

RISK Alert

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Alert Type

Awareness

Watch

Warning

Examining Vendor Management Risks

Credit unions work with numerous vendors and third-party providers to deliver products and services to their members. In fact, these third-parties often play an important role as you strive to become more competitive. But partnering with these vendors doesn't come without risk. Managing risks associated with these relationships is a critical aspect to maintaining a successful operation.

Recording / Slides Available: Listen to this Vendor Due Diligence webinar as our Risk Management Consultants discuss steps and potential miscues that occur when forming new third-party relationships or maintaining existing ones.

Details

Vendors play a key role in your organizational success. However, relying on vendors can also introduce added risk, and managing these relationships is important.

A best practice is to rank and evaluate vendors according to their criticality. "This determination should not just be made based on the amount of exposure a vendor has to sensitive information, but instead based on the criticality of the function it provides," suggests Jim Bullard, CUNA Mutual Group Senior Risk Consultant. "In other words, what would the impact be on the credit union and its members if this vendor disappeared tomorrow?"

When outsourcing services, the criticality of the service should be classified as:

- **Non-Essential** - No access to member PII and no access to the credit union's network (e.g., an office supplies vendor who never has direct access to your organization's facilities or information)
- **Significant** - Possible / minimal access to member PII and/or credit union's network (e.g., a networking consultant who is responsible for maintaining the internal network, which is important for operations, but only has intermittent access to some private information)
- **Critical** – a third party that has direct access to member PII and/or access to the credit union's network (e.g., a core provider or host, who is both responsible for private / customer information, and is vital to your operation)

As financial services grows more interconnected, complex, and specialized, it's increasingly common for your third-party vendors to rely on their own set of subcontractors or fourth parties. Senior Risk Consultant Carlos Molina points out, "Fourth parties are rarely under contract, so you may have no right to assess or even inquire with these parties directly. Your third-party vendors can change their vendors or subcontractors without notice, so keeping a complete inventory of your fourth parties might be impossible."

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Risk Category: Vendor Management; Due Diligence; Compliance; Internal Controls / Governance

States: All

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Examining Vendor Management Risks

The foundation of fourth-party management should be the contract suggested Molina. “Whenever you sign a vendor contract, you should understand the involvement of key fourth parties in the delivery of that contract, especially fourth parties that will store or process sensitive information or have direct contact with members.”

“Before you can feel completely confident in your vendors’ third-party risk management activities, you’ll need to examine their programs and make sure they’re performing due diligence on their own vendor relationships,” adds Molina. “If your vendor can prove that their program meets your expectations and adequately addresses risk, you can feel much more confident that fourth-party risk is under control.”

Not every fourth party presents equal risk, and you don’t need to name every fourth party in your inventory of vendor relationships. Both Molina and Bullard agreed that the inventory should include a short list of high-risk, mission-critical fourth parties. “These critical fourth-party relationships should come to light when you perform your initial due diligence on a vendor,” emphasized Molina.

Risk Prevention Resources

Access CUNA Mutual Group’s [Protection Resource Center](#) for exclusive risk and compliance resources (User ID and Password required).

- Vendor Due Diligence Webinar [Recording](#) / [Slides](#)
- [Vendor Management Risk Overview](#)
- [Vendor Due Diligence Contract Provisions](#)
- [Vendor Contract Provisions Checklist](#)
- [Vendor Performance and Reporting Overview](#)

Get up-to-the-minute information and proven guidance by taking in a live Risk Management webinar, office hours, or risk forum. Each session is focused on emerging risks and loss trends impacting credit unions and you gain actionable insights and resources that you can use. Check out the [2022 Risk Management Virtual Events Schedule](#).

Register Now! Two-hour Emerging Risks Forum (April 19, 2022 at 1 pm Central)

A panel Q&A discussion with several breakout sessions that you can select from. Topics will include litigation trends, cryptocurrency & FinTechs, banking marijuana business, and business email compromise fraud & scams.



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