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Mutual Alert

Agencies Issue Proposed Guidelines for Risk Assessment of Third Party Vendor Relationships: Recognize Opportunities for Collaboration.

The Federal Banking Regulatory Agencies issued a proposed Interagency Guidance on Third-Party Relationships on July 19, 2021. The proposal invites comment on proposed guidance on managing risks associated with third-party relationships. The proposed guidance "would offer a framework to consider in developing risk management practices for all stages in the life cycle of third-party relationships that takes into account the level of risk, complexity, and size of the banking organization and the nature of the third-party relationship. Notable for mutual institutions is the Proposed Guidance codifies various advice given in the past for collaboration and cost-sharing among banks using like products and services, to meet certain goals such as due diligence or contract negotiation. Mutuals using similar services may form user groups, to facilitate knowledge-sharing, increase negotiating power, and relationship management. They can create standardized procedures and tools to manage, assess risk, and engage with third party vendors. Although, collaboration is an effective tool for risk management and cost-sharing, the guidelines emphasize that collaboration may not be sufficient in meeting internal protocols or external regulations. The increasing complexity of technology for financial companies and the various subcontracting relationships have created significant challenges for determining the proper scope of vendor diligence. This proposed interagency guidance represents an effort to standardize supervisory approaches to digital products particularly such as the use of technologies involving the block chain, the cloud and cryptocurrencies.

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