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Third-Party Risk Management Best Practices for 2022

PRESENTED BY
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Venminder

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Session Agenda

1

Lessons and guidance learned in 2021

2

Predictions for 2022

3

Key aspects of a third-party risk management lifecycle

4

Best practices for 2022

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Third-Party Risk Management Lessons Learned from 2021

Cybersecurity should remain a top priority

Ensure that your vendors have adequate business continuity plans

Monitor your vendors' financial health

Stay informed of the regulatory environment

Consider the value of outsourced vendor risk management

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Cybersecurity Risks Are Prevalent

Third-party cybersecurity incidents have expanded at an alarming pace. According to a Kaspersky poll, 2021 has seen its share of third-party cybersecurity issues in 2021.

Of the organizations located in North America (459 companies), the following was found:

- 40% had incidents affecting suppliers that the business shares data with
- 38% had supply chain attacks
- 17% had incidents affecting IT Infrastructure hosted by a third party
- 15% had incidents affecting third-party cloud services used by the business

**These statistics are based on results from an online survey of 3,063 business representatives from organizations with at least 50 and up to 4,999 employees around the world. It was conducted in 2021 by Kaspersky and B2B International.*

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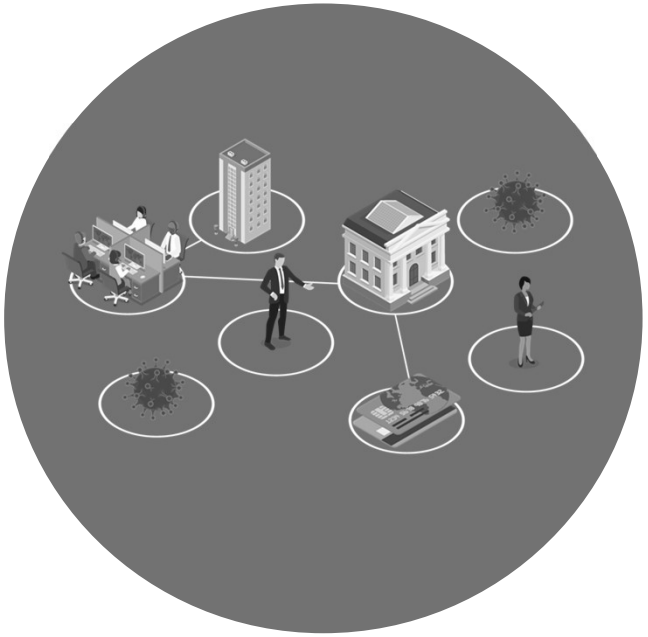
Business Continuity Is More Important Than Ever

Beyond the current ongoing impacts of the pandemic:

- The Atlantic hurricane season brought 20 named storms, four of which were Category 3 or higher
- California wildfires burned more than two million acres of land
- During winter storm Uri in February, hundreds of people died, critical infrastructures were impacted and financial losses exceeded $160 billion
- There have been over 300 labor strikes in the United States this year
- Shipping port congestions and trucking shortages continue
- Worker shortages are growing
- Emerging concern regarding COVID-19 vaccine effectiveness for Omicron variant



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Third-Party Financial Health Continues to Be Important

Here are some interesting statistics to think about:

- Ninety-nine percent of business in the United States are considered small businesses (<500 employees). *Source: census.gov*
- Twenty-two percent of respondents had less revenue than the previous year. *Source: census.gov*
- Twenty-eight percent of respondents said the pandemic had a large negative impact on their business and 40% said they experienced a moderate negative impact. *Source: census.gov*
- Small businesses are still struggling financially. Sixty percent stated they had some form of difficulty in paying business-related expenses, and roughly a quarter reported struggling to pay down loans or debt (26%), bills (25%), rent (25%) and employee wages (24%). *Source: Facebook, September 2021 survey of 35,000 small businesses*

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Regulatory Landscape in 2021

The regulatory landscape is changing…

- **March –** HIPPA changes to privacy rules to address pandemic related medical environments including telemedicine and testing sites, and penalties for non-compliance increase
- **June –** SEC issued first ever penalties for deficient cybersecurity practices
- **July –** OCC, FDIC and Federal Reserve Board of Governors announced Proposed Interagency Guidance for Risk Management (largely modeled off OCC Bulletin 29-2013)
- **August –** OCC, FDIC and Federal Reserve Board of Governors provided guidance to community banks conducting due diligence on financial technology companies
- **August –** FINRA reminded firms of their supervisory obligations related to outsourcing to third-party vendors
- **November –** CFPB Debt Collection Practices (Regulation F) was delayed until January 2022
- **December –** OSHA COVID-19 Vaccination and Testing; Emergency Temporary Standard

