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How to Manage Fourth-Party Vendors

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Session Agenda

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Why fourth-party vendor risk management is important

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How to identify fourth-party vendors

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How to review fourth parties and manage the process

4

Fourth-party risk management best practices and tips

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What Is a Fourth-Party Vendor?

Contrary to the name, there is more to third-party risk management than just third parties – it includes fourth-party risk management.

A fourth-party vendor is one with which your third-party vendor has a direct relationship and you do not. Just as you outsource work to third parties, your third party may utilize vendors of their own to assist in the delivery of the product or service you're receiving, making them your fourth-party vendor.

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When Are Fourth Parties Relevant to You?

If there are fourth parties that could significantly impact your third party's ability to provide services to you, those fourth parties deserve your attention.

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4 Common Scenarios Where a Fourth Party Poses Risk

- **Data:** Your sensitive data is being accessed, processed, transmitted or stored by a fourth-party vendor
- **Continuity:** Downtime of the fourth-party vendor may affect your third party's ability to maintain their services which could ultimately impact services to your customers
- **Reputation:** If your third party has an impact on your organization's reputation, their fourth parties may also potentially impact your reputation
- **Compliance:** If your third party (and their vendors) fail to comply with applicable laws, regulations and regulatory guidance, your organization may face litigation, fines and enforcement actions

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Examples of Relevant Fourth Parties

Your Third-Party Vendor	Relevant Fourth-Party Vendor
Critical Software as a Service (SaaS) • This is perhaps a software you rely on to carry out a critical service to your organization • Your contract is directly with this organization	**The SaaS's Hosted Data Center** • The SaaS provider is hosted by a contracted data center • This data center is essential for your SaaS solution, therefore is equally critical to you as the SaaS provider themselves
Full-Service Marketing Company • You have a contract with a marketing company to manage the design and delivery of your marketing campaigns • The marketing company uses a variety of outsourced specialists to support your business	**The Marketing Company's Email Campaign Provider** • Marketing emails must abide by the CAN-SPAM Act • Your marketing dollars, not to mention your reputation, might be jeopardized if the email vendor doesn't perform as indented

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Poll Question

Does your organization actively manage fourth-party vendors?

a. Yes
b. No
c. Somewhat
d. Not sure

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How to Effectively Manage Fourth-Party Risks

First, find who your third-party vendor's fourth parties are by doing the following:

- Ask your third party to provide a complete list of all their vendors who may at any point have access to your data, or who are essential for their ability in providing services to your organization
- This should be done for both new and existing vendors as part or risk profiling

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How to Effectively Manage Fourth-Party Risks

Second, review your third party's vendor management program as part of due diligence and consider the following:

- What do they do?
- How effective is it?
- How can you monitor it?
- Does it meet your expectations?

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Due Diligence Questions to Ask Your Third Parties

To help you with managing your fourth-party vendors, there are due diligence questions you can ask your third-party vendor to learn more. The following is just a snippet of some:

- How often do you review fourth-party business continuity and disaster recovery plans to ensure they meet your organization's needs?
- Do you review fourth-party SOC reports?
- Do you ensure your fourth parties have policies in place for data retention, destruction, classification and privacy?

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How to Effectively Manage Fourth-Party Risks

Third, determine how the relevant fourth parties will be held accountable by asking questions like the following:

- Will the third party's vendor risk management process be enough?
- Will the fourth parties require any additional scrutiny by your organization?
- How should this be tracked and monitored internally?

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How to Effectively Manage Fourth-Party Risks

Fourth, when your third party's vendor risk management process meets your standards, do the following:

- Request evidence of specific vendor assessments that they've conducted on the fourth parties that are relevant to you
- Periodically review the fourth party's performance, if necessary

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Poll Question

How often does your organization review your fourth-party vendors?

a. Every 2 years
b. Annually
c. Semi-annually
d. Not sure
e. Other/None

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How to Effectively Manage Fourth-Party Risks

Fifth, always try to get it into writing.

The best protection against fourth-party risks is having the right contract terms in place:

- Be sure initial NDAs cover fourth parties
- Require that they must hold all service providers to the same standard as you're requiring in the contract
- Incorporate fourth-party details in "Right to Audit" terms
- Require your third party to notify you prior to engaging with a "significant" fourth party (as defined by you in the contract)

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Sample Fourth-Party Language for Contracts

The following are examples of fourth-party contract clauses that could be written into your third-party agreement:

- *"Neither party shall have the right to assign or subcontract any of its obligations or duties under this agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed."*

- *Vendor shall, and shall instruct all authorized users, to destroy all copies, whether in written, electronic or other form or media, all confidential information in its possession or the possession of such authorized users within X days following termination of this Agreement and will provide a Certificate of Destruction within X days."*

- *"Vendor represents and warrants that to the extent subcontractors or agents are used to perform the obligations under this Agreement, Vendor shall be liable for the performance and all actions and inactions by such subcontractors or agents to the same extent that Vendor would be responsible under the terms of this Agreement for such performance as if it had been Vendor's own performance, including, but not limited to intellectual property rights, infringement and breaches of confidentiality."*

Fourth-Party Risk Management from a Regulatory Standpoint

Regulatory examiners and auditors expect your organization to have an effective third-party risk management process. In turn, your organization must cascade those expectations to your third parties and validate that they utilize satisfactory risk identification, assessment, monitoring and management procedures with their subcontractors.

- Require your third party contractually, if possible, to provide evidence of vendor management processes
- At a minimum, work with your third parties to identify and document any subcontractors that support your critical processes, products or services
- Periodically audit your third parties' risk assessments, due diligence and monitoring results for those subcontractors that are essential to the delivery of your process, product or service

Managing Fourth-Party Information

Building a Database of Vendor Relationships

The Fourth-Party Database Shell:

- Create an inventory of your fourth parties that includes details about the product or service they provide to your third party
- When able, identify fourth parties that work with more than one of your third-party vendors
- Do your best to maintain data in a way that is useful and reportable

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Poll Question

Does your organization currently contractually obligate your third parties to notify you of any new business that could potentially have access to your customer's data?

a. Yes
b. No
c. Not sure

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What to Do If You Can’t Obtain Information

- Consider if an alternate document can be provided or your vendor can screenshare, if they’re not permitted to provide you physical evidence
- Challenge your vendor to find an acceptable solution in lieu of the requested information
- Document all reasonable attempts to obtain necessary information and keep notes about each request with a date and time stamp
- Escalate to senior leadership and keep any appropriate stakeholders informed, as necessary

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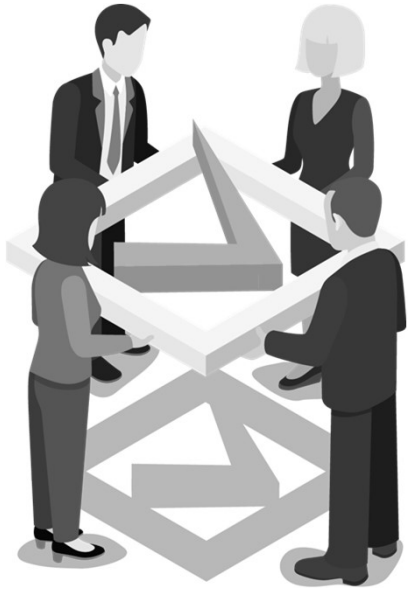
Fourth-Party Risk Management Best Practices and Tips

- Set expectations up front
- SOC assessment reports can sometimes provide good information on relevant fourth parties
- Wear your audit hat when reviewing your third party's vendor risk management processes
- Be proactive about staying in the loop



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Questions & Answers

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