

A large window with a dark overlay showing a city skyline and a body of water.

# The New Imperative in Risk Management – Know Your 3<sup>rd</sup> Parties

Feb. 24, 2015

## Learning Objectives:

- By participating in this webinar, you will learn:
  - The 3<sup>rd</sup> party risk management (aka 3PRM) landscape and trends
  - Insights into 3rd party risk management leading practices
  - The Crowe Horwath LLP/ONTALA Performance Solutions Ltd. SPECTRUM framework for sustainable 3<sup>rd</sup> party risk management
  - How the Crowe SPECTRUM framework can be leveraged to help optimize your program
  - The overall management framework for 3<sup>rd</sup> party risk management optimization
  - The overall operational framework and workflow for 3<sup>rd</sup> party risk management optimization
  - Common program deficiencies and issues

## Polling Question 1

What size of financial institution do you work for?

- a) Community bank (<\$1billion in assets)
- b) Large community bank/small regional bank (\$1B-\$20B in assets)
- c) Regional/large regional bank (\$20B-\$200B in assets)
- d) National/global bank (>\$200B in assets)
- e) Insurance company
- f) Other – Financial services
- g) Other – Non-financial services

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## Polling Question 2

What is your role?

- a) Audit Director/CAE
- b) Audit Manager
- c) Audit Staff
- d) Compliance
- e) Risk Management
- f) Information Technology/Information Security
- g) Procurement
- h) 3<sup>rd</sup> Party Management
- i) Legal
- j) Other

## Are These 3<sup>rd</sup> Parties on Your Radar?

- Debt buyers
- Mortgage servicers
- Correspondent banking relationships
- Product resellers
- Channel partners
- Payments processors
- Customer-facing 3rd parties
- Foreign-based 3rd parties
- Subcontractors (fourth, fifth, sixth parties)
- Affiliates
- Agents
- Joint ventures and investments
- Revenue-sharing relationships

## What Makes a Good 3<sup>rd</sup> Party Risk Management Program?

Optimized programs are comprehensive, efficient, and effective. Consider whether your program:

- Spans all types of relationships throughout their lifecycle
- Is risk-centric and risk-adjusted
- Is technology-enabled
- Includes challenge and quality assurance protocols
- Leverages appropriate existing skill sets and processes
- Delivers a clear return on investment
- Aligns with enterprise risk management and operational risk management framework
- Enables actionable reporting and insight

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## Polling Question 3

How mature is your institution's 3rd party risk management program?

- a) Immature/informal
- b) Formal but decentralized and not consistently followed
- c) Formal and mature for most relationships, but not all relationships
- d) Mature, adapting, and consistently followed
- e) Unsure/don't know

## 3rd Party Risk Management Insights

- **3<sup>rd</sup> party risk management is a leading indicator of how well banks manage their business.**
  - Regulators consider effective 3rd party risk management as a key indicator of the institution's ability to manage its own operations during safety and soundness exams.
  - Banks are not only increasing the number of 3rd party relationships, but increasing those relationships are increasing in complexity. In addition, the number and scale of incidents attributed to 3rd parties is on the rise.
- **3<sup>rd</sup> parties are more than “vendors.”**
  - 3rd parties include all noncustomer relationships.
  - When considering relationships outside of vendors, due-diligence processes may be less mature. Existing approval processes for new products and expenditures may fail to deliver proper risk management.

## 3<sup>rd</sup> Party Risk Management Insights (continued)

- **3<sup>rd</sup> party risk management is very complex and highly matrixed.**
  - Because of the wide spectrum of subject-matter experts required to execute an effective 3rd party risk management program, good program design and coordinated execution enable effective management of complexity and risk.
  - Evaluate how your people, processes, and technology work together.
- **The business owns the risk and needs to be set up for success.**
  - Executives and vendor managers must be well trained and armed with the right skills and tools to manage ongoing risk and escalate when needed. Defined management and oversight activities are essential.

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## Polling Question 4

Which of these areas causes your organization the most pain in the area of 3rd party risk?