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Poll Question

How has the pandemic affected third-party risk management at your organization?

a. We have fewer resources
b. We are behind on annual risk reviews or due diligence
c. We are seeing fewer requests for new vendors
d. Other reasons
e. We had no changes
f. Not sure

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Consider the Value of Outsourcing Vendor Risk Management

- Third-party management programs tend to be understaffed.
- Due to the pandemic and shifting priorities, many organizations are behind on annual risk reviews and/or are backlogged on due diligence.
- There's no typical workday in third-party risk management. Varying workloads make it hard to plan for additional full-time employees (FTEs).
- Outsourcing is supported by the regulators, provided your organization understands it still owns the risk.
- Outsourcing can add bandwidth and improve cycle time for risk reviews and due diligence.
- Allows your team (even if that is just you) to focus on more strategic risk management activities instead of only administrative details.

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Third-Party Risk Management Predictions for 2022

- Finalization of interagency guidance
- Increased attention to ESG (environmental, social and governance) – no pending regulations now, but the pressure is on for regulators to push forward
- Enforcement actions and fines for poor cybersecurity practices
- Continued attention on cybersecurity and business continuity planning
- Potential for vaccine mandates in organizations with more than 100 employees – important as it relates to business continuity planning (e.g., potential worker strikes, other interruptions)

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Keys to a Successful Third-Party Risk Management Program

1

Keep your processes running smoothly like a machine

2

Fluid communication between associated teams

3

Shared databases and repositories

4

Good note taking and documentation

5

Follow the third-party risk management lifecycle

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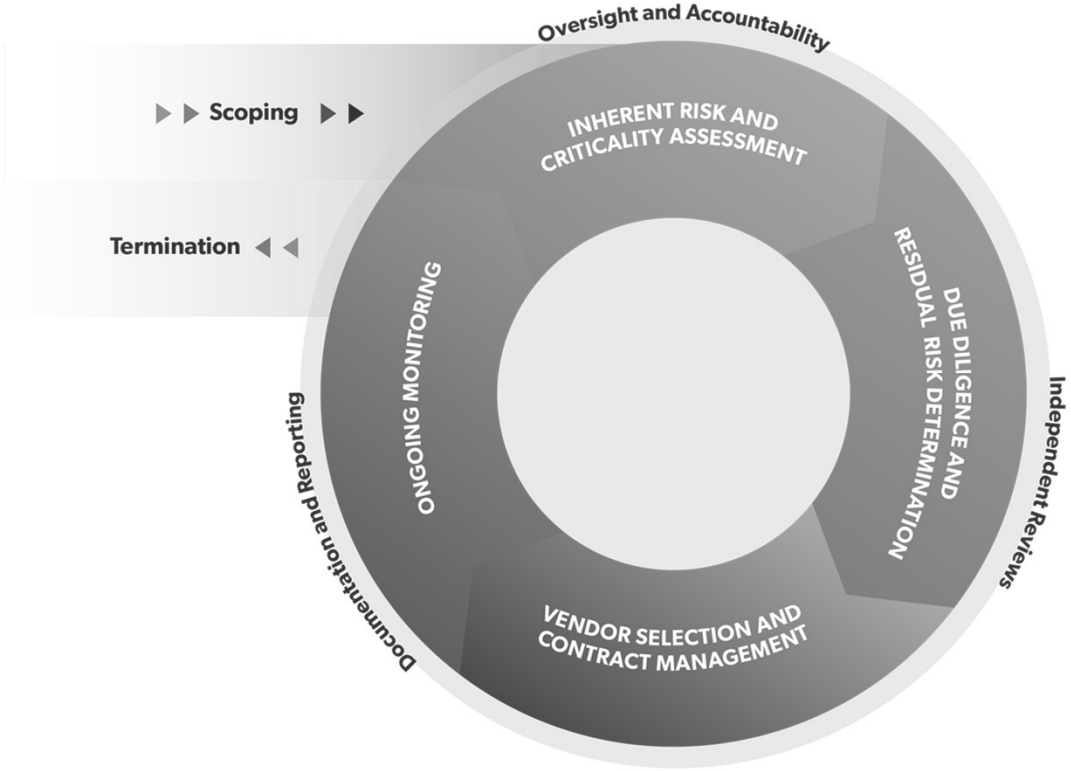
Third-Party Risk Management Lifecycle

