



Vendor Due Diligence

a Risk & Compliance Solutions Webinar

A vendor relationship involves more than just signing on the dotted line.

Today's Expert Panelists



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What's On Tap?



Vendor Management Policy



Ownership / Responsibility



Outsource vs. In-house



Due Diligence & Contracts



Measuring, Monitoring & Controlling Risk

and more ...

Vendor Management Program

- Scope
- Risk & Criticality Assessments
- Due Diligence
- Vendor Selection & Contract Management
- Monitoring
- Termination & Exit Strategies
- Executive Management / Board Support





Vendor Management Policy Components

- Policy Statement
- Purpose
- Responsibilities
- Risk Assessment Process
- Vendor Classifications
- Risk Categories
- Due Diligence Requirements
- Contract Review
- Monitoring

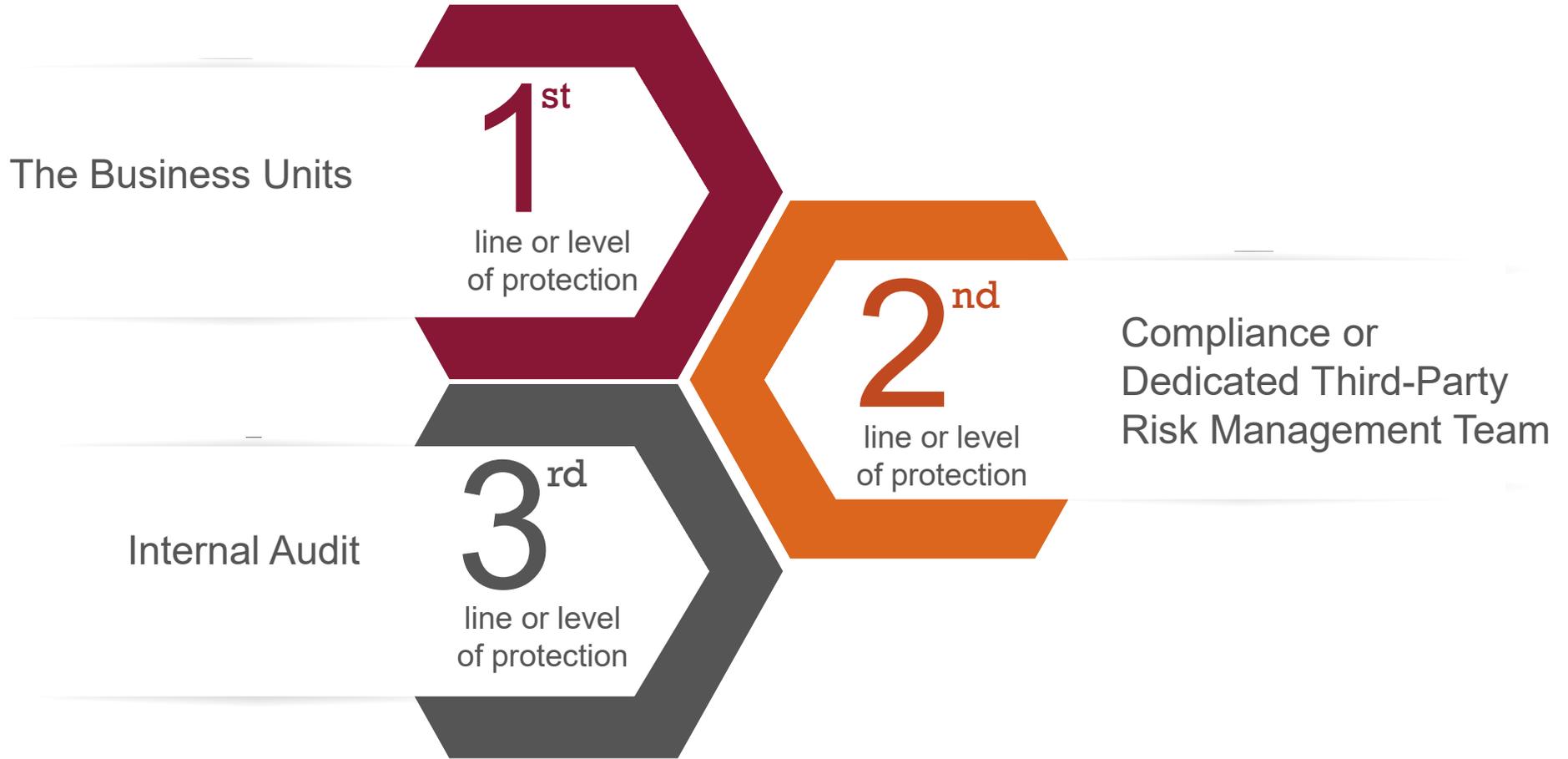


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Who owns the vendor management process?

