IDENTIFYING Critical Vendors AND BEST PRACTICES

It's important to understand **who your critical vendors are** as they can have a significant impact on the organization should something go awry.

What is a Critical Vendor?

A critical vendor is a vendor who performs significant business functions or shared services.

It's a **critical vendor** when:

- The vendor could cause the organization to face **significant risk if the vendor fails to meet expectations**.
- The vendor could have **significant customer impacts**.
- It requires **significant investment in resources** to implement the third party relationship and manage the risk.
- The vendor **could have a major impact on the organization's operations** if the organization has to find an alternate third party or if the outsourced activity has to be brought in-house.

How to Identify Your Critical Vendors

In third party risk management, you take your vendor list and assign vendors to categories of risk. It's during this process where you figure out who your critical vendors are.

Risk is broken down into two fundamental categories – **Business Impact Risk** and **Regulatory Risk**.

Business Impact is the risk of disruption to normal operations because of the loss of a key vendor. This risk type determines if a vendor is critical or non-critical to the organization.

Regulatory risk includes an assessment of the various categories of risk – strategic, operational, reputation, transaction to name a few – described in the regulatory guidance. This determines if the vendor is high, moderate or low risk to the organization.

Your vendor will have a designation within each of these two risk categories. Keep in mind, it's quite possible to have a critical vendor that is low risk and a non-critical vendor that is high risk.

To further identify which vendors are critical, let's concentrate on Business Impact Risk. **Ask 3 simple questions:**

1. *Would a sudden loss of this vendor cause a material disruption to our organization?*
2. *Would that disruption impact our customers?*
3. *Would the time to recover normal operations be greater than one business day (or 24 hours)?*

If the answer to ANY of these is "YES", this vendor is critical from a business impact risk perspective.

An example of a critical vendor is the core processor. You are reliant on the company to be available and their disruption would disrupt your activities and impact your customers.

Best Practices to Monitor Critical Vendors

Once you've identified a critical vendor, be sure to consider the following best practices for monitoring:

Perform Deeper Due Diligence
The due diligence that needs performed on a vendor is determined by your organization's policy and is a case by case situation. For a critical vendor, you may need to perform certain reviews in addition to the standard expectations. For example, upon assessing the vendor it may be determined that a performance assessment or an onsite visit is necessary. Also be sure the vendor has the appropriate insurance to cover any material impacts caused by a disruption or breach of customer data.

Evaluate Contract Standards
You may need to include additional contract language that is specific to this third party relationship to protect your organization, such as key provisions around notifications if material changes occur at the vendor.

Carefully Review the Vendor's Business Continuity Plan
Look at the results of any testing and consider where your organization would need to bridge any potential gaps.

Review Fourth Parties
Know who the fourth parties are and consider if they will be contributing to your third party services. If so, do they have access to non-public personal information? This is important to know.

Have an Exit Strategy
Have this conversation with the critical vendor at the beginning of the relationship. If the vendor is responsive and reliable, they will be comfortable with having the discussion so that all parties are prepared should there be a sudden loss or a need to gradually unwind the relationship.

Critical vendors can bring a great deal of **additional risk** to your business but are also very important. Appropriately managing and mitigating the risk can make it a very healthy relationship.

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