Office of the
Comptroller of the Currency

BITS Presentation
Third-Party Relationships: Risk Management Guidance

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OCC Speaker Background

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Third-Party Relationship

Broadly defined: A third-party relationship is any business arrangement between the bank and another entity, by contract or otherwise.

Generally, this does not include customer relationships.

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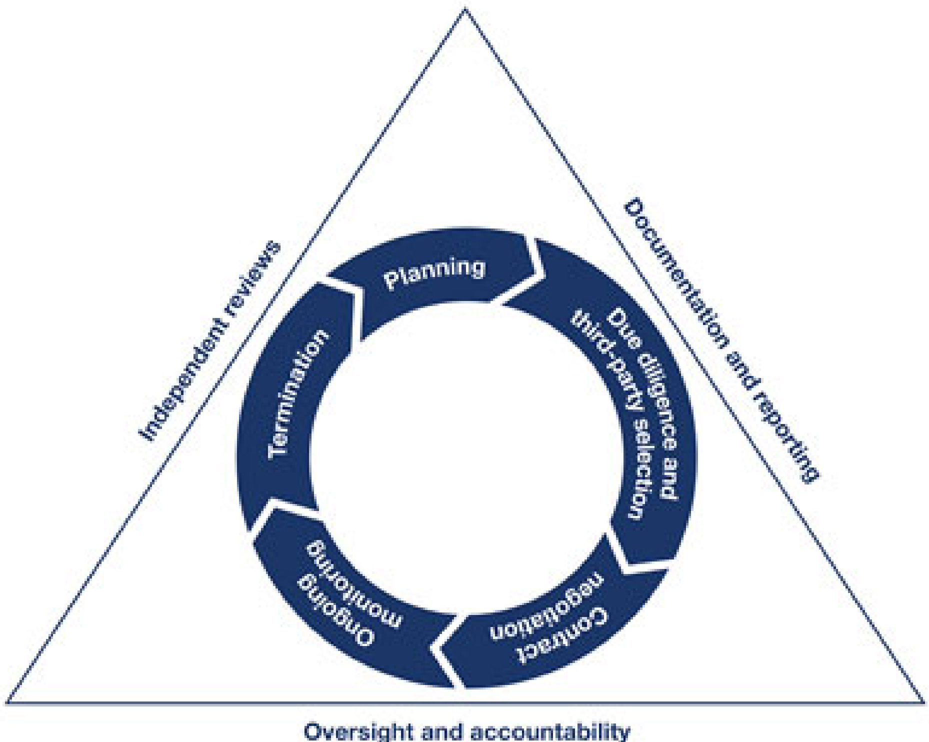
Third-Party Relationships: Risk Management Guidance

- ***Risk management practices for third-party relationships involving critical activities***

- ***Risk management practices throughout the lifecycle of a third-party relationship***

- ***Expectations for board and management oversight that include periodic, independent reviews of the bank's third-party risk management function.***

Third-Party Risk Management Lifecycle



Source: OCC

Phases in the Lifecycle

Phase	Description	Guidance
Planning	Management planning is the first step in the lifecycle, particularly when critical activities are involved	Discusses what the management plan should address
Due Diligence and Third Party Selection	In-depth review of potential third parties prior to final selection and contract negotiation	Discusses the key factors to consider when conducting third-party due diligence
Contract Negotiation	Establishes responsibilities and performance requirements	Discusses key factors the contract should address
Ongoing Monitoring	Monitoring of performance and compliance throughout the duration of the contract	Discusses key areas of consideration in ongoing monitoring
Termination	Plans to cease the activity, bring the activity in house or move to another third party at the end of the contract or when circumstances warrant	Discusses what a termination plan should cover

OCC Supervision

- Examiners will assess the bank's ability to oversee and manage the risks of its third-party relationships.
- Examiners will consider the findings when assigning the management component of CAMELS and assessing the bank's overall risk profile, and will incorporate into the Risk Assessment System.
- When circumstances warrant, the OCC may use its authority to examine the third-party service provider.

Key Takeaways

- Bank management needs to practice effective risk management regardless of whether the bank performs the activity internally or through a third party and must be knowledgeable of the outsourced activity.
- Adopt risk management practices that are commensurate with the level of risk and complexity of the third-party relationship.
- Ensure robust oversight and risk management of relationships involving **critical activities**.
- Adopt an effective risk management process that follows the third-party relationship through its lifecycle.