

BANK GOVERNANCE & REGULATION

Third Party Risk Management

Risks arising from third party relationships are a significant corporate and regulatory concern. The Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and other regulatory authorities have provided guidance on the responsibility of financial institutions to understand, manage and monitor their third party vendor relationships. These regulatory authorities have made vendor risk management a priority for financial institutions. Self-certification vendor management programs are generally no longer sufficient to meet regulatory expectations. Rather, a robust and active vendor monitoring program is the requirement.

While the regulatory focus has been ongoing, many financial institutions continue to struggle with the challenge of implementing an effective and cost efficient system to manage third party risk in today's complex, competitive and dynamic business environment. Additionally, financial institution boards are asking critical questions related to who their organizations do business with and the impact of vendor relationships on customers. Relevant questions include:

- Do we know the potential risks inherent in vendor relationships and how to mitigate them?
- What is the risk to customers if there is a privacy breach?
- What potential liabilities arise from vendor relationships and can they be identified and managed on a vendor-by-vendor basis?
- How would a loss of outsourced services or a breach of bank systems impact our ability to operate?
- Does the cost of managing/overseeing an outsourced function offset its benefit?
- Have we appropriately considered the potential for negative impact on our brand?

FTI Consulting helps clients answer these questions and comply with regulatory guidance and industry best practices, and implement monitoring and reporting systems to meet the needs of board members.

Who We Are

The FTI Consulting Bank Governance & Regulation practice consists of experienced professionals, including former senior managers at bank regulatory agencies and financial institutions, who have the expertise and experience to help clients effectively manage a broad range of regulatory compliance requirements. Our team consists of CPAs, CFAs, bankers, attorneys, economists, forensic specialists and other professionals with expertise in third party risk management, enterprise risk management, data analytics, information technology, and regulatory compliance, including Fair Lending, Anti-Money Laundering, Bank Secrecy Act,

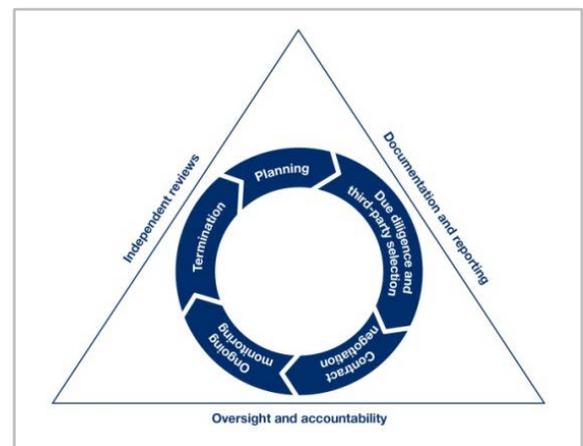
and Office of Foreign Assets Control regulations. Many of our professional staff previously held management positions with the Federal Reserve Board, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Housing Finance Agency, Security Exchange Commission, Department of Justice, States Attorney Generals or other regulatory authorities.

Meeting the Challenges

FTI Consulting has deep experience helping clients design and implement enterprise-wide risk management and compliance programs. Our approach considers regulatory requirements, existing client information systems and infrastructure, the unique needs of individual business units, and the availability and capability of client resources. We leverage existing client risk management and compliance systems, working collaboratively with clients to determine needs and provide actionable plans for achieving lasting results.

Figure 1: Risk Management Lifecycle:

Provided by the U.S. Office of the Comptroller of the Currency



To address third party risk management, we offer a set of core services to help clients implement the guidelines and requirements expressed in regulatory guidance including Federal Reserve SR 13-19, OCC BULLETIN 2013-29, and FDIC FIL-44-2008. Our services span the OCC third party relationship lifecycle (See Figure 1), and include:

- Establishing a Third Party Risk Management Program
- Conducting an Independent Third Party Risk Assessment
- Performing Due Diligence on Third Party Entities
- Integrating Third Party Risk Management into Enterprise Risk Management (ERM)
- Providing a Comprehensive Monitoring Program via the FTICOMPLY Software Suite.