- Documentation & reporting, oversight & accountability and independent reviews are peripheral to, but an integral part, of the third-party risk management lifecycle
- Determine the scope of relationships that should and should not be on your wheel and have a consistent way of filtering them



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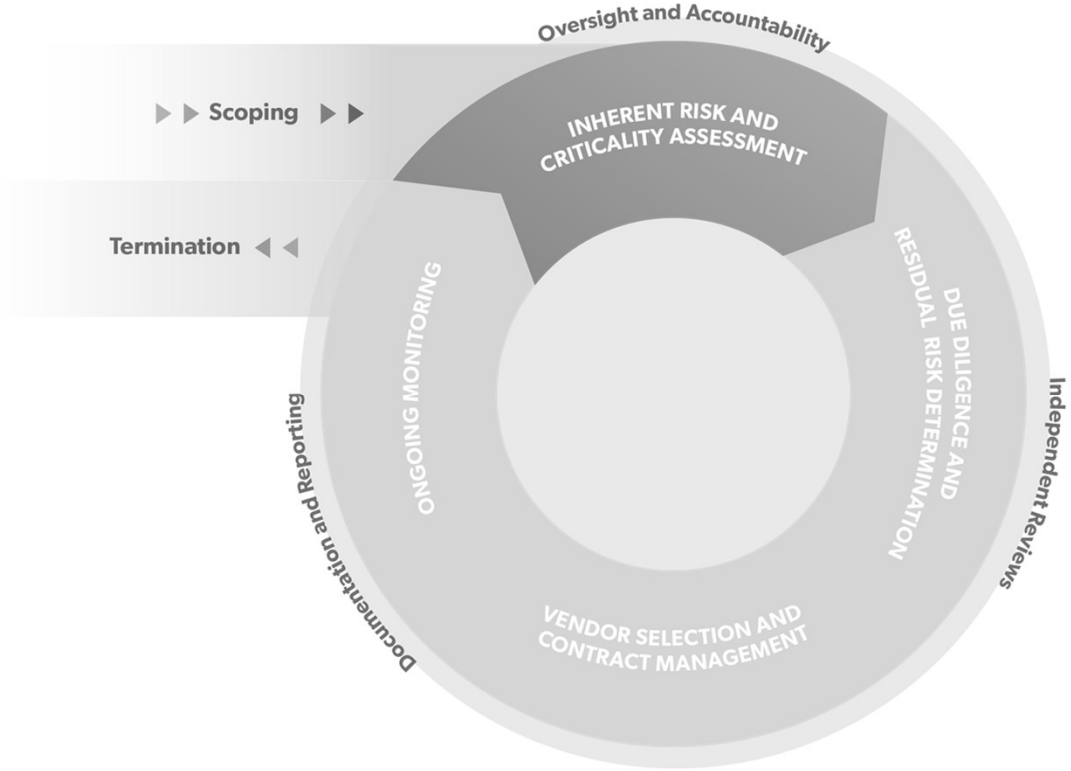
Inherent Risk and Criticality Assessment

- Understand the most amount of risk the engagement could pose and how critical the vendor is (or will be) to your organization
- A strong risk assessment process is vital to a comprehensive third-party risk management program:
  - In order to understand the risk a vendor poses your organization, you must understand the relationship
  - Evaluate all considerations of outsourcing



