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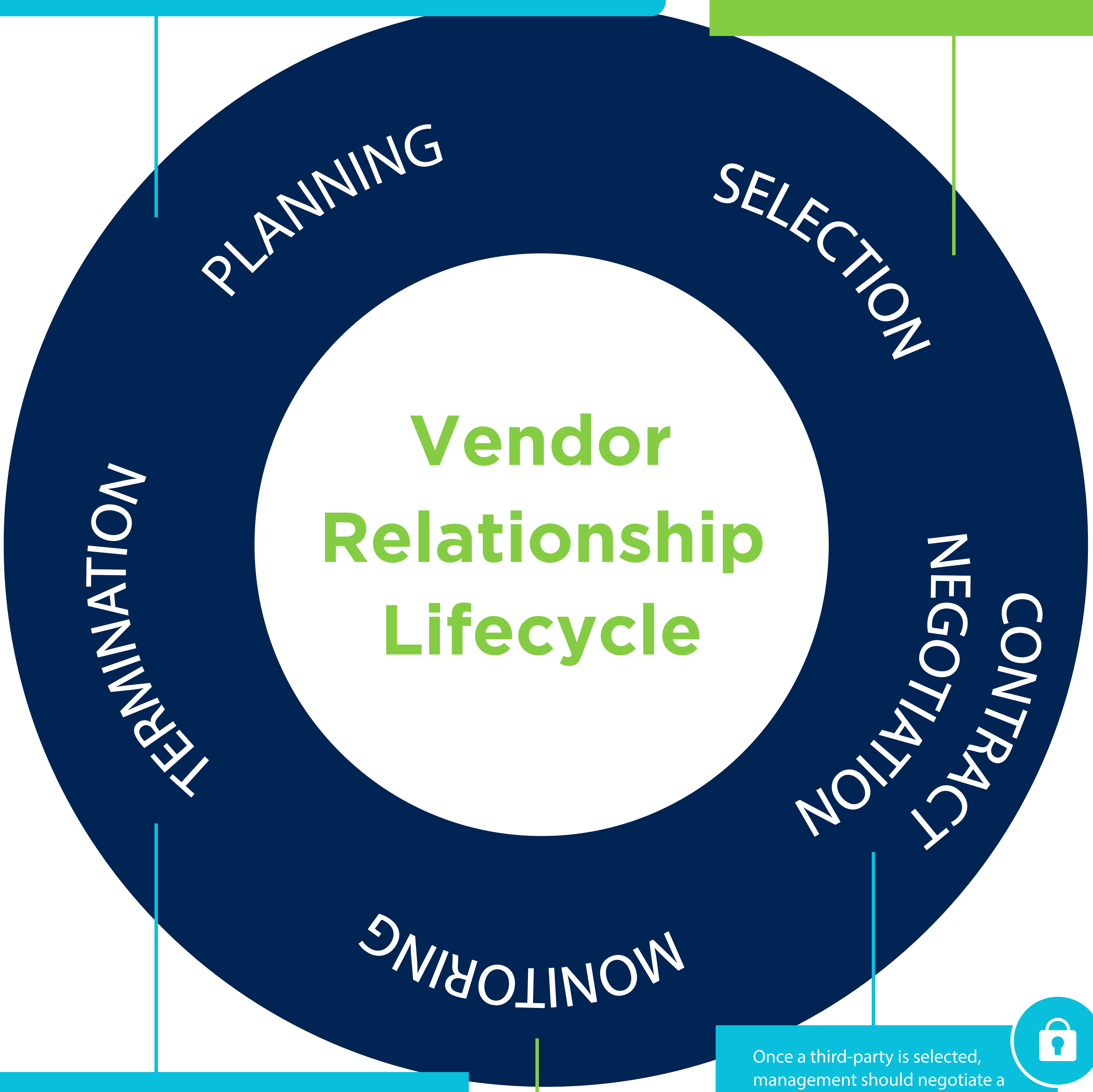
An effective third-party risk management process follows a continuous life cycle for all relationships

- Discuss inherent risks
- Outline how the relationship aligns with the organization's overall strategic goals and objectives
- Assess the complexity of the relationship
- Determine if the potential financial benefits outweigh the estimated cost to control risks
- Consider what transition steps are needed to manage the imapct of outsourcing activities currently conducted internally
- Assess the potential impact the relationship might have on the organization's customers
- Assess potential information security implications
- Consider a contingency plan should the organization need to move the activity to another third-party or in-house
- Assess the extent to which the relationship is subject to specific laws and regulations
- Detail how the bank will select, assess and oversee the third-party relationship

An organization should conduct due diligence on all potential third parties before selecting and entering into contracts or relationships.

The degree of due diligence should be commensurate with the level of risk and complexity of the third-party relationship. A third-party involved in critical activities will require more extensive due diligence.

Never rely solely on past experience or prior knowledge of the third-party for an objective, in-depth assessment of their ability to perform the activity in compliance with all applicable laws and regulations in a safe and sound manner.



Once a third-party is selected, management should negotiate a contract that clearly specifies the rights and rresponsibilities of each party to the contract.

If the third-party relationship will involve critical activities, board approval of the contract should be obtained before its execution.

An organization may terminate a third-party relationship due to:

- Expiration or satisfaction of the contract
- Desire to seek an alternate third-party
- Desire to bring the activity in-house or discontinue the activity
- Breach of contract

Management should ensure that relationships terminate in a efficient manner by developing a plan that covers:

- Capabilities, resources and the time frame required to transition the activity
- Risks associated with data retention and destruction, information system corrections and access control issues that require additional risk management beyond the life of the relationship
- Handling of joint intellectual property developed during the course of the relationship
- Reputational risks to the bank if the termination happens as a result of the third-party's ability to meet expectations

Ongoing monitoring of the third-party for the duration of the relationship is essential to an organization's risk management process. Management should dedicate sufficient staff with necessary expertise, authority and accountability to oversee and monitor the third party relationship, paying particular attention to:

- Quality and sustainability of the third-party's controls
- Its ability to meet service-level agreements, performance metrics and other contractual terms
- Its ability to comply with legal and regulatory requirements

Organizations are expected to have risk management processes that are commensurate with the level of risk and complexity of its third-party relationships. Therefore, more comprehensive and rigorous oversight and management is required of third-party relationships that involve critical activities - anything that would have significant impact on their customers, or require significant resources to manage.

Interested in learning how VendorInsight ensures compliance in every stage of your third-party relationships?

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