- a) Failure to comply with regulations
- b) Insufficient staffing/resources to execute the program
- c) Lack of a comprehensive program or strategic direction
- d) Insufficient data on who we do business with so that we can assess risks
- e) Unsure/don't know

## SPECTRUM Framework:

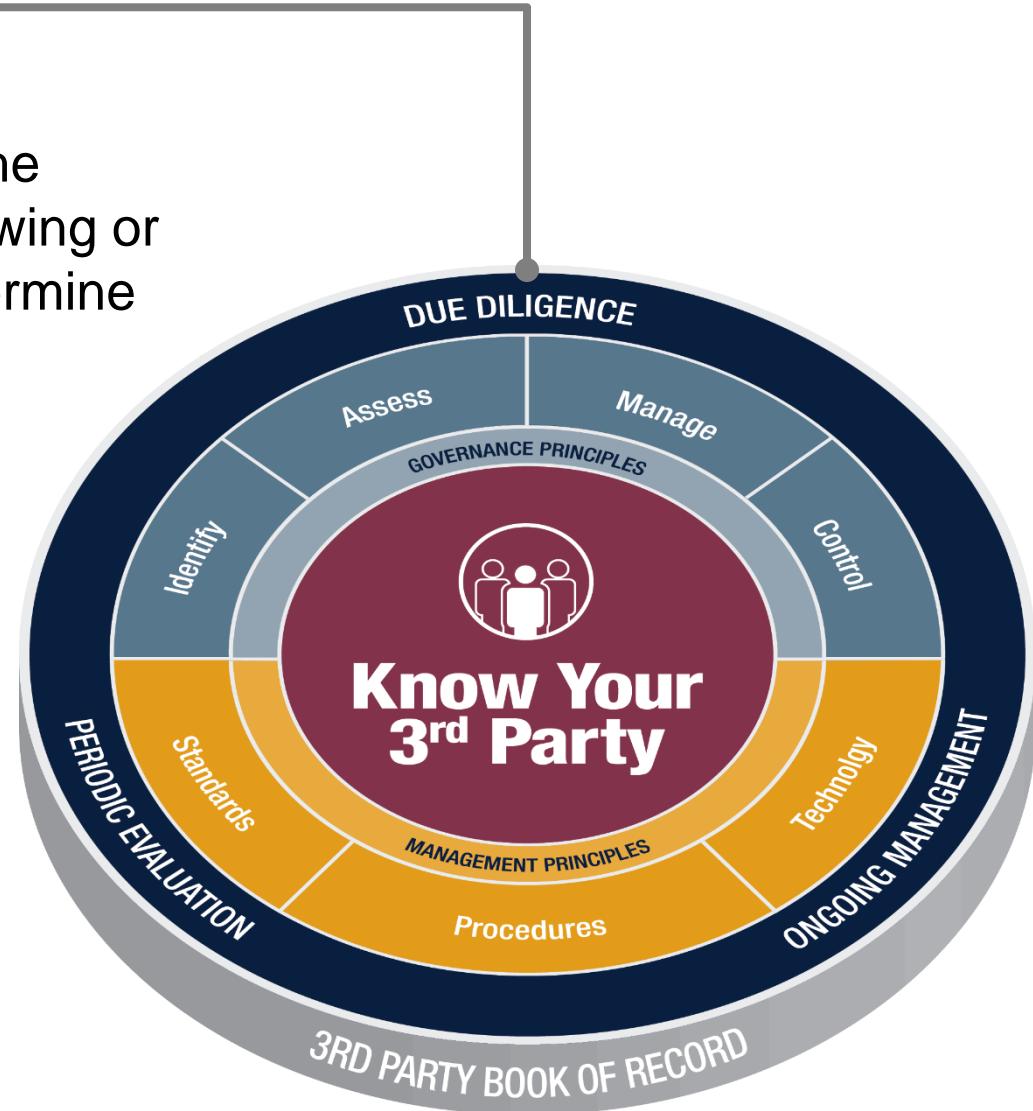
### Sustainable Program for Enabling Comprehensive Third-party Risk Universe Management



# Due Diligence

Assess the risks presented by the organization due to a new, renewing or expanded relationship, and determine current and planned controls to manage this risk.

