

VENDOR LIST

Creation, Classification & Rating

It's a regulatory requirement and best practice to understand the risk associated with outsourcing a product or service, but what does this really mean?



1

Reach out to Accounts Payable

Request a list of your actively managed vendors. They should be able to provide a report that you can use to begin your evaluation.

2

Begin to bucket or group the vendors

Review the list and put each vendor into a category.

Here's a starting list:

- ✓ Processors
- ✓ Marketing Agencies
- ✓ Cloud Storage Providers
- ✓ General Service Providers
- ✓ And the list goes on...



HOW TO CLASSIFY YOUR VENDOR IN 4 STEPS

4

Evaluate each vendor's level of Regulatory Risk

If they are high, moderate or low risk to you.

3

Evaluate each vendor's level of Business Impact Risk

Decide whether or not the vendor is critical.

Business Impact Risk is defined as the risk of material disruption to your business or customers should the vendor experience a sudden loss.

If the vendor poses a business impact risk, you can conclude they are critical.

3 Important Questions to Ask to Determine If the Vendor Is Critical:

- 1 Would the sudden loss of this vendor cause a significant disruption to our business?
- 2 Would the sudden loss impact our customers?
- 3 Would the time to restore service without this vendor be greater than a business day?

If you answer yes to **ANY** of these questions then the vendor is **CRITICAL**

Regulatory Risk breaks the risk level down which ultimately gives you a risk rating of high, moderate or low.

Due to regulatory guidance, such as OCC Bulletin 2013-29 and Bulletin 2017-7, you must formalize questionnaires to assess the level of risk.

The most commonly cited in risk assessments include:

- ✓ Strategic Risk
- ✓ Operational Risk
- ✓ Reputation Risk
- ✓ Credit Risk
- ✓ Expense Risk
- ✓ Transaction Risk
- ✓ Compliance Risk

By grouping the vendor by product or service and then evaluating their business impact and regulatory risk, you are able to effectively classify your vendor.

It's important to understand that a vendor can be critical to operations but low risk, for example your telephone company, or non-critical to operations and high risk, such as a shred company. There is nothing wrong with a high risk vendor – in fact you need them to help manage your business; it's a matter of recognizing the risk and figuring out steps to mitigate it. These are great examples of why it's so imperative to understand the service or product type and both categories of risk.

How to classify your vendors

In order to classify your vendors properly, you should evaluate the product or service provided as well as the level of risk represented to your company.

Classifying each of your vendors based on product or service ensures that you're reviewing each vendor and not accidentally overlooking one. It's a good way to gauge the level of risk a vendor type may pose. For example, if your shred provider seems risky because they do not have a sufficient, well-developed data protection policy then you may begin considering other vendor options.

You've classified your vendors, so what's next?

Determine what attention you need to give them. If the vendor is critical or high risk you will need to verify the proper compliance clauses are within the contract, frequent monitoring is being conducted and due diligence is being evaluated often.

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