Establishing Third Party Risk Management Program

Financial institutions often have a significant number of third-party vendor relationships that provide a wide range of services. Understanding, managing, and mitigating the risks associated with an entity's use of vendors requires a comprehensive risk-based program. Not only must clients conduct comprehensive due diligence in initially establishing a business relationship, but they must continuously monitor and re-evaluate each relationship in terms of its performance, cost, ability to manage risk, and compliance with contractual and regulatory requirements. Accordingly, a third party risk management program must include effective methods that enable both the enterprise and its vendors to operate efficiently. A well-designed program must consider how to manage, escalate and resolve issues and to accurately assess the impact from any incidents that occur. In addition, the third party risk management program must fit into the client's broader enterprise risk management objectives.

FTI consulting helps clients meet these objectives by assessing existing governance and capabilities, identifying gaps and developing plans for overcoming them, and implementing relevant governance and risk management processes. We typically provide recommendations regarding policies, automated and manual management processes, control systems, reporting, and inherent third party risks in existing and new contracts. In addition, FTI Consulting's FTICOMPLY software may be used to help clients achieve their third party relationship management objectives. (See sidebar FTICOMPLY.)

Conducting an Independent Third Party Risk Review and Assessment

For those clients with an existing third party risk management program, we can provide objective and clear insights regarding the effectiveness of the program relative to the requirements of regulatory guidance, including OCC Bulletin 2013-29. We examine each of the individual requirements expressed in the Risk Management Life Cycle: Planning, Due Diligence and Third-Party Selection, Ongoing Monitoring, Termination, Oversight and Accountability, Documentation and Reporting, Independent Reviews, and Supervisory Reviews. Our assessment includes actionable plans for addressing any gaps that are identified.

Performing Due Diligence

FTI Consulting helps clients perform due diligence across a wide range of situations that vary in complexity and scope. Our services include assistance with government inquiries involving third party relationships such as correspondent banks, marketing partners, payment and claims processors, joint ventures, credit/prepaid card program managers, telecom providers,

software companies, and customer support services among others. Our approach takes into account the importance of the service provided and potentially addresses a wide range of regulatory concerns, including strategies and goals; legal and regulatory compliance; financial condition; experience, reputation; fee structure and incentives; qualifications, risk management programs; information and physical security; human resource management; reliance on subcontractors; insurance coverage; and conflicting contractual arrangements.

Integrating Third Party Risk Management into Enterprise Risk Management

Third party breaches have had a profound impact on financial services firms. FTI Consulting recognizes that management, risk professionals, internal auditors and board members need to make timely decisions from available, often limited, information. Our team has extensive experience reviewing, assessing and implementing Enterprise Risk Management programs. We help clients by taking a holistic view of risk management to enhance current practices.

FTI COMPLY

FTI Consulting's FTICOMPLY is a web-based due diligence technology tool built to help financial institutions address their third party compliance needs in today's complex risk environment.

- Provides a systematic solution to due diligence, removing the uncertainty and inconsistent application of less structured approaches. Enables companies to manage third parties through a centralized, interactive and customizable web-based platform
- Includes a proprietary risk profiling methodology customized for various business models enabling entities to perform an appropriate level of due diligence for higher risk third parties, while limiting the cost and administrative burden for lower risk partners
- Tracks the results of risk-based due diligence efforts while maintaining related documentation to facilitate review and monitoring and meet regulatory expectations
- Allows for baseline due diligence to be conducted and continually monitors third parties with daily checks against a comprehensive database of global enforcement activity, watch lists, politically exposed persons (PEPs), and media coverage
- Enables banks to effectively and comprehensively monitor third party relationships.



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CRITICAL THINKING
AT THE CRITICAL TIME™

About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring.

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