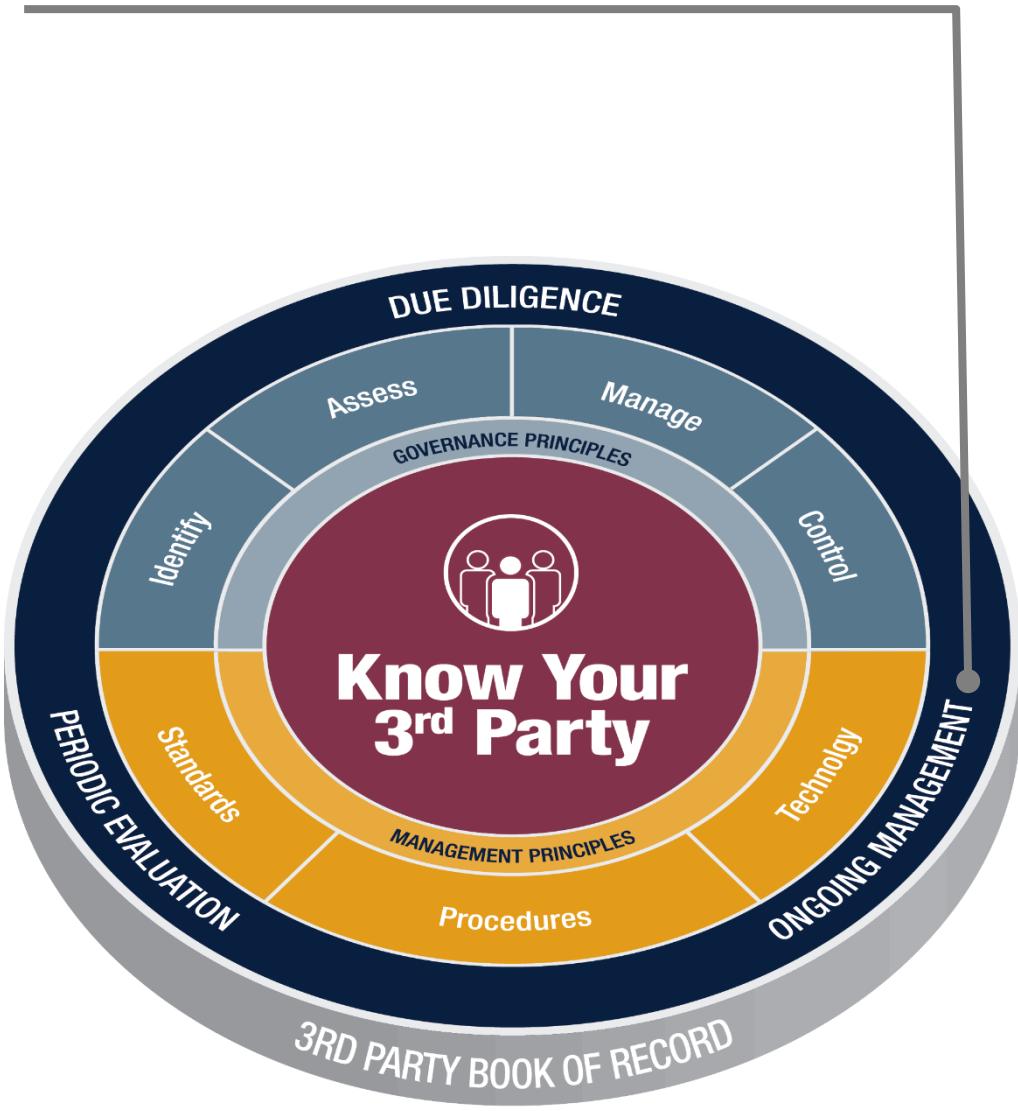
- Inherent risk assessment
- Engage SMEs
- Source and procure
- 3rd party assessments
- Contracting and controls
- Residual risk assessment
- Risk-based approval and contract execution



# Ongoing Management

Manage the day-to-day relationship and performance of the 3<sup>rd</sup> party. Confirm that management and control activities are performed. Manage issues and incidents that may occur.

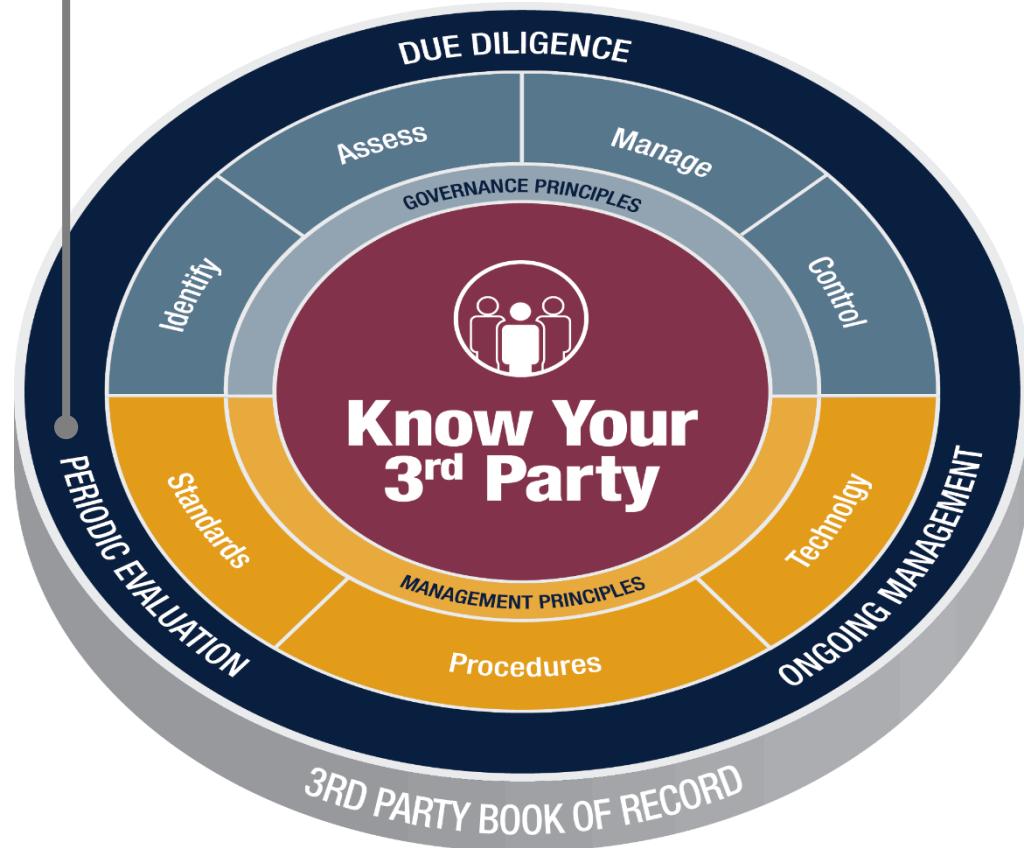
- Communications and stakeholder management
- Financial management
- Service and Performance management
- Contract and compliance management
- Incident response



