Strengthening Third Party Risk Management

The financial sector today is an interconnected ecosystem of entities, both regulated and non-regulated. In a study conducted in 2019-20 among a subset of Federally Regulated Financial Institutions (FRFIs), it was identified that the financial sector was aware of the increasing importance of third party risk management.

In a study conducted in 2019-20 among a subset of FRFIs, OSFI identified 5 focus areas that can contribute to the effective management of third party risk.

1. **Third Party Risk Coverage**
   - 83% have had the adequacy of cloud service providers’ assurance of information security and other controls assessed by Internal Audit.
   - 75% have established governance frameworks for oversight of cloud implementations.

2. **Third Party Risk Management Frameworks to Include All Third Parties**
   - 75% have established specific RTO and recovery points objectives (RPO) with third parties.
   - 75% have focused work on critical third parties.

3. **Data Security and Access**
   - 86% have established information security controls and performance in information security and other controls assessed by Internal Audit.
   - 70% have established monitoring and incident management.

4. **Cloud Adoption and ADOPTION**
   - 50% have a cloud exit strategy in development.
   - 13% have developed an exit strategy for third party cloud service providers with lower risk profiles. Developing risk management frameworks with a range of risk categories can help FRFIs focus on the highest risks at certain providers while providing adequate oversight for third parties identified as requiring increased monitoring or enhanced due diligence.

5. **Continuity of Operations**
   - 90% indicated that the high availability and disaster recovery needs of one cloud deployment or providing cloud services to and cyber service providers with criticality and significance to the FRFI.

The study included 55 FRFI respondents, 47% from deposit-taking institutions and 53% from insurance. The percentage of significant IT instances of third parties on deposit-taking institutions from third-party watchlist items varied from 18% to 23%.

The findings of the study highlight the importance of third party risk management in the financial sector, particularly in the context of cloud deployments and cloud service providers. The study emphasizes the need for FRFIs to establish comprehensive frameworks to evaluate risk and develop strategies to monitor and mitigate third party risks effectively.