



BEST PRACTICES TO

Minimize Vendor Risk

Third party risk management is constantly evolving. With changes usually comes adjustments in best practices to minimize risk.

Let's take a look at what we consider to be 24 of the current best practices to minimize vendor risk:

1 Develop and document a firm set of third party risk management practices – policy, program and procedures.

Be sure to revisit the documentation as guidance changes.

2 Require that your third party risk policy and program receive annual approval from the board of directors.

Your examiner will want to see the sign-off as well.

3 Define standards for selecting a new third party and ensure the business units understand their vital role.

Have a list of due diligence requirements that must be obtained and reviewed when vetting a vendor during the selection phase. Keep the business units informed at all times by outlining their roles in the procedures, continuing education and inviting them to meetings that can affect their roles and responsibilities.

4 Review your vendor list.

Understand your current vendor profile by requesting your vendor list from Accounts Payable and reviewing it on a regular basis. Ensure you have a firm understanding of who is actively managed and who is not – and note any reasons for exclusions – and who your critical, high, medium and low risk vendors are.

5 Create a robust set of due diligence procedures, coupled with well-documented analyses.

Ensure that your document collection is comprehensive and that the artifacts gathered are thoroughly analyzed by experienced subject matter experts (SMEs).

6 Involve SMEs from around the organization, or even externally, to help with the review of complex matters like business continuity plans and cybersecurity initiatives.

If you don't have a SME at your organization who can perform a thorough, well-developed review of a vendor's due diligence when necessary, outsourcing to a third party expert can often save time and guarantee work product that is high quality.

7 Assess the risk of doing business with each vendor, paying close attention to both the business impact risk and the regulatory risk implications.

The business impact analysis will determine if the vendor is critical or non-critical to the organization. The regulatory risk analysis determines if the vendor is low, medium or high risk based on criteria such as strategic, transactional, operational risk and more. It's important to understand both levels for each vendor.

8 Implement strong vendor contract management practices.

A good practice is to keep it centralized with accurate tracking of key dates and terms so that a renewal/termination notice period or important date is not missed.

9 Establish manageable and sustainable ongoing monitoring techniques tailored to the risk associated with the product or service.

Not all vendors are created equal. Due to this, it's imperative to no longer have a "check-the-box" mentality. Establish guidelines to monitor each vendor relationship that are unique to the product/service and the level of risk posed.

10 Update all vendor documentation on a regular basis.

Ensure that the frequency of updates is dictated by the level of risk represented by the specific product or service. Establish scalable processes for conducting a new risk assessment, ongoing monitoring/due diligence and contract structuring so that you can more easily make these updates.

11 Stay alert to changes in vendors.

Know when there is a departure of key management, slipping performance and increased complaints. These can all be early warning signs of problems.

12 Be on the lookout for inconsistent treatment or application of standards for vendors.

This is particularly important around performance or due diligence requirements.

13 Educate and inform front line management of the steps they need to be aware of for vendor management.

Be sure to include timelines and where the handoffs occur. Also, ensure that the roles and responsibilities are clearly laid out in the vendor management program documentation.

14 Maintain an open line of communication with the vendors.

This will help ensure they are forthcoming as issues arise.

15 Involve senior management and the board in regular updates and alert them to any changes in high risk or critical vendors.

OCC Bulletin 2013-29 encourages you to keep senior management and the board informed. In fact, it says they are responsible for overseeing the organization's risk management processes.

16 Develop a robust set of regular reports to detail all the activities of the vendor management program.

Strong reporting is extremely important to gain insight into operations. Not only will your lines of defense appreciate it, but so will senior management, the board, stakeholders and examiners.

17 Ensure that vendor management is on the regular internal audit schedule.

Just as any other key control function in your organization is reviewed on a scheduled periodic basis, vendor management should be included as well. Request your internal audit team perform a self-audit or, if you do not have your own internal audit department, enlist other departments, such as compliance, or help from an external audit firm to review your vendor management documentation.

18 Maintain adequate expert staffing on your team.

Do your research. Ensure you're hiring qualified candidates who are the best fit for your organization.

19 Use enforcement actions or other industry news as a lens through which to look at your own organization and its practices.

You can learn a lot about what to not do by looking at enforcement actions being issued to similar organizations. Additionally, it's encouraged to take a glance at the news on a daily basis to see if your organization appears, whether in a positive or negative light, so that you can be proactive in a prompt manner.

20 Stay abreast of changes in regulatory guidance and new consumer protection regulations.

Read the news, set up Google news alerts and be sure to deeply understand your industry's regulations.

21 Plan ahead.

Always consider seasonal activity, workload capacity and availability of key people with whom you need to engage. It's best to give yourself enough time to complete your tasks and to remember that vendors need ample time to organize and prepare any requests too.

22 Request assistance when needed.

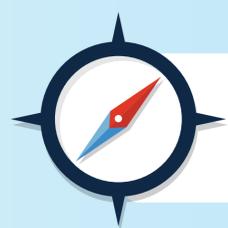
Sometimes help is needed and that is fine. It could be more budget dollars, maybe it's more staffing or maybe it's outside assistance from another organization. You'll never get the extra help you need if you don't take a chance and ask for it.

23 Continue to learn.

Attend webinars and conferences as much as possible. There are a lot of free resources available that can be very powerful tools. Simply reading the news is another way to keep on learning in the industry.

24 Get creative.

Be ready to get creative, when needed, to protect your organization. For example, if you can't get financials from a vendor, consider what alternatives you might have (e.g., meeting with their financial analyst, asking for an accountant's statement). In other words, don't settle for "no" too easily.



Doing these 24 best practices will **help ensure your organization and team is a top performer** in vendor management and in business overall.



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