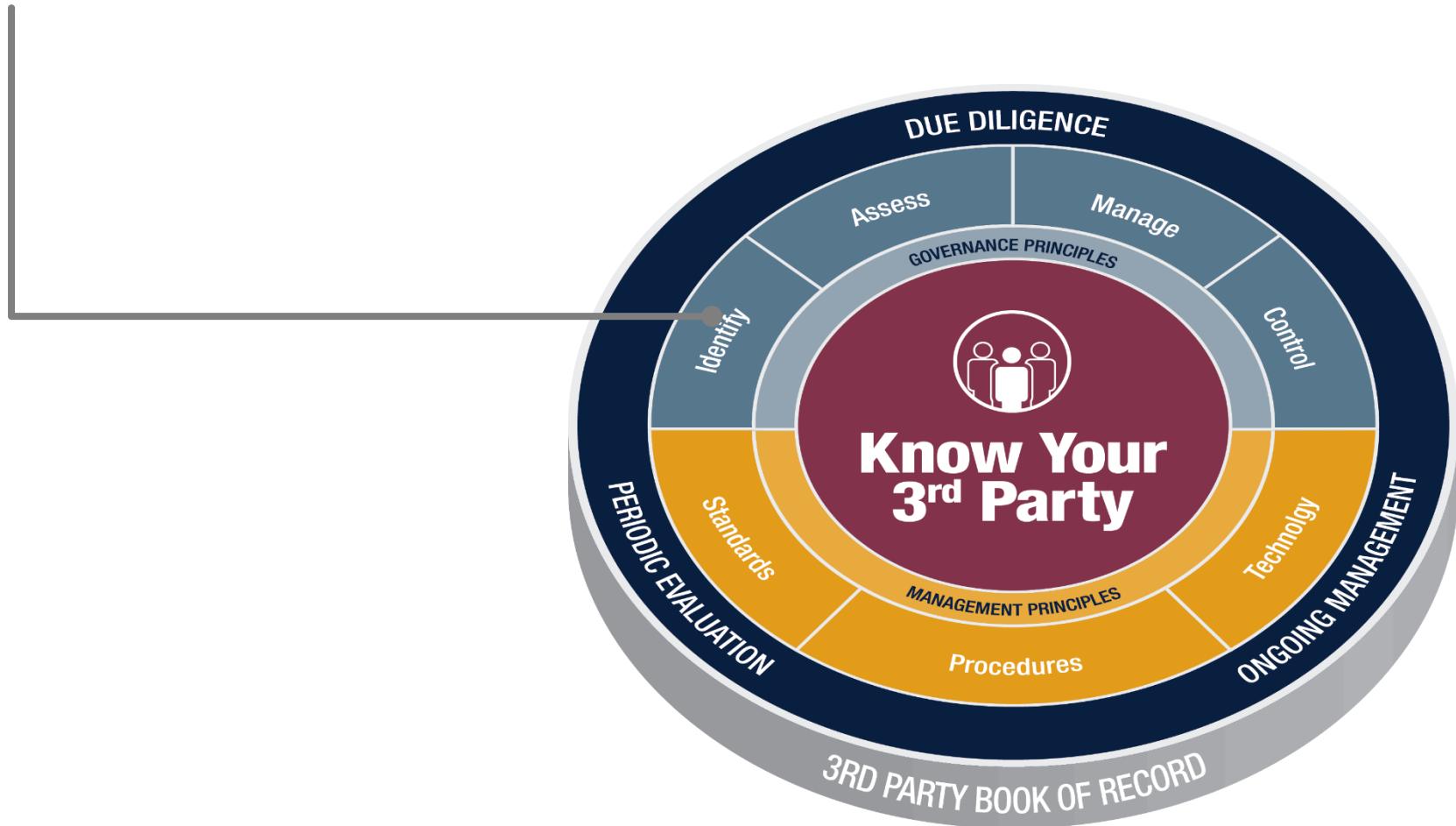
## Periodic Evaluation

Periodically re-evaluate the risk of the relationship based on risk and/or criticality, or in the case of incidents or performance issues. Controls may need to be adjusted or introduced, and ongoing management may be modified.