”

Vendor Management Ownership



Best Practices for Relationship Owners

Strong internal knowledge of subject matter

Decision-maker or access to a decision-maker

Outsource to a vendor management service

Clear focus of credit union strategy



Financial Review



Insurance Coverage



Customer Experience / Complaints



Business Continuity Plan /
Disaster Recovery Testing Results



SOC Audit & IT Audit Reports



Contract Documentation



Prior to vendor onboarding

When executing a contract...

- Ensure the contract clearly defines the rights and responsibilities of both parties;
- Ensure the contract contains adequate and measurable service level agreements;
- Ensure contracts with affiliates clearly reflect an arms-length relationship and costs and services are at least as favorable to the credit union as those available from a non-affiliated provider;
- Choose the most appropriate pricing method for the financial institution's needs;
- Ensure the contract does not contain provisions or inducements that may have a significant, adverse affect on the institution;
- Engage legal counsel to review the contract

Remember who created the contract form and who will benefit.



A woman with glasses and curly hair is smiling and gesturing with her hands while talking to another woman in an office setting. The background shows a window with a city view. A large, semi-transparent white circle is overlaid on the image, containing the text and quotation marks.

“

Are there any deal-breakers
that we should look out for?

”

Contractual Provision Considerations

Mandatory

- Scope of Service
- Performance Standards
- Schedule & Price
- Standard of Care
- Limitation of Liability
- Waiver of Consequential Damages
- Mutual Indemnification
- Security and Confidentiality
- Warranties
- Business Resumption / Contingency Plans

Nice-to-Have / Situational

- Vendor Personnel
- Notice of Breach
- Opportunity to Cure
- Reports, Records, Access, and Right to Audit
- Vendor Insurance Minimums
- Independent Contractor Relationship

Heightened Risk / Deal Breakers

- Legal Compliance
- Regulatory Requirements
- Force Majeure Exception (e.g., Covid-19)
- Performance / Key Deliverables



Vendor Risk Classification

Non-Essential

No access to member PII

No access to
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

Access to member PII

Access to 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

Performance Standards

- Monitoring compliance of contractually-agreed upon KPIs and SLAs
- Identifying areas where the vendor is not performing to expectations
- Partnering with the vendor to resolve low vendor performance
- Benchmarking the vendor's performance against similar vendors
- Resolving poor performance trends before they impact productivity
- Partnering with the business unit(s) to ensure they are engaged with and utilizing the vendor's services



A woman with long brown hair, wearing a white button-down shirt, is looking towards a man in a grey shirt who is partially visible on the right. They appear to be in a meeting or office setting. A large, semi-transparent white circle with a maroon border is overlaid on the image, containing text and quotation marks.

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What suggestions do you have for third-parties that won't negotiate?

”

Negotiation Tips

- Get a copy of the contract as early as possible
- If the language works, keep using it
- If changes are agreed to, make sure to put them into the contract
- Nothing sacred about “boilerplate” language
- Contract renewal may mean vendor re-selection
- Understand your bargaining position
- Changes often require “legal” review by vendor which can add cost, delay
- Price and Term are usually negotiable
- Insist upon a clear contract statement of what the Product/Service is and is expected to do
- Privacy and Data Security must meet Minimum Compliance Standards
- Always be prepared to walk away