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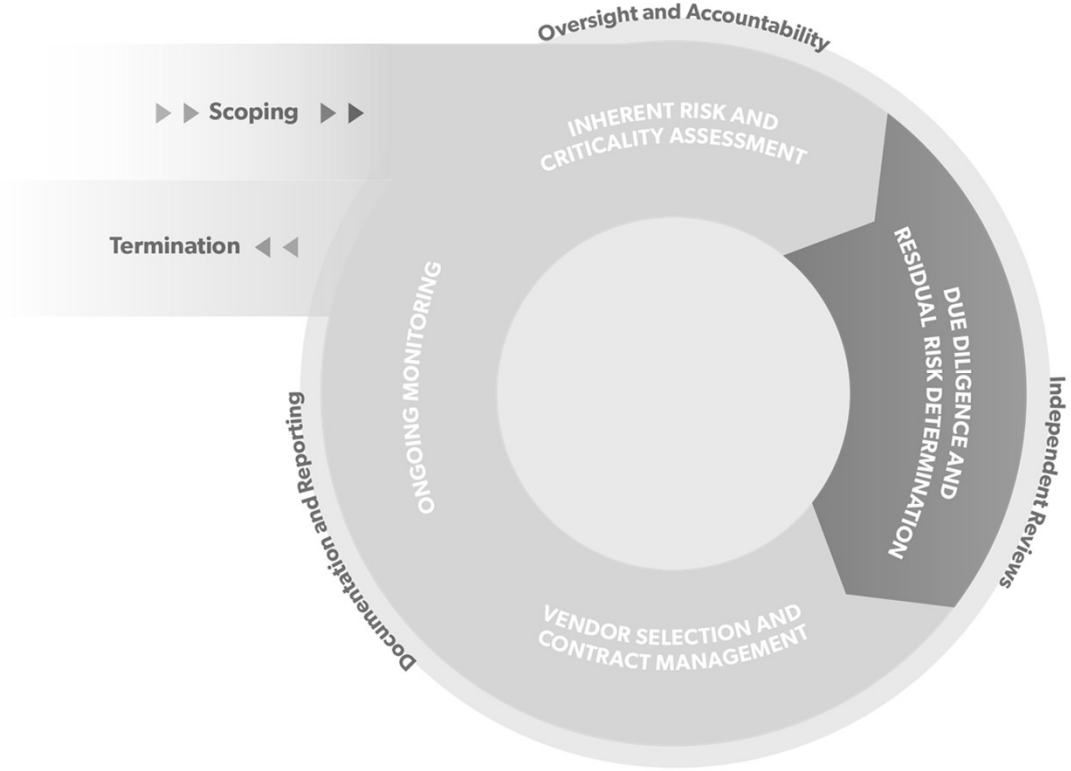
Due Diligence and Residual Risk Determination

- Collect, review and assess applicable vendor information and controls
- Determine the remaining risk
- Due diligence is one of the most important activities in third-party risk management:
  - Support RFPs
  - Conducted for new engagements and periodically for existing engagements



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Poll Question

Is your organization rethinking how it will review its vendors' business continuity management planning for 2022?

a. Yes
b. No
c. Not sure

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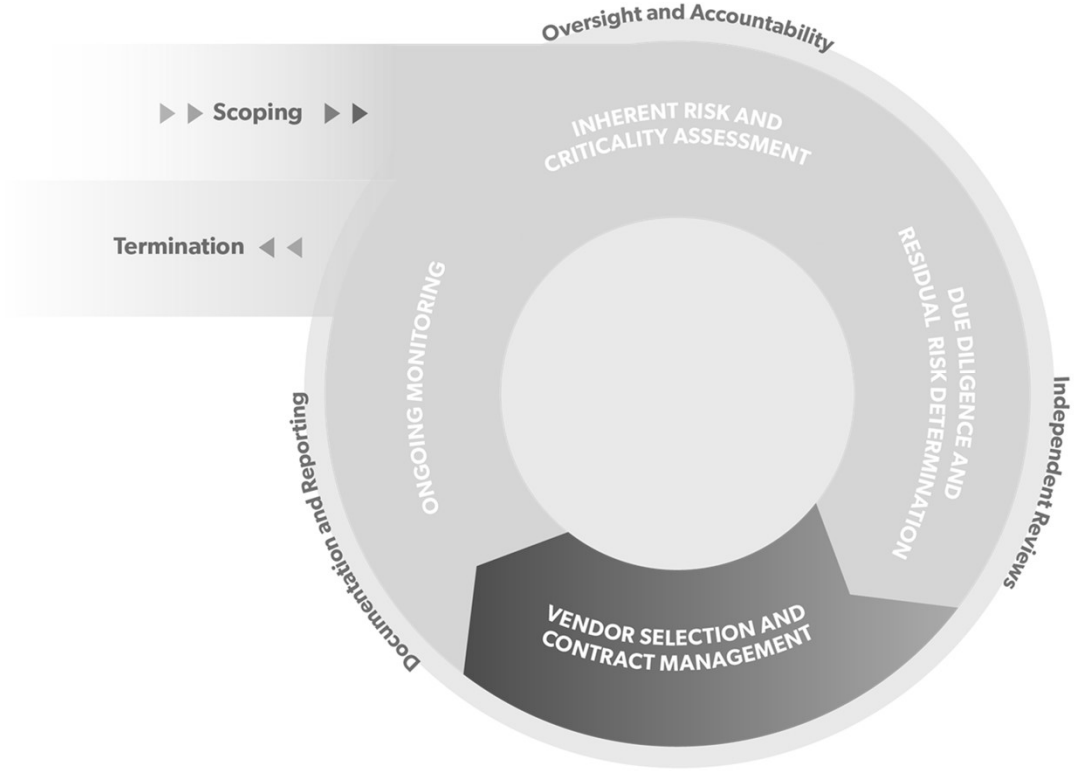
Vendor Selection and Contract Management