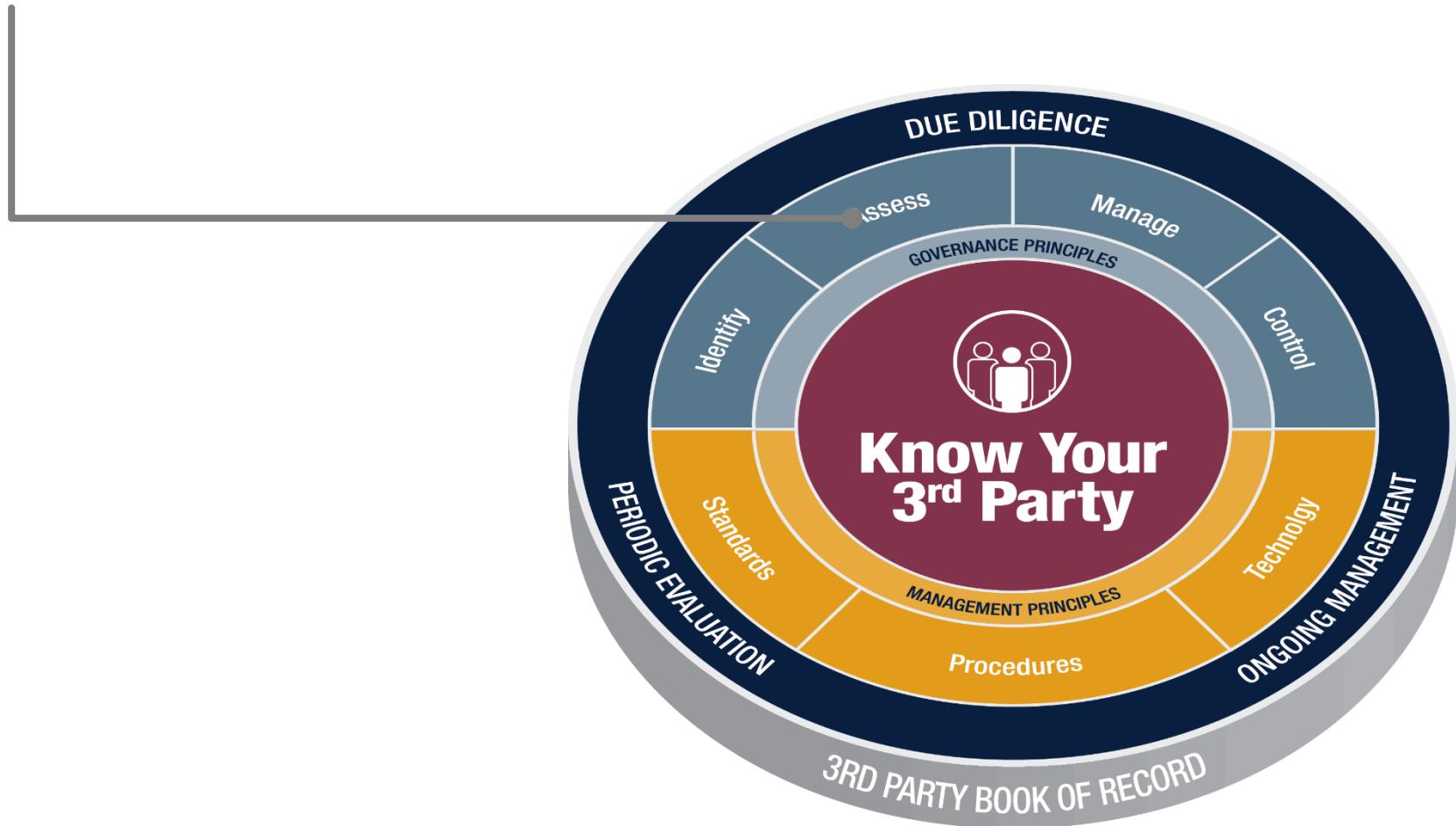
- Risk-based evaluation trigger  
Point-in-time risk assessment
- Engage SMEs, legal
- Sourcing and 3rd party assessment
- Contracting and control review
- Residual risk assessment
- Risk-based forward planning