Stages of a Mature Vendor Management Program

1

Compliant

directed toward compliance with regulation and laws

2

Collaborative

aims to drive more engagement and opportunities for cost savings and opportunity

3

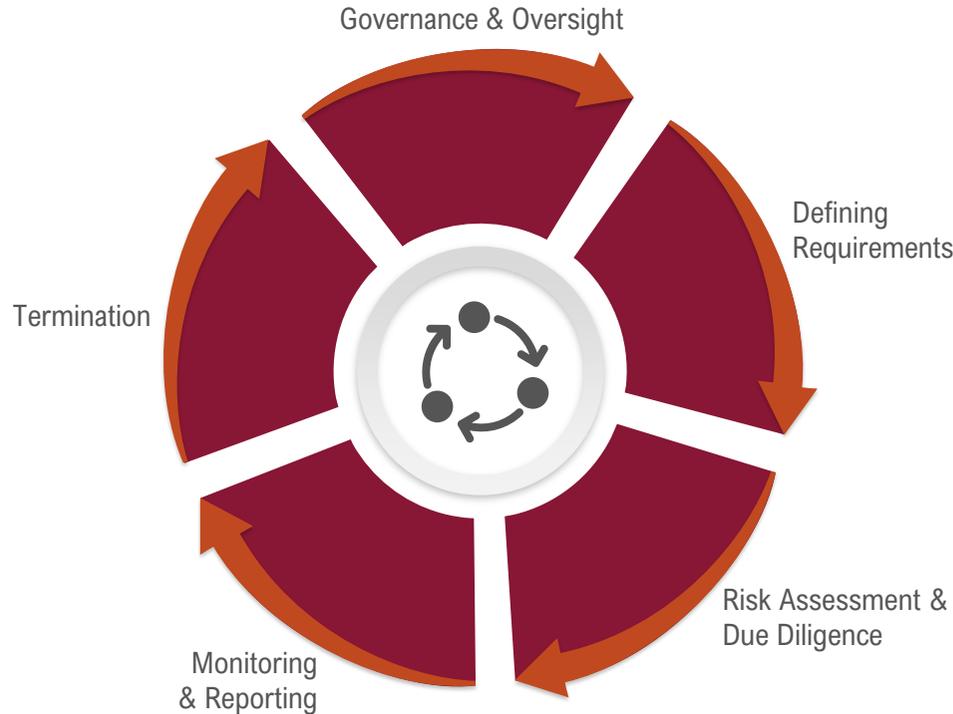
Strategic

relationships grow into strategic partnerships leading to additional growth, service and innovation

The goal should be to adopt an approach that is beyond simple compliance, that enhances vendor management capabilities within the credit union and maximize key vendor relationships

Key Elements for Mature Vendor Management Processes

The effectiveness and sophistication of a credit union's vendor management will depend on how they assemble and develop these elements



Decentralized

- Different vendor management teams per line of business
- Greater flexibility for individual line of business
- Misaligned objectives, distributed decision making

Centralized

- Management is consolidated, line of business responsible for execution
- Clear decision-making authority
- Lack of lob area knowledge leads to fractured strategies



Continuous vendor management improvement

Factors of effective measurement

- Performed timely
- Metrics are appropriate for the vendor type and credit union line of business
- Key stakeholders are engaged
- Aligned with service levels defined in contracts
- Establish improvement plans and actions

Examples of performance metrics

- Percentage or number of SLA nonconformance
- Escalation issues
- Price variances from contract
- Negative news or internal risks reported per quarter



“

How should credit unions
handle fourth-party risks?

”

Examining Fourth Party Risk Issues



Fourth party outsourcing risks to consider.

Outsourcing Risks

- Financial
- Strategic
- Reputation
- Geolocation
- Credit
- Quality

Possible Implications

- Difficulties or failures
- Misalignment with objectives
- Brand / organizational impacts
- Consent orders, fines and penalties
- Sanctions due to country
- Inability to make payments
- Inability to deliver in line with SOW specs

Service-Level Risks

- Cyber
- Compliance
- Legal
- Intellectual Property
- Privacy
- Contractual
- Operational
- Resiliency

Can Result In

- Impacts to confidentiality, integrity or availability of information / services
- Non-alignment with standards / frameworks
- Failure to meet contract obligations
- Failures that impact operations
- Inability to provide services

A Fourth Party is your vendor's third party or subcontractor and is vulnerable to the same risk as your third parties.

