

COMPLIANCE UNIVERSITY



Vendor Management Rules of the Road: Compliance When Working With 3rd Parties

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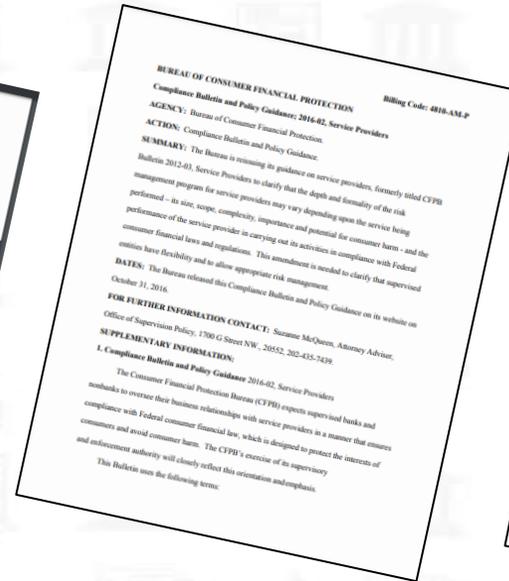
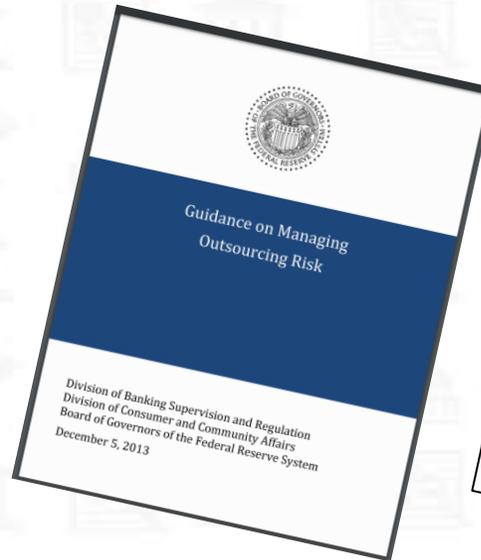
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Why Vendor Management Matters

Outsourcing is not an issue to address resource constraints, expertise, and to offer other products and services, but outsourcing can result in compliance challenges if the risk is not managed.

Sources of Vendor Management Requirements and Expectations

- Laser like focus on vendor management
 - CFPB
 - FTC
 - OCC/FDIC (FFIEC)
 - State Law and Regulators
 - Counterparties
 - Self-Regulatory Expectations



Common Elements of Vendor Management Program

- Role of Senior Management and Board of Directors
- Risk Assessment - Assessment of Legal and Regulatory Framework Applicable to Vendor and Organization
- Due Diligence
 - Business Background: Reputation and Strategy
 - Financial Performance and Condition
 - Operations and Internal Controls
 - Compliance Management System, Policies, Procedures, and Practices
- Contract Provisions and Considerations, including compensation, service level expectations, data privacy and safeguards, legal compliance, monitoring, and recordkeeping
- Oversight and Monitoring
- Business Continuity and Contingency Considerations
- Additional Risk Considerations

Vendor Management Implementation

- Program
- Policies – clear and concise
- Procedures – tailored to the needs of the organization
- Practices – record keeping and remediation, if needed

Vendor Management Contract Checklist

- Scope: support, maintenance, customer services; timeframes, compliance with applicable laws, training, subcontracting, distribution of required disclosures, insurance coverage, terms related to use of organization's IP, equipment, staffing, etc.
- Cost and compensation
- Right to audit
- Monitoring and performance standards
- Confidentiality and security of information, including GLBA Privacy and Safeguards Rules
- Ownership and license of property and work product, including customer relationship
- Indemnification
- Default and termination
- Dispute resolution

Vendor Management Contract Checklist

- Limits on liability
- Insurance
- Customer complaints
- Recordkeeping
- Business resumption and contingency plan of service provider
- Foreign based service providers and legal and regulatory considerations
- Subcontracting
- Other topics: AML/BSA, telemarketing, internal audit, risk management (e.g., models, interest rate calculations, etc.)

Vendor Management Best Practices

- Pre-Contract: Oversight begins prior to executing the contract. What are the needs and expectations of the business and capabilities of the vendor?
- Due Diligence: Develop and execute on a tailored due diligence review focusing on key areas of risk and compliance relative to the services the vendor will provide and the activities of the vendor.
- Contract Requirements: Negotiate “key” vendor management contract provisions to facilitate and encourage monitoring and oversight, including compliance with applicable laws, regulations, and best practices (e.g., self-regulatory guidelines (OLA Best Practices)).
- Develop ongoing monitoring: this can be tailored to the activities of the vendor and the businesses activities
- Identify internally the audit function: who will be responsible for regular audits of vendor?
- Continuously Assess Risk: a heightened level of risk would usually merit increasing the level of oversight (e.g., annual to bi-annual, monthly, etc.)

Vendor Management Best Practices

- Are there other opportunities to “check-in?”
- Assessing performance: performance reviews should include compliance management, and often senior leadership when requirements are not met or slipping.
- Vendor often need to be informed about the product and service; and vendor managers should be familiar with the product and service. Consider what information will vendor need? What information will the organization need from the vendor?
- Complaint review and tracking: adopt a regular review of complaints, inquiries, enforcement actions, and litigation; but don't review you in a vacuum.
- Don't put your head in the sand.

Thank you - Questions



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