



# 3<sup>RD</sup> PARTY RISK MANAGEMENT

October 31, 2024



# AGENDA

---

- ✔ Overall Considerations
- ✔ Third Party Relationship Life Cycle
- ✔ Risk Management
- ✔ Governance
- ✔ Group Exercise & Discussion
- ✔ Resources



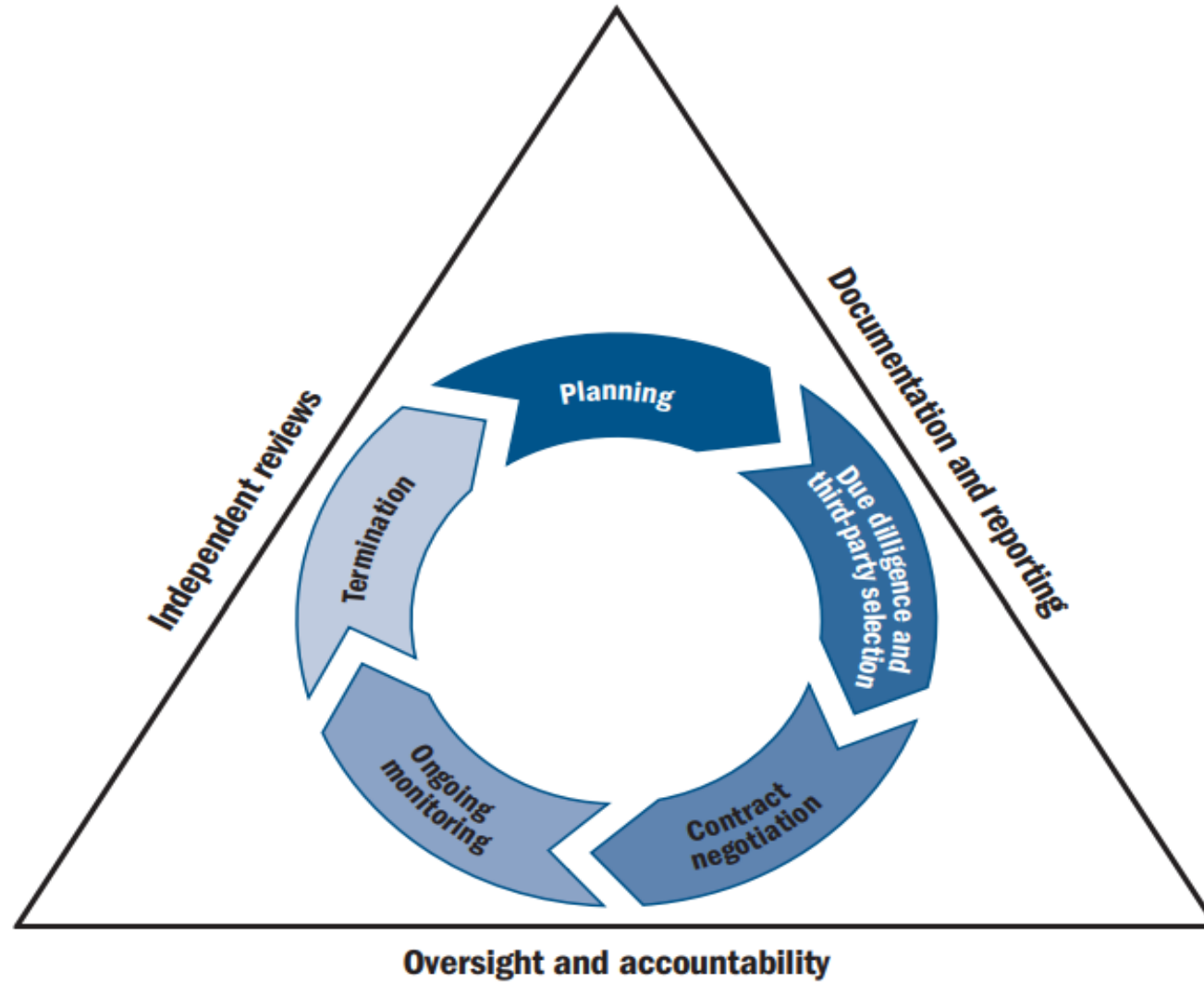
# OVERALL CONSIDERATIONS

---

- Different practices performed throughout third party relationship life cycle
- Risk management commensurate to activity risk, complexity, size and risk profile
- “Critical activities” represent:
  - Significant risk if third party fails to meet expectations/obligations
  - Significant customer impacts
  - Significant impact on Bank’s financial conditions or operations
- Special focus on fintech relationships