- Choose the best vendor and go through the process for administering sound written agreements with third parties:
  - Negotiation
  - Change Management
  - Ongoing Maintenance



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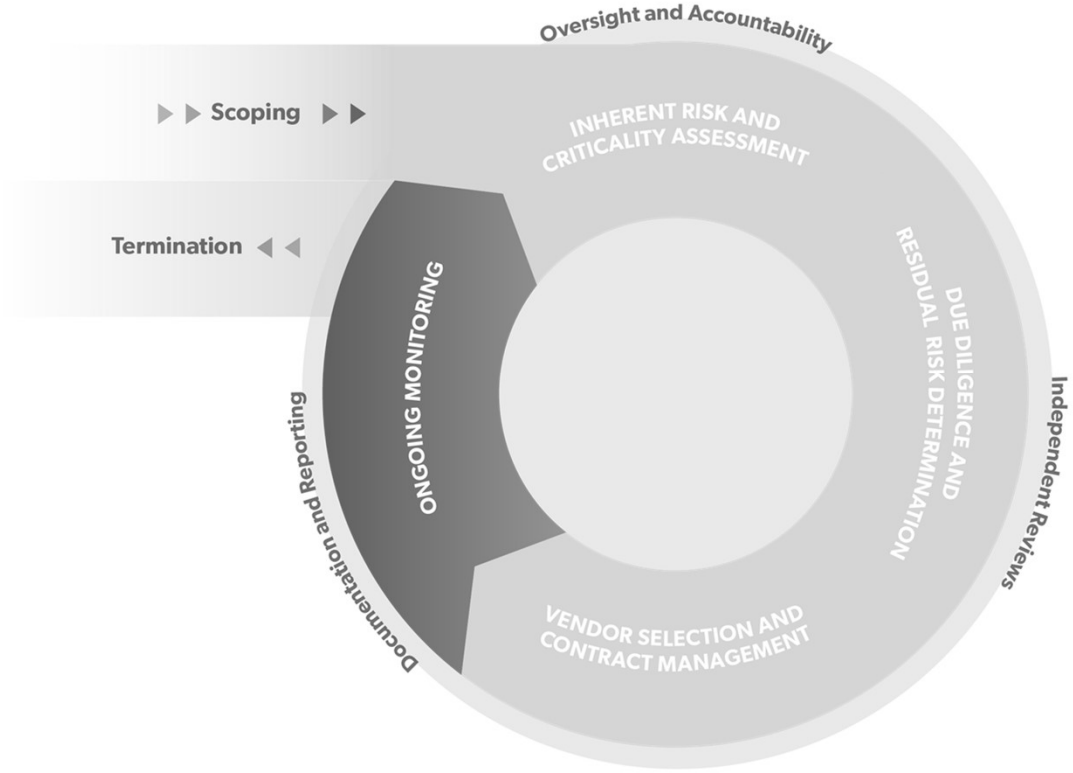
Ongoing Monitoring

- Keep current on a vendors' performance and risk profile throughout the engagement and continued periodic assessments:
    - Verify vendors still meet expectations
    - Identify areas of concern
    - Discover contract gaps, poor vendor trends and declining service levels