# Identify: Know who you do business with.



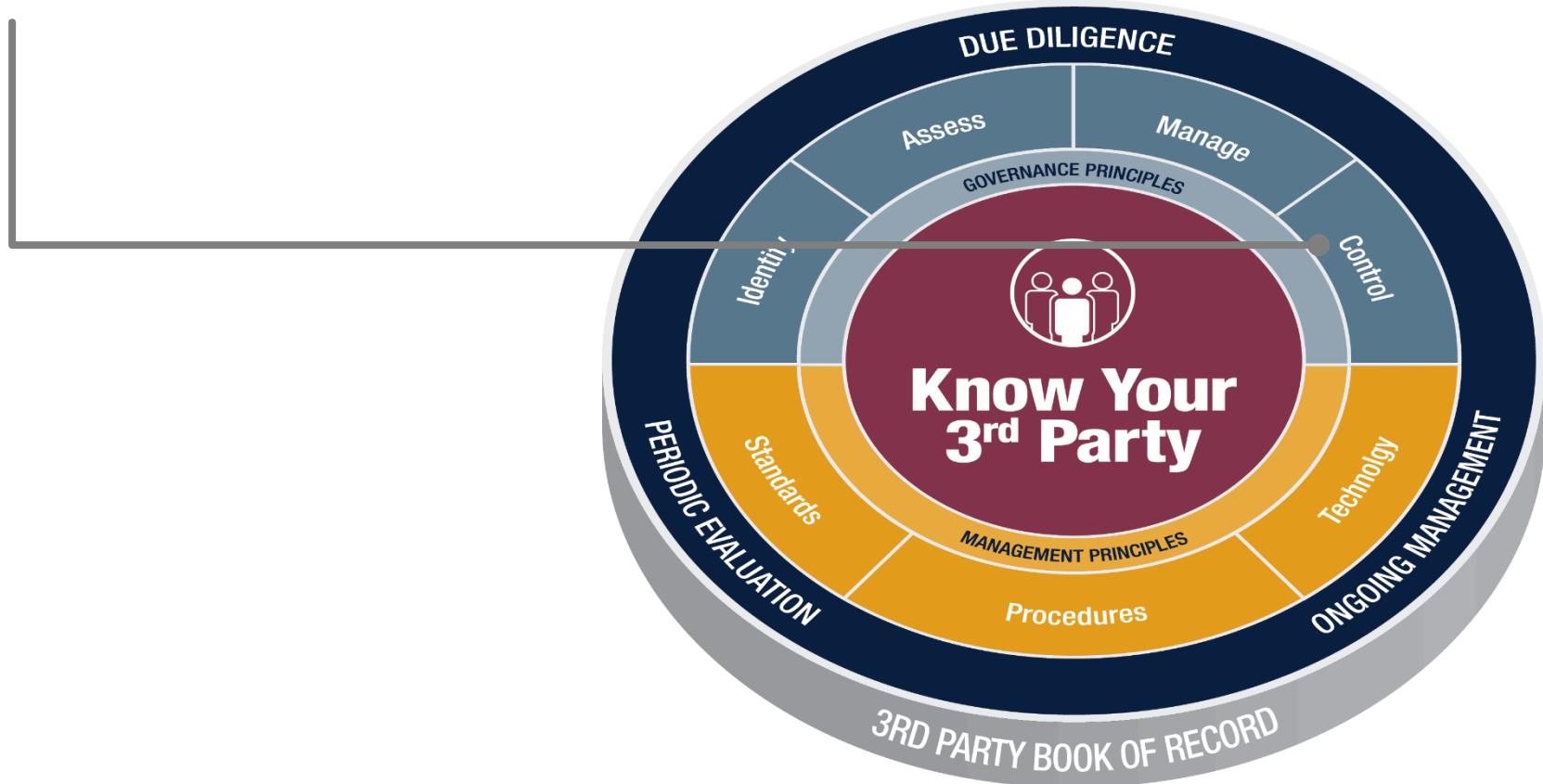
# Assess: Understand the risks of relationships.