Continuous vendor management improvement

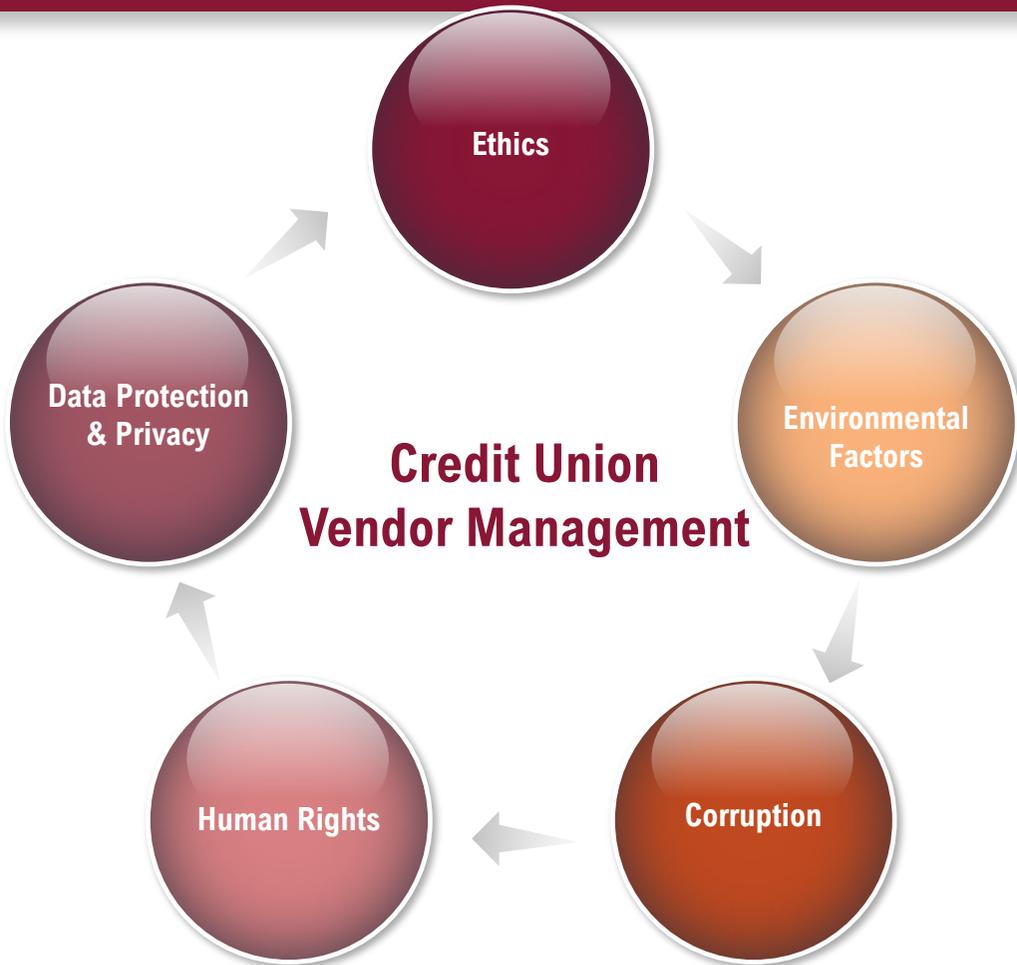
Risk Indicators

- Are all the mission critical third parties with fourth parties identified and risk assessed during the third-party selection phase?
- Are all parties that touch sensitive data identified and a risk assessment performed prior to gaining access?
- Are all parties that are consumer-facing (direct contact, mail/email or systems) identified prior to gaining access to the credit union's consumers?
- Do contracts define roles and responsibilities, including monitoring of specific risk factors and compliance with regulations?

Mitigation Tips

- Fourth party SLAs or contract template(s) that include requirement of a risk management program comparable to the outsourcer's third-party risk area requirements
- Automated collection of publicly accessible data (news, data collection and reporting agencies, management dashboard tool providers, etc.) that divulge fourth party relationships, even if the third-party provider has not divulged those to the outsourcer
- Security Information and Event Management (SIEM) documentation demonstrating follow through of reported material event(s)

Why ESG Factors Matter...



Help examine how an organization contributes to and performs on environmental, social, and ethical challenges, and the overall governance of the organization.

The vendor management program goal is to build greater understanding, vision, and insight into the extended enterprise and align the credit union's strategic and operational goals with any ESG initiatives



CUNA Mutual Group

Risk & Protection Response Center



800.637.2676

Select you're a credit union,
then choose option 4



riskconsultant@cunamutual.com



[Ask a Risk Manager](#) interactive form

Facing risk challenges?

