



MANAGING THIRD-PARTY RISK

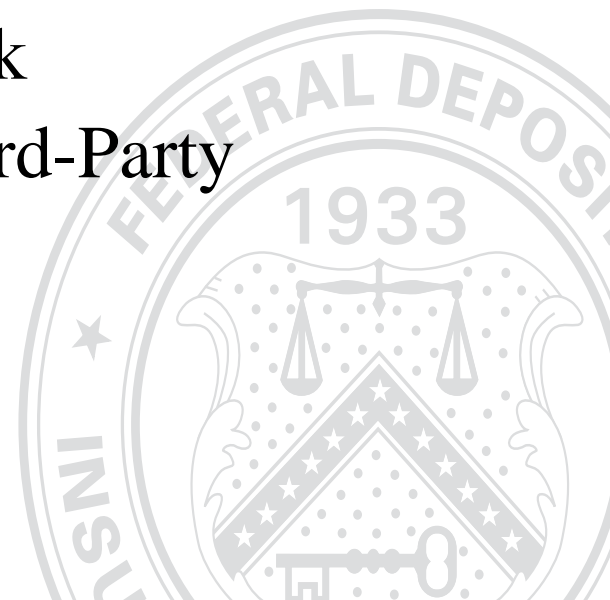
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MDI
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Agenda

- Background
- Potential Risks Arising from Third-Party Relationships
- Process of Managing Risk
- FDIC Supervision of Third-Party Relationships
- Questions





Pat's Rule of Thumb

Whenever you consider using a third party ...

REMEMBER THIS...



Pat's Rule of Thumb

You can OUTSOURCE a TASK
BUT ...

You **CANNOT** OUTSOURCE the

RESPONSIBILITY!!!



Background

- Third-Party Relationships Defined
- Third-Party Uses
- Process of Managing Third-Party Risk

Potential Risks Arising From Third-Party Relationships

- Strategic
- Reputation
- Transaction/Operational
- Credit
- Compliance
- Legal
- Other





Process of Managing Risk

Four Elements of Managing Risk

- Risk Assessment
- Due Diligence
- Contracting
- Oversight



Risk Assessment

- Strategic Fit
- Cost/Benefit
 - Dollars and Risk/Reward
 - Management Capability
 - Long-Term vs. Short-Term



Due Diligence

Third-Party Evaluation Criteria:

- Financial indicators
- Significance to the third-party
- Experience and Ability
- Business Reputation
- Strategies and Goals
- Use of Subcontractors
- Business Continuity Plans
- Insurance Coverage



Due Diligence

- Adequacy of management information systems
- The ability to perform using current systems or are additional investments required
- Scope of controls, privacy protections, and audit coverage
- Knowledge of relevant consumer protection and civil rights laws and regulations
- The existence of any significant complaints, regulatory actions, or litigation against the company

Remember: Due Diligence does not stop once the contract is signed!!!



Contract Structuring & Review

- Scope
- Cost/Compensation
- Performance Standards
- Reports
- Audit
- Confidentiality & Security





Contract Structuring & Review

- Customer Complaints
- Business Resumption & Contingency Plans
- Default & Termination
- Ownership and License
- Indemnification
- Limits on Liability



Oversight

- Board and management are responsible
- Monitoring
- Report to Board



Bank Service Company Act

- Primary Federal Regulator Notification
- Third Party Relationships involving:
 - Check or deposit item processing
 - Core processing
 - Preparation and mailing of checks, statements, notices, etc.
 - Any other clerical, bookkeeping, accounting, statistical, or similar functions



FDIC Supervision of Third-Party Risk Relationships

- Board and Management Responsibility
- Examination Procedures
- Report of Examination Treatment
- Corrective Actions



Institution Affiliated Parties IAPs

- Certain third-parties may be considered IAPs
 - ANY company that controls, is controlled by, or is under common control with another company.
- FDIC is permitted to examine them
- FDIC may pursue enforcement actions directly against the third party
- Any violation by the third party will be in the bank's report



Pat's Rule of Thumb

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BUT ...

You **CANNOT** OUTSOURCE the

RESPONSIBILITY!!!



Thank you for participating!

Questions?



References

- FIL-44-2008 Guidance for Managing Third-Party Risk
- FFIEC IT Handbooks
 - Outsourcing Technology Services
 - Supervision of Technology Service Providers
- FIL-105-2007 Revised IT Officer's Questionnaire
- FIL-52-2006 Foreign-Based Third-Party Service Providers
- FIL-27-2005 Guidance on Response Programs
- FIL-121-2004 Computer Software Due Diligence
- FIL-23-2002 Country Risk Management
- FIL-68-2001 501(b) Examination Guidance
- FIL-50-2001 Bank Technology Bulletin: Technology Outsourcing Information Documents
- FIL-22-2001 Security Standards for Customer Information
- FIL-81-2000 Risk Management of Technology Outsourcing
- FIL-49-1999 Bank Service Company Act