

Financial Services Regulatory Update

February 6, 2017

This communication is designed to provide you with quick snapshots and timely perspectives on recent regulatory developments.

Updated Guidance for Managing Third-Party Risk

Background

On January 25, 2017 the Office of the Comptroller of the Currency (OCC) issued a set of exam procedures to guide regulatory examinations of third-party risk management (TPRM) programs in the banks the agency supervises. Previous guidance issued in 2013 provided few details for banks to gauge the adequacy of TPRM processes, controls and programs.

Coverage and Overview

While the OCC's purview is limited to nationally chartered financial institutions and those previously regulated by the Office of Thrift Supervision, the examination procedures offer insights and guidelines likely to be applied in banks and institutions regulated by the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Board.

The agency will assess inherent risk and related management controls and processes in the following areas:

Risk Quantity:

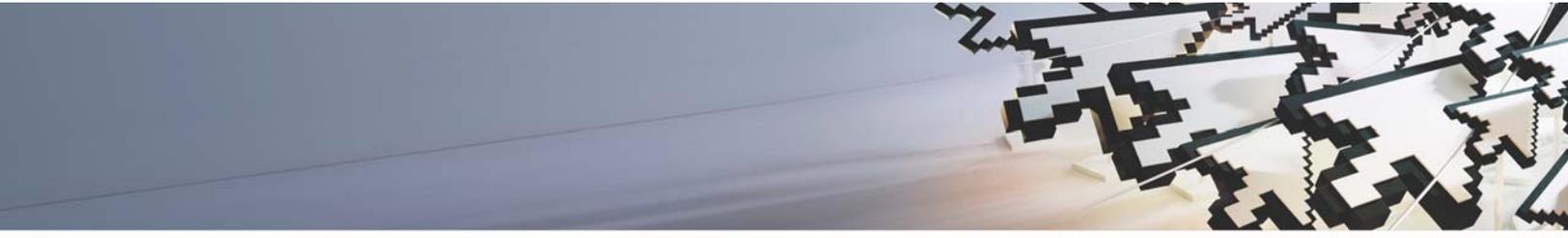
- Third-party relationship inventory adequacy and impact on business
- Proportion of third parties involving concentrations, foreign providers, subcontractors and other higher risk providers
- Contractual provisions that may limit the third party's liability
- Risk mitigation and monitoring processes, and controls such as due diligence and internal audit
- Consumer complaint and other reputational risk management controls
- Planning for third-party relationships and strategic risk management processes
- Alignment of lending and loan origination practices, and related credit risk practices

Risk Quality:

- Policies, procedures and periodic board/management review of third-party relationships
- Adequacy, effectiveness and implementation of initial due diligence and periodic monitoring reviews
- Vendor selection criteria, contract negotiation and related due diligence process independence
- Controls and processes for contract termination and contingency planning

Risk Mitigation:

- Roles and responsibilities of personnel, and effectiveness of management oversight
- Control system design effectiveness, monitoring processes and assessment practices



Risk Direction:

- Comparative review of strategic initiatives affecting third-party practices and relationships
- Consideration of risk quantity, quality and mitigation factors in relation to prior performance and practices
- Significant changes (positive or negative) in the risk management program

Compliance and Risk Management Strategies

Using the OCC's examination procedures, we recommend reviewing existing policies and procedures related to third-party risk management practices. This exercise will help organizations evaluate the adequacy of TPRM practices, including risk assessment, alignment with strategic business objectives, initial due diligence reviews, assessment of personnel with TPRM responsibilities, periodic provider monitoring and re-assessment, independence, and contingency planning. Consider comparing existing risk assessment practices to the regulator's risk assessment matrix¹ in the exam procedures to confirm the process addresses all risk types and rating categories. The OCC uses this chart:

Summary of Risks Associated with Third-Party Relationships				
Risk Category	Quantity of Risk	Quality of Risk Management	Aggregate level of Risk	Direction of Risk
	(Low, Moderate, High)	(Weak, Insufficient, Satisfactory, Strong)	(Low, Moderate, High)	(Increasing, Stable, Decreasing)
Credit				
Operational				
Compliance				
Strategic				
Reputation				

Based on the risk assessment updates and third-party evaluations, consider forming an internal task force to address any program gaps or weaknesses, including representation from senior management, business-line personnel with appropriate expertise, information technology and compliance. This cross-section of representatives will facilitate information gathering and sharing, and help ensure each risk category is adequately addressed.

¹ Source: OCC Publications: Comptrollers Handbook, Third Party Exam Supplemental Procedures. January 25, 2017. <https://www.occ.gov/publications/publications-by-type/comptrollers-handbook/pub-third-party-exam-supplemental-procedures.pdf>



Finally, periodic monitoring and internal audits related to third-party risk management should include updates on any program changes to ensure the scope and objectives of reviews are adequate. This facilitates both review efficiency and effectiveness.

How Experis can help

Experis Finance offers industry experience in all aspects of Financial Services, including:

- Performing objective assessments of third-party risk management practices
- Assessing risks related to third-party relationships
- Assessing the adequacy of your organization's compliance control environment
- Developing internal compliance monitoring and audit programs to address unique risks
- Developing and maintaining first-, second- and third-line controls and testing related to TPRM

Our Risk Advisory Services practice can evaluate your TPRM program, provide comprehensive recommendations for improvement and help you address those recommendations.

Our team of professionals has extensive experience working with clients to address these issues to help them avoid costly fines and penalties. If you have any questions about or concerns around your implementation of these steps, contact an Experis representative at financialservicesindustry@experis.com or visit our website [Experis Finance](#).