- Protection Resource Center
- RISK Alerts – **Warning** ♦ **Watch** ♦ **Awareness**
- RISK Alert Library
- Risk Insider: Emerging Risks
- Loss Prevention Library (risk overviews, checklists)
- On-Demand Webinars & Training Modules

“Great webinars - serious, important information delivered in a relaxed, ‘we’re among friends’ way.”

\$9B credit union

Vendor Classification

When outsourcing services, the critically of the service should be classified. Using numerical classification method (shown below) can identify the risk level of outsourcing services. “Low” risk suppliers typically moved to the approval process with no further action, to be re-evaluated when conditions change. “Medium” risk third parties generally qualify for an additional due diligence deep-dive to provide more detail analysis of the risks identified. By having a clear process, you can substantiate and document the risk behind what third parties are selected for closer analysis.

Answer each question with only one response and related score per row. Enter the points in the last tally the scores after completing all questions. Total scores falling within 0-7 points are considered Moderate, and 16-21 High.

Question	+0	+1	+2	+3
Q1 Will the vendor have access to member / employee data?	No		Yes – access to non-PFI	Yes – Access to member record
Q2 Will the vendor have access to the credit union network?	No		Yes – limited access	Yes – access
Q3 Will vendor interact with members?	No	Minimally		
Q4 Will member service be affected if the vendor fails to perform as agreed?	No	Minimally		
Q5 Will the outsourcing of this service be seamless to our members?	Yes	No, with minimal disruption		
Q6 Will the vendor be outsourcing some or all of the agreed upon services to another third party?	No			
Q7 Is this service susceptible to frequent changes in regulations and laws?	No			
Total				

Example: a credit union looking to outsource custodial services may fill out the classification. Q1-No (0); Q2-No (0); Q3-Minimally (+1); Q4-Minimally (+1); Q5-Yes (0); Q6-No (0); Q7-No (0). The total score is 2 which falls within the low classification.

Risk levels are not static, as the business, security, and regulatory environment change over time. You are responsible for detecting when a risk level changes.

Interested in learning more about risk? Contact CUNA Mutual Group Risk Consultants.

RISK Alert

ACTIONABLE INSIGHTS FOR BOND POLICYHOLDERS.

Alert Type

Awareness
Watch
Warning

Date: July 6, 2021

Risk Category: ATMs; Physical Security; Property Damage

States: All

Share with:

- Branch Operations
- Executive Management
- IT
- Plastic Cards / Cards Department
- Risk Manager

Automated Teller Machine “Smash and Grab” Attacks on the Rise

Over the past year, financial institutions – including credit unions across the country – have reported Automated Teller Machine (ATM) “smash and grab” crimes. These aggressive attacks are comprised of several common traits where the perpetrators typically use stolen heavy-duty trucks with chains or construction type vehicles to rip apart the ATM and gain access to cash cassettes. These attacks cause financial loss and property damage in addition to impacting credit union operations and the communities they serve.

Details

“Smash and grab” style attacks of ATMs rose over the past several years in the Houston and Southeast Texas area. However, credit unions have had limited to no lobby access and instead encouraged members to use ATMs because of pandemic specific threat has spread to other parts of the country. It appears organized crime is the root of smash and grab activity in Texas.

A special law enforcement unit – comprised of FBI and local law officials - has reported more than 139 incidents over the last 12 months. This report does not provide the full scope of these incidents; however, the data does show an attack radius over a wide geographic footprint. It also reports that the criminals have become more sophisticated in their methods. In some cases employing the use of explosives. This has limited the actual time of attack to sometimes just 2 – 3 minutes for cash supplies to be accessed.

As many credit union lobbies have been closed or restricted during the pandemic, members have become much more dependent on ATMs and Interactive Teller Machines (ITMs) to conduct transactions. Machines located on the outmost drive-thru lane or stand-alone on an island.



Facing risk challenges? Schedule a free personalized discussion with a Risk Consultant to learn more about your risk.



0:00:00

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Related Risk Resources

[Vendor Management Risk Overview](#)

[Vendor Due Diligence Contract Provisions](#)

[Vendor Contract Provisions Checklist](#)

[Vendor Performance and Reporting Overview](#)

Access more Risk Resources
and RISK Alerts:

www.cunamutual.com/prc





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