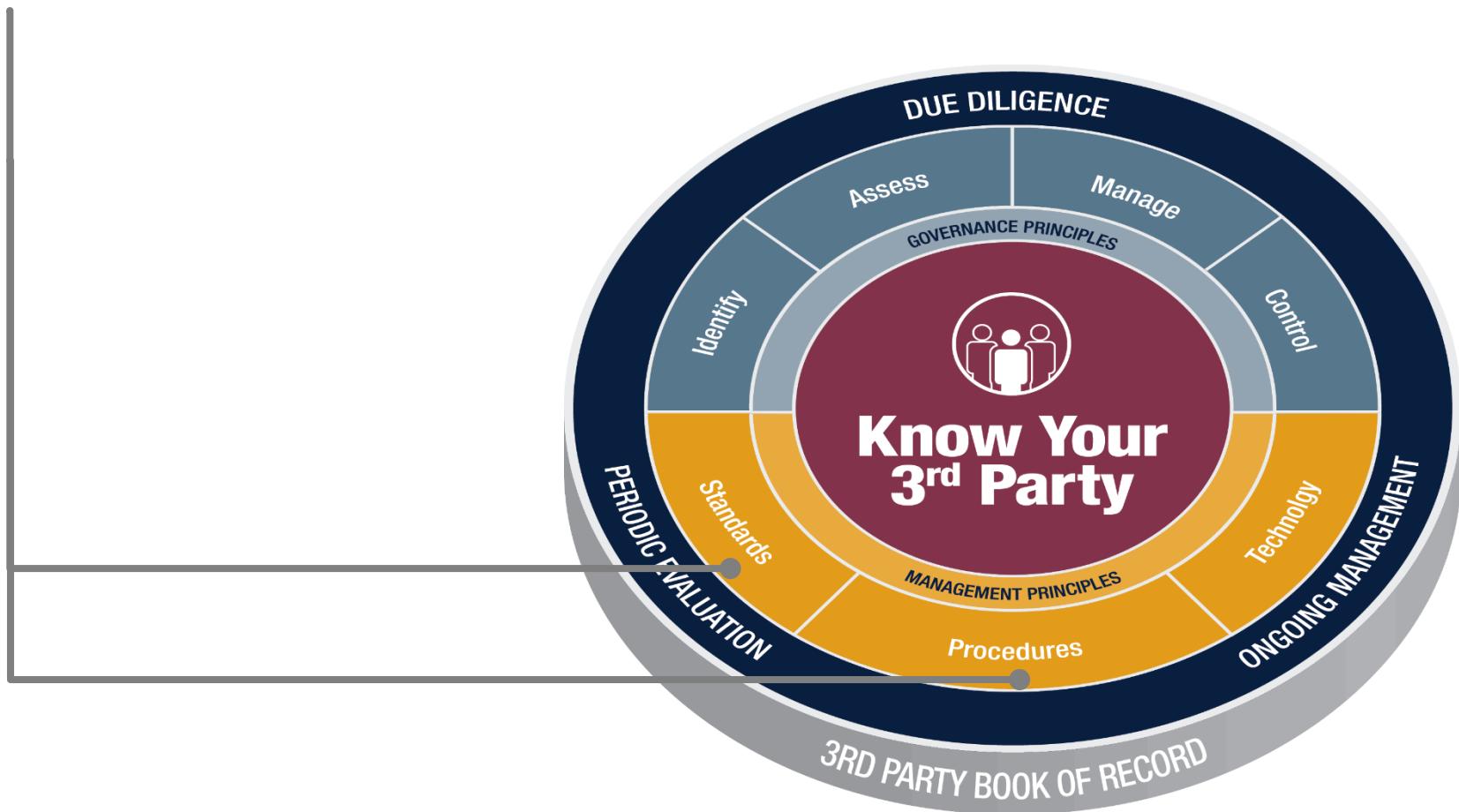
# Manage: Take action to address 3rd party risks.



