received from the third-party as part of ongoing monitoring
- **Customer Complaint and Inquiry Monitoring Reports**
  Reports related to customer complains and inquires, and any subsequent remediation reports
- **Reports of Service Disruptions, Security Breaches, etc.**
  Report any significant issues to the board and monitor any resulting remediation, including actions taken by the third-party
- **Independent Reviews**
  Reviews conducted by an independent party
- **Periodic Reporting to the Board**
  Reporting on dependency on a single provider for multiple activities

SECTION:

STRATEGIC PLANNING

Top Secret Strategy

Strategic Planning efforts have resulted in the decision to deploy additional products.

This decision considered results of a SWOT analysis and market analysis of the areas served by the Community Bank.

Mission Details:

To be relevant in the market, analysis found that the FI needs to win in the following aspects of product deployment:

Availability

Product Availability ≥ 98% (limited outage/downtime)

Human Support Availability – Extended Hours

- Market research shows support hours range from business hours (9 to 5 Mon through Fri & 9 to Noon Saturday)

Human Support Availability – Multi Channel

- Chat bot – extended hours
- Ticket creation and confirmation of receipt; Market research shows receipt is not provided in many similar offerings based on complaint data reviewed

AI Support Availability

- This is not currently offered commonly in the market

Product Confidence

Support (Implementation) Capability

- Research found that adoption of product caused consumers issues due to a lack of ease of use.

How We Track Success

Winning for the FI Looks like:

Increase New Customers +10%

- Over 2 Years

Increase Penetration in Existing Customer Base +35%

- Over 2 Years

Sustained Product Usage of At Least 3 Transactions Per Month

- 6 Months

Net Return on Investments of >75%

- Over 2 Years

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