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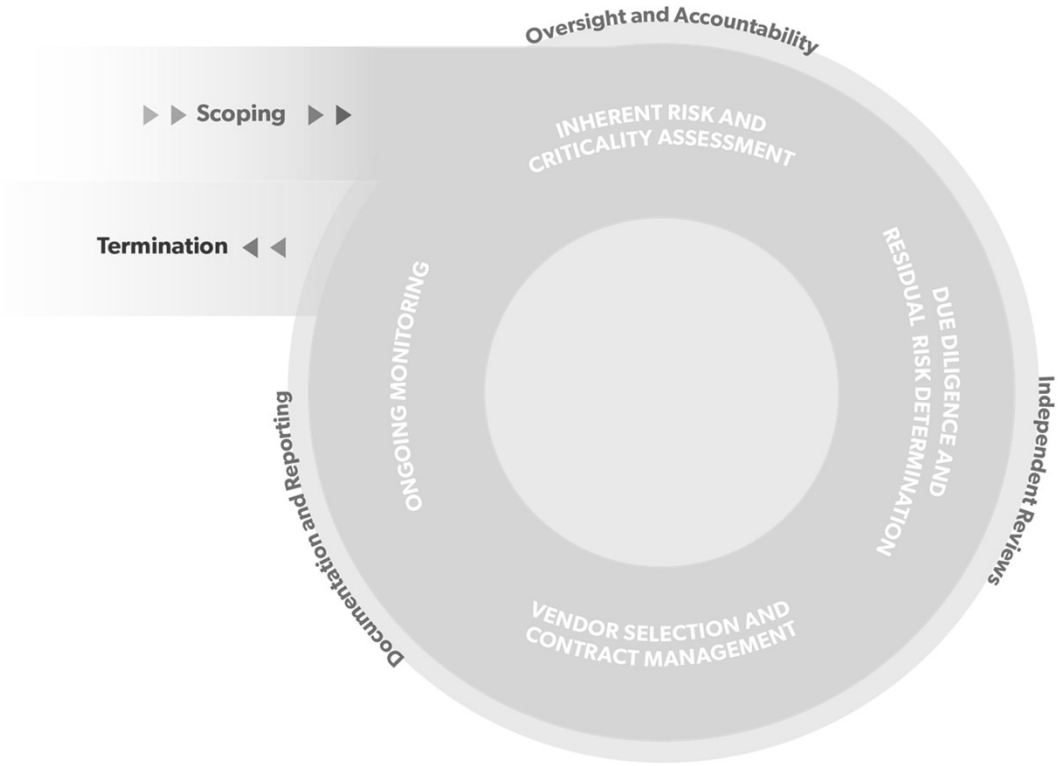
Termination

- If the vendor relationship has come to an end:
  - Verify exit strategy requirements are met
  - Notify the vendor of contract non-renewal



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Poll Question

How mature is your third-party risk management program?

a. **Mature**: Fully integrated TPRM processes across the company, strong governance, automated processes, full adherence to the lifecycle, industry best practices understood and adopted

b. **Managed**: Well defined framework and processes, most processes automated, improving oversight and governance, compliance varies by department

c. **Emerging**: Framework identified but not implemented, limited or no oversight or governance, manual processes, limited lifecycle application

d. **Beginning**: No formal processes, ad-hoc activity, minimal risk identification, focused on contracting

e. **Not Sure**

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Best Practices for 2022

1

Partner with your information security team to review and update your existing third-party due diligence questionnaires to ensure they reflect the current cyber risk environment.

2

Make sure your annual risk reviews are current, and yes, prioritize critical third parties.

3

Pay special attention to your third parties' business continuity and resiliency planning. Testing of the plan is essential.

4

Review your third-party insurance requirements, making sure that cyber insurance is a separate policy from general liability.

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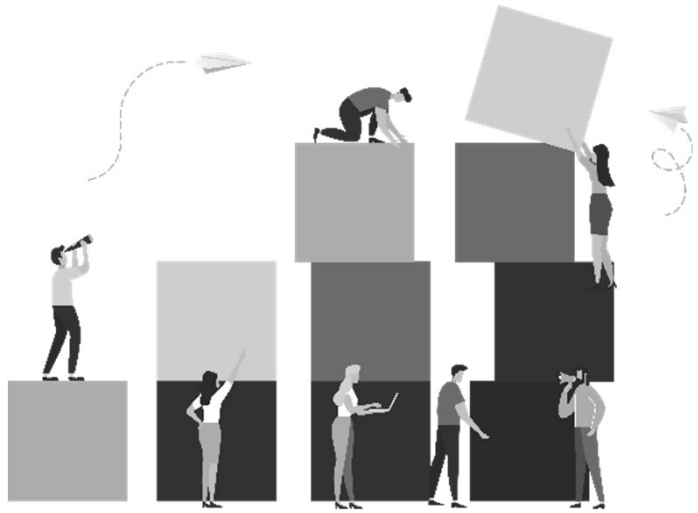
Best Practices for 2022

5

Subscribe to risk alert and monitoring services.

6

Take time to learn about the regulations affecting your industry and the laws that govern third-party relationships.



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