

# MANAGING THIRD-PARTY RISK

New York Region  
Regulatory Conference Call  
March 3, 2011

# Introduction

- Dan Frye, Acting Regional Director
- *Guidance on Managing Third Party Risk*  
June 6, 2008 (FIL-44-2008)
- *Guidance on Payment Processor Relationships*  
November 7, 2008 (FIL-127-2008)
- PowerPoint
- E-Mail: [NYCalls@fdic.gov](mailto:NYCalls@fdic.gov)
- Presenters
  - Sherry Antonellis, Senior Review Examiner - Compliance
  - Colleen Marano, Supervisory Examiner - Risk

# Agenda

- I. Background
- II. Potential Risks Arising from Third-Party Relationships
- III. Risk Management Process
- IV. Bank Services Company Act
- V. FDIC Supervision of Third-Party Relationships
- VI. Questions
- VII. Closing Remarks

# I. Background

- Third-Party Relationships Defined
- Common Third-Party Relationships

# Third Party Defined

Definition – “third party” is broadly defined to include all entities that have entered into a business relationship with the financial institution, regardless if the third party is a bank or a nonbank, affiliated or not affiliated, regulated or non-regulated, domestic or foreign.

# Common Third Party Relationships

- Parties that perform functions on a bank's behalf.
- Parties that provide access to products and services outside of the bank.
- Parties that market processes and activities for which the bank has particular capacities and competencies.
- Parties that use the bank's charter or legal powers.
- Parties that perform monitoring or audit functions for the bank.

## II. Potential Risks Arising From Third Party Relationships

- Strategic
- Reputation
- Transaction
- Operational
- Credit
- Liquidity
- Compliance
- Legal

# III. Risk Management Process

## Four Elements of Risk Management

A. Risk Assessment

B. Due Diligence

C. Contracting

D. Oversight

# A. Risk Assessment

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

Key: Adequately assess, measure, control, and monitor risk associated with the relationship.

## B. Due Diligence

- Process should include qualitative and quantitative review to determine if the relationship achieves strategic and financial goals
- Scope and Depth should be directly related to the importance and magnitude of the relationship

# C. Contract Structuring and Review

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

# C. Contract Structuring and Review

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

# D. Oversight

- Management needs to monitor third party and the activity – Bottom line - Is the relationship working as planned?
  - Third Party's financial condition
  - Adequacy and adherence to policies relating to internal controls and security issues
  - Compliance with laws and regulations
  - Response to bank's requests
- Report the results of monitoring to the Board.

# IV. Bank Services 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

# V. FDIC Supervision of Third-Party Relationships

- Board and Management Responsibility
  - When things go wrong.....
- Examination Procedures
- Report of Examination Treatment
- Corrective Action

# VI. Questions and Answers

Thank you!

# Resources

- FIL-44-2008 Guidance for Managing Third-Party Risk
- FIL-127-2008 Guidance on Payment Processor Relationships
- 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

For further questions related to the material presented in this Regulatory Conference Call, you may contact via e-mail:

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