

THE RISK MANAGEMENT ASSOCIATION

# **2020 RMA COVID-19 AND THIRD-PARTY RISK MANAGEMENT IMPACT SURVEY**

## **EXECUTIVE SUMMARY**

**DATA COLLECTED: MAY–JUNE 2020  
REPORT DATE: AUGUST 2020**

## ACKNOWLEDGMENTS

The survey was conducted by The Risk Management Association between May and June 2020. Most of the questions were multiple choice with opportunities to provide comments. Some questions were open text and designed to provide information, insight, and impact seen during the recent COVID-19 event in relation to third parties.

A total of 46 responses was received, covering a wide range of financial institutions from four asset sizes: less than \$20 billion; between \$20 and \$60 billion; between \$60 and \$250 billion; and over \$250 billion, including community, regional, super-regional, and money center banks, investment banks, insurance companies, and financial market utilities companies, headquartered in the United States, Canada, and Europe. These groupings will also enable further analysis by asset size and subject matter for future articles in *The RMA Journal*.

As the pandemic continued to evolve, RMA offered a series of biweekly calls to discuss challenges/best practices with the Third-Party Risk Management Steering Committee and round table members. The calls focused on how the pandemic has impacted third-party risks and provided peer sharing opportunities for RMA members about how risks, issues, and concerns are being addressed. This survey was the product of those COVID-19 calls. The design of the survey was created with help from members of the third-party round table. Special thanks to: Christe Smith, Director, Third Party, Bank OZK; Linda Tuck-Chapman, President, Ontala Performance Solutions; and Natalia Weems, AVP Vendor Management, Dollar Bank.

The survey was intended to capture the current state of COVID-19 and its impact on third-party risk management practices. The following topics are addressed in the survey:

- Impact to the Organization
- COVID-19 Related Documentation
- Third-Party Performance during COVID-19
- Issues Related to Third Parties' Employees Working from Home
- Monitoring Changes as a Result of COVID-19
- Risk Assessment Changes as a Result of COVID-19

The final report provides participants' responses, while protecting the confidentiality of individual institutions by masking the source of responses.

Note: Due to rounding, percentages in the tables may not add up to 100.

RMA staff members contributing to the study were Sylwia M. Czajkowska and Edward J. DeMarco Jr. The final report was written by RMA.

RMA would like to thank the institutions that contributed to this study. Credit for participation was given to all 46 institutions regardless if respondents skipped certain questions, yet we feel they provided valuable data to the majority of the questions.

We respectfully request that these materials not be shared with any consultants or service providers. The material contained in this document is exclusive to RMA and contributing members.

Institutions (46) that participated in the survey:

Amarillo National Bank	American National Bank of Texas
Alberta Treasury Branches (ATB Financial)	Bank of America
Bank of OZK	Bank of the West
BBVA US	Columbia Bank
Discover Financial Services	Dollar Bank
DTCC	Federal Home Loan Bank Pittsburgh
Fifth Third Bank	First Citizens Bank
First United Bank and Trust Company	First National Bank of Omaha
Frost Bank	Gateway First Bank
Guardian Life Insurance Company	Hancock Whitney
HomeTrust Bank	The Huntington Bank
Independent Financial	John Deere
Key Bank	Lakeland Bank
M&T Bank	MidFirst Bank
MUFG Union Bank	Mutual of Omaha
Northern Bank & Trust Company	Northern Trust
People's United Bank	Royal Bank of Canada
Regions Bank	The Reserve Trust Company
SEI Investments	Signature Bank NY
TCF Bank	TD Ameritrade
Texas Capital Bank	Truist Financial Corporation
U.S. Bank	Umpqua Bank
Varo Money Inc.	Wells Fargo Bank

## Disclaimer

The information contained herein is obtained from sources believed to be accurate and reliable. All representations contained herein are believed by RMA to be as accurate as the data and methodologies will allow. However, because of the possibilities of human and mechanical error, as well as unforeseen factors beyond RMA's control, the information herein is provided "as is" without warranty of any kind, and RMA makes no representations or warranties expressed or implied to a subscriber or any other person or entity as to the accuracy, timeliness, completeness, merchantability, or fitness for any particular purpose of any of the information contained herein. Furthermore, RMA disclaims any responsibility to update the information. Moreover, information is supplied without warranty on the understanding that any person who acts upon it or otherwise changes position in reliance thereon does so entirely at such person's own risk.