# Third Party Relationship Life Cycle

---



# Risk Management Factors

---

- Strategic Plan/Objective(s)
- Risk Appetite
- Activities Performed
- Legal/Compliance Requirements
- Risk Assessment (Cost/Risks vs Benefits)
- Bank Expertise
- Assignment of Responsibilities
- Contract Negotiations



# Governance Factors

---

- Financial Impact (Originate & Maintain)
- Performance Cost/Risks vs Benefits
- Benchmarks for Measuring Performance
- Integration vs Augmentation (Physical & IT)
- Customer Interaction
- Management & Oversight Resources
- Exit Strategy



## American Riviera Bank's Core System Conversion

---

- A key driver for considering change was ensuring our ability to execute on our strategic goals
  - Improved Core functionality and Digital Integration.
  - Single vendor/consolidation
  - More vendor R & D investments (12% of revenue)
  - Faster adoption of Emerging Technologies and ability to scale
  - Reduced Audit Complexity and Costs (21% cost save)
- An extensive review of existing system/platform capabilities revealed limitations
- We articulated critical requirements for a new technology partner:
  - Ability to deliver market leading technology; emphasis on digital
  - Open API environment to allow for “best of breed” architecture; if required
  - Tight/seamless integration
  - Safety and Soundness
  - Quality Support and Service
- We explored the pros and cons of a short list of vendors, including anticipated timeline, contract terms, service levels, and financial impact. 21 team members involved in decisioning process, 24 months to plan.

# Lessons Learned...so many!

---

- Significant risks exist with change. HOWEVER, different but equally significant risks manifest from a culture of change avoidance.
- Negative impacts of change should be anticipated and eliminated as much as possible through effective planning, communication, collaboration, and analysis.
- No matter the amount of preparation or the result, core and digital banking platform conversions are without a doubt the most difficult projects banks can undertake. See bullet #1.
- We experienced challenges with overly aggressive timelines, vendors, training (internal and external), customer migration, outsourced customer support services, & third-party integrations (TCRs and instant issue debit card printers)
- The migration process of Legacy “port” linkage with personal and business accounts should be fully understood prior to conversion.
- **Perfect is the enemy of good.** Insistence on perfection often prevents implementation of good improvements.



# Group Exercise

---

The Bank wants to use a third party to perform its loan origination decisioning.

What considerations would you make regarding:

- Entity risk assessment
- Due diligence factors
- Contract clauses
- Success measurements
- Performance measurements
- Monitoring / Oversight / Accountability

# RESOURCES

---

## Third Party Risk Management: A Guide for Community Banks

<https://www.occ.gov/news-issuances/news-releases/2024/pub-third-party-risk-management-guide-for-community-banks.pdf>

## Interagency Guidance on Third-Party Relationships: Risk Management

<https://www.federalregister.gov/documents/2023/06/09/2023-12340/interagency-guidance-on-third-party-relationships-risk-management>

## Joint Statement on Banks' Arrangements with Third parties to Deliver Bank Deposit Products and Services

<https://www.occ.treas.gov/news-issuances/news-releases/2024/nr-ia-2024-85a.pdf>

## *Conducting Due Diligence on Financial Technology Companies: A Guide for Community Banks*

<https://www.fdic.gov/sites/default/files/2024-03/pr21075a.pdf>



**WOLF**  
& COMPANY, P.C.

© Wolf & Company, P.C. | Member Of ALLINIAL GLOBAL, An Association Of Legally Independent Firms