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Vendor Management Best Practices from 2018 and What to Expect in 2019

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Branan Cooper

Chief Risk Officer at Venminder
branan.cooper@venminder.com
(502) 909-0325

SESSION AGENDA



Lessons learned in 2018
and what to expect in 2019



Key components of a successful
third party risk management program



Guidance and lessons
learned in 2018



Best practices in 2019

POLL QUESTION:

Which area of third party risk management is your weakest (and remember your answers are anonymous)?

- a. Selecting a New Third Party
- b. Risk Assessment
- c. Due Diligence
- d. Ongoing Monitoring
- e. Contract Management
- f. Board/Senior Management Reporting
- g. Not sure



LESSONS LEARNED IN 2018 AND WHAT THE REGULATORS EXPECT IN 2019

New Guidance from OCC in 2017

3 separate bulletins
Increased expectations of the board

The year of massive breaches heightens need for cybersecurity plans

Equifax
Yahoo
FDIC

Extended Exam Cycle from 12 to 18 months at well managed institutions under \$3 billion

Regulators criticized in OIG reports throughout the year

Heightened focus
More direct criticism

2018 has seen changes in leadership at major regulators

Most notably – CFPB and Fed
OCC proposed FinTech charter
Expect questions on Equifax

OCC FINTECH CHARTER

- ✓ State Agency Challenges
- ✓ Authority
- ✓ Same standards generally as banks

MAJOR ENFORCEMENT ACTIONS

Unrelenting focus on potential for consumer harm

Terrific UDAAP tracker on Payment Law Advisor website

What this means specifically to your third party risk program



A PROMISE TO DEFINE “ABUSIVE”

FTC v CFPB

Acting Director of the Consumer
Financial Protection Bureau
(CFPB) Mick Mulvaney's stance

No more regulation through
enforcement actions



POLL QUESTION:

Do you think you have a good working definition of UDAAP?

- a. Yes
- b. No
- c. Not sure



NOTEWORTHY CFPB ENFORCEMENT ACTIONS IN 2018

- ✓ Only one major UDAAP enforcement action (Nov 2018 – Santander \$11.7 million)
- ✓ Other actions with third party implications
- ✓ Slower cycle of enforcement and guidance



LOOKING BACK AT A MAJOR REMINDER

Pay attention to the Consumer Complaint Database!

- The problematic conversion was brought to the CFPB's attention by the high volume of consumer complaints submitted directly on the website
- If there's a specific behavior being complained about repeatedly by consumers on the database, address it before the CFPB does
- Publicly available on CFPB's website

Customer service matters

- One of the main reasons UniRush got tagged was its failure to properly staff its customer service department after the conversion



POLL QUESTION:

Who is your prudential regulator?

- a. FDIC
- b. OCC
- c. FRB
- d. NCUA
- e. SEC
- f. State Agency
- g. CFPB
- h. Other
- i. Not sure



KEY COMPONENTS OF A SUCCESSFUL THIRD PARTY RISK PLAN

- ✓ Full coverage of the pillars
- ✓ Adequate qualified staffing
- ✓ Firm policy and program
- ✓ Full support of board and senior management
- ✓ Responsive to issues that arise
- ✓ Forward looking rather than “finding” new third parties



BEST PRACTICES 2019

- ✓ Stick to the basics – don't be influenced by regulatory uncertainty
- ✓ Study new regulations
- ✓ Be responsive to new regulations
- ✓ Invest in education and industry resources
- ✓ Continue to grow the maturity of your third party risk management
- ✓ Keep policy and program updated
- ✓ Use enforcement actions as a lens through which to view your business



THIRD PARTY REGULATORY GUIDANCE

FIL-49-1999

Bank Service Company Act

FIL-81-2000

Risk Management of Technology Outsourcing

FIL-22-2001

Security Standards for Customer Information

FIL-50-2001

Bank Technology Bulletin: Technology Outsourcing Information Documents

FIL-68-2001

501(b) Examination Guidance

FIL-23-2002

Country Risk Management

Outsourcing Technology Services

FIL-121-2004

Computer Software Due Diligence

FIL-27-2005

Guidance on Response Programs

FIL-52-2006

Foreign-Based Third Party Service Providers

FIL-105-2007

Revised IT Officer's Questionnaire

NCUA 08-cu-09

Evaluating Third Party Relationships Questionnaire

NCUA 2007-cu-13

Evaluating Third Party Relationships

FIL-44-2008

Guidance for Managing Third Party Risk

FIL-127-2008

Guidance for Payment Processor Relationships

FINRA Rule 3190

FINRA Regulatory Notice 11-14

Supervision of Technology Service Providers

FIL-3-2012

Managing Third Party Payment Processor Risk

CFPB 2012-03

Service Providers

OCC-2013-29

Guidance on Third Party Relationships

Federal Reserve SR 13-19/CA 13-21

Guidance on Managing Outsourcing Risk

FFIEC Social Media Guidance

FFIEC IT Handbooks

(esp Appendices E & J)

OCC-2017-7

Supplemental Examination Procedures for Risk Management of Third Party Relationships

OCC-2017-21

Frequently Asked Questions to Supplement OCC Bulletin 2013-29

NCUA SL-17-01

Evaluating Compliance Risk

OCC-2017-43

Risk Management Principles

SEC Statement on Cybersecurity

OCIE Observations from Cybersecurity Examinations



Questions & Answers

branan.cooper@venminder.com

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