*The report is provided to participating institutions for internal analytical and planning purposes only. As such, a participating institution may disclose the information to consultants and agents that are engaged to assist that participating institution in analysis and planning; however, such consultant or agent is prohibited from using the information for any purpose other than such analysis and planning for that participating institution.*

## About RMA

The Risk Management Association (RMA) is a not-for-profit, member-driven professional association serving the financial services industry. Its sole purpose is to advance the use of sound risk management principles in the financial services industry. RMA promotes an enterprise approach to risk management that focuses on credit risk, market risk, operational risk, securities lending, and regulatory issues. Founded in 1914, RMA was originally called Robert Morris Associates, named after American patriot Robert Morris, a signer of the Declaration of Independence. Morris, the principal financier of the Revolutionary War, helped establish our country's banking system.

Today, RMA has approximately 2,500 institutional members. These include banks of all sizes as well as nonbank financial institutions. RMA is proud of the leadership role its member institutions take in the financial services industry. Relationship managers, credit officers, risk managers, and other financial services professionals in these organizations with responsibilities related to the risk management function represent these institutions within RMA. Known as RMA Associates, more than 18,000 of these individuals are located throughout North America and financial centers in Europe, Australia, and Asia.

Members actively participate in the RMA network of chapters. These chapters are run by RMA Associates on a volunteer basis and they provide our members with opportunities in their local communities for education, training, and networking throughout all stages of their financial services career. Chapters are located across the U.S. and Canada as well as in global financial centers.

RMA members also avail themselves of benefits offered through RMA headquarters located in Philadelphia, Pennsylvania. To assist members in advancing sound risk management principles, RMA keeps members informed and provides access to industry information at this site; publishes *The RMA Journal* and a variety of webinars, newsletters, podcasts, books, and statistics; conducts workshops and seminars; holds conferences, including an annual convention (Annual Risk Management Conference); and has numerous committees working on a variety of projects.

Visit RMA at [www.rmahq.org](http://www.rmahq.org).

Note: As a not-for-profit, professional association, RMA does not lobby on behalf of the industry.

## EXECUTIVE SUMMARY

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Participating institutions were asked to provide their primary regulator for context and further analysis. As expected, all participating institutions are regulated by one or more of the following: OCC, FRB, FDIC, State, FINRA, and OSFI (Canada).

This is the breakdown of participation by asset size:

Asset Size	Number of Institutions	Percent
Less than \$20 billion	12	26.1%
\$20-60 billion	14	30.4%
\$60-250 billion	12	26.1%
Greater than \$250 billion	8	17.4%

The survey was intended to capture the current state of COVID-19 and its impact on third-party risk management practices. The following topics are addressed in the survey:

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### COVID-19 Environment

COVID-19 is a disease caused by the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), that was first detected in December 2019. In March 2020, COVID-19 started making a more significant impact on business operations, disrupting the existing processes. Management has been challenged with finding ways to conduct business in new ways which has become our “new normal”. In response to institutions’ extensive reliance on third-party relationships, which not only bring benefits, but also exposure to a variety of risks, RMA held weekly calls dedicated to COVID-19 and its implications on many areas of bank operations, including third party. The survey was the product of those calls to get more

a more granular view on the specific implications for third parties. As this survey has been conducted four months into the global pandemic, many institutions were still in the process of figuring out their approaches. Because of that we can see that there is a range of practices depending on the maturity level of the institution. As institutions continue to adjust their practices to the “new normal” environment, we can expect that those practices will continue to evolve and grow.

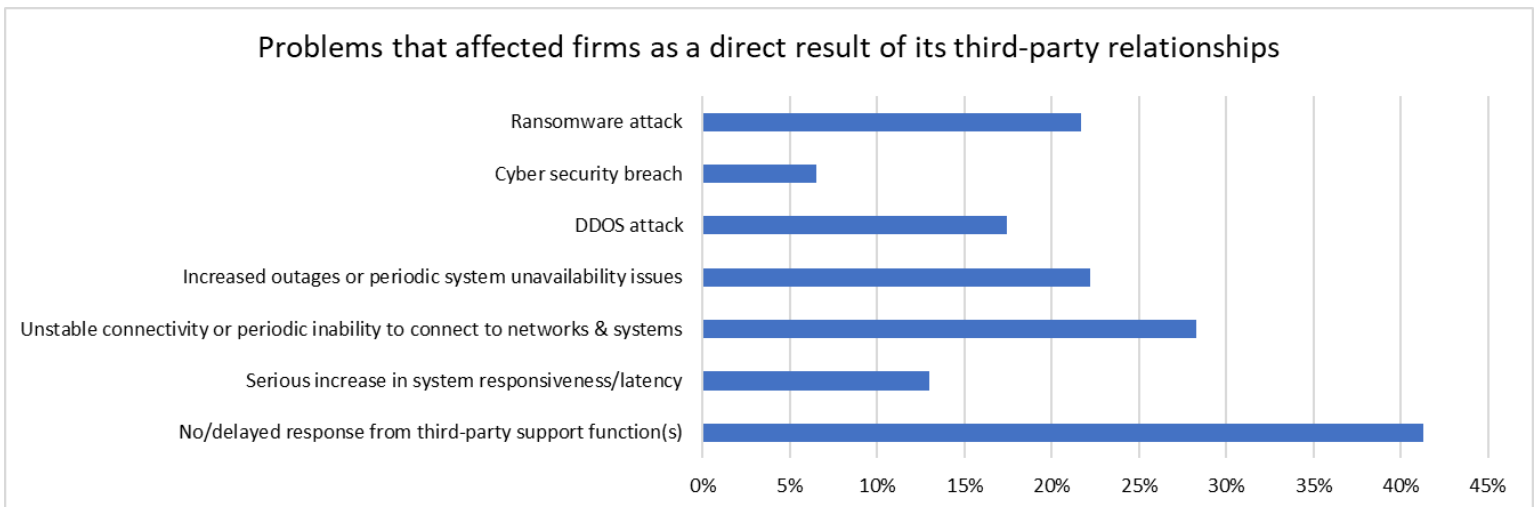
**Impact to the Organization (Questions 3-8)**

As one of the few global pandemics in our lifetime, COVID-19 gave financial institutions the ability to see third-party control failure implications in real time. Two specific items that stand out in this section of the study are:

- No/delayed response time due to third party(s) use of non-tested pandemic planning
- Anticipation of potential financial failures of many third parties requiring back-up plan reviews

Looking into more granular data, the following pandemic-related problems have affected participants’ firms as a direct result of its third-party relationships (listed in the order of highest to lowest response rate):

- No/delayed response from third-party support function(s), e.g., help desk, technical support, customer service
- Unstable connectivity or periodic inability to connect to networks and systems
- Increased outages or periodic system unavailability issues
- Ransomware attack
- DDOS attack
- Serious increase in system responsiveness/latency
- Cyber security breach



The ranking of the above items varied depending on the asset size of the institutions.

More than 93% of respondents selected “risk base approach” as the top response when it comes to managing the pandemic with their third parties.

Close to 74% of institutions indicated there is a low likelihood that their firm will breach its obligations to clients that contractually prohibit third-party/vendor access to NPPI from outside of “clean rooms” because of third-party employees working from home.

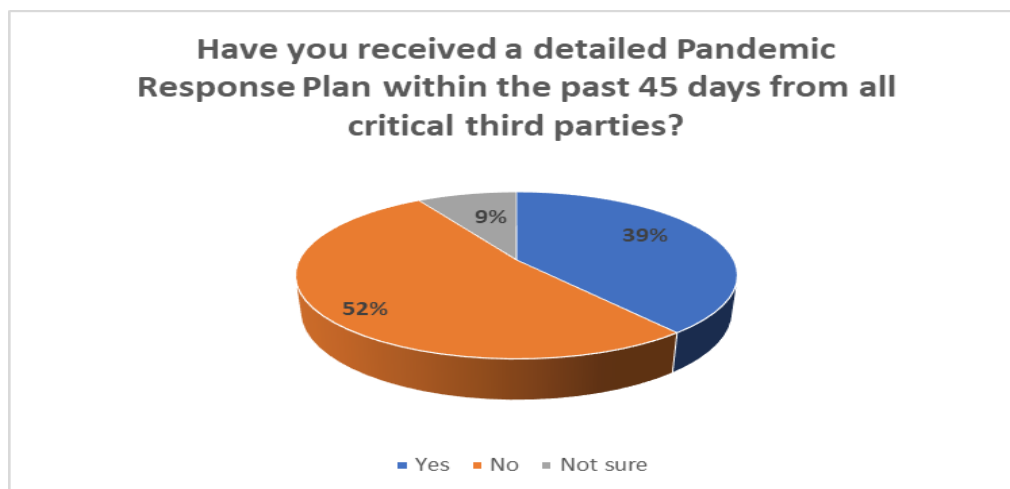
At the time that we have conducted the survey, 75% of respondents had not experienced issues with their critical third or fourth parties not being able to deliver services as a result of the pandemic.

### **COVID-19 Related Documentation (Questions 9- 17)**

Many institutions were looking for security from vendors on their financial health amid the pandemic. In anticipation for potential issues with vendors’ ability to perform and deliver satisfactory services, many have been seeking statements/questionnaires confirming business will continue without interruptions. Based on the responses, we have learned that, when contacted, 71% of firms received “acceptable” COVID-19 responses/statements from all of their critical third parties. Approximately 27% of respondents that were unable to obtain such information indicated that less than 25% of their critical third parties did not respond and/or provide acceptable COVID-19 responses/statements.

More than 56% of participants were able to receive current detailed business continuity plans (BCP) from all of their critical third parties. Out of 39% that had not received the BCP plans, more than half said that less than 25% of their critical third parties did not submit a current BCP plan. Overall, more than half of the respondents were satisfied with the quality and level of detail in their third-party (updated) BCP plans.

It was disappointing to see that many third parties were not prepared for the pandemic and, as a result, more than 52% of institutions had not received a detailed Pandemic Response Plan within the past 45 days from all critical third parties.

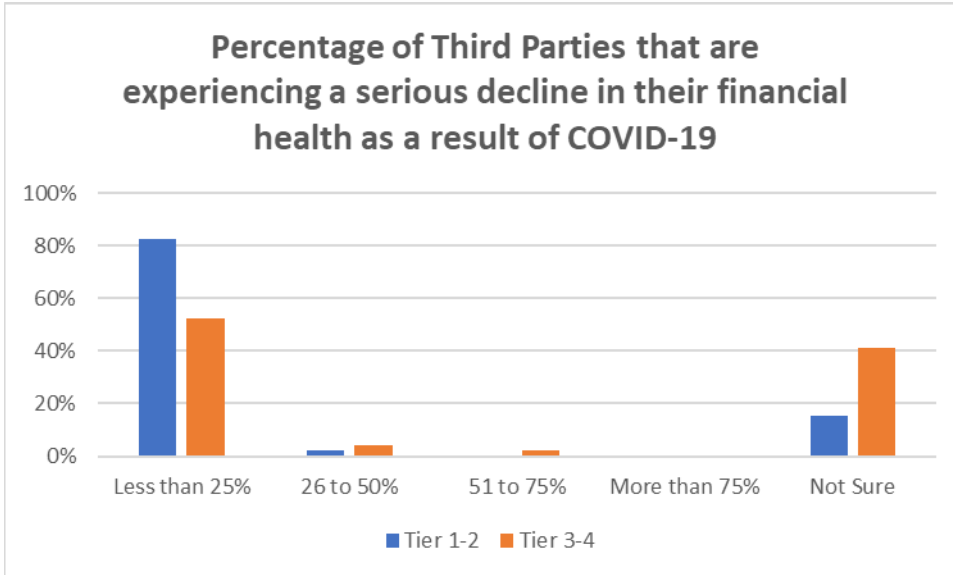


### Third-Party Performance During Covid-19 (Questions 18- 27)

We see a positive trend in terms of the overall level of satisfaction of critical third-party(s) operational performance. Survey participants indicated that in 63% of cases third parties are meeting SLAs/expectations and in 37% of cases their performance is stable/improving.

When asked “What is the estimated percentage of critical third parties that are not meeting contractual SLAs?” we see that in close to 90% of the instances the percentage is less than 25%.