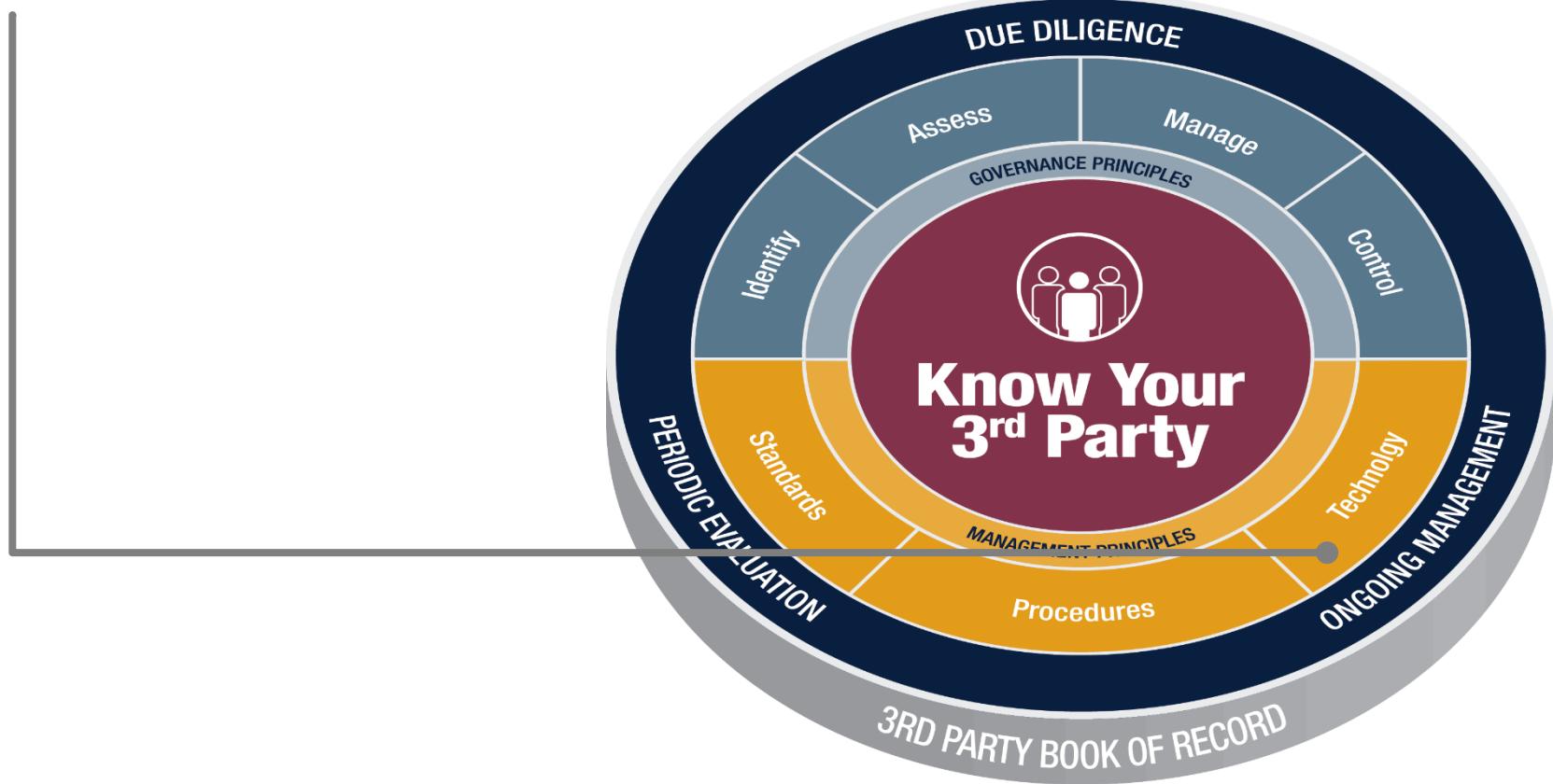
# Control: Manage and control the 3rd party risk management program.



Standards & Procedures: Prepare documentation governing the program and its expectations.



Technology: Establish systems that support efficient and effective execution of your 3rd party risk management program.



# Management Framework

## The right team with the right structure

Board of Directors

Enterprise Risk Management Function and/or Committee

Operational Risk Management Function and/or Committee

3PRM Governance Committee

Line of Business  
Relationship Owners

Dedicated  
3PRM Team

Subject-Matter  
Experts

3rd Party Risk Management Center of Excellence

## Management Framework (continued)

- Requires a cross-functional matrix organization that has visibility up to the board of directors.
- A strong tie to operational risk and enterprise risk management (ERM) is key.
- Due to increasing risk and regulatory burden, many organizations are forming a specific subcommittee under ERM for 3PRM governance.
  - Provides strategic direction and risk-based decision-making for 3rd party relationships.
- 3<sup>rd</sup> party risk “center of excellence” concept helps bring together dedicated 3rd party resources with the subject-matter experts from departments such as:
  - Procurement
  - Information technology
  - Information security, compliance, operational risk, and privacy.
  - The line of business personnel who interact with the 3rd party on a day-to-day basis also play an important role in the 3<sup>rd</sup> party risk management organization.

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For additional information on 3rd party risk management, please visit: [www.crowehorwath.com/tpr](http://www.crowehorwath.com/tpr).

Questions?



# Would you be interested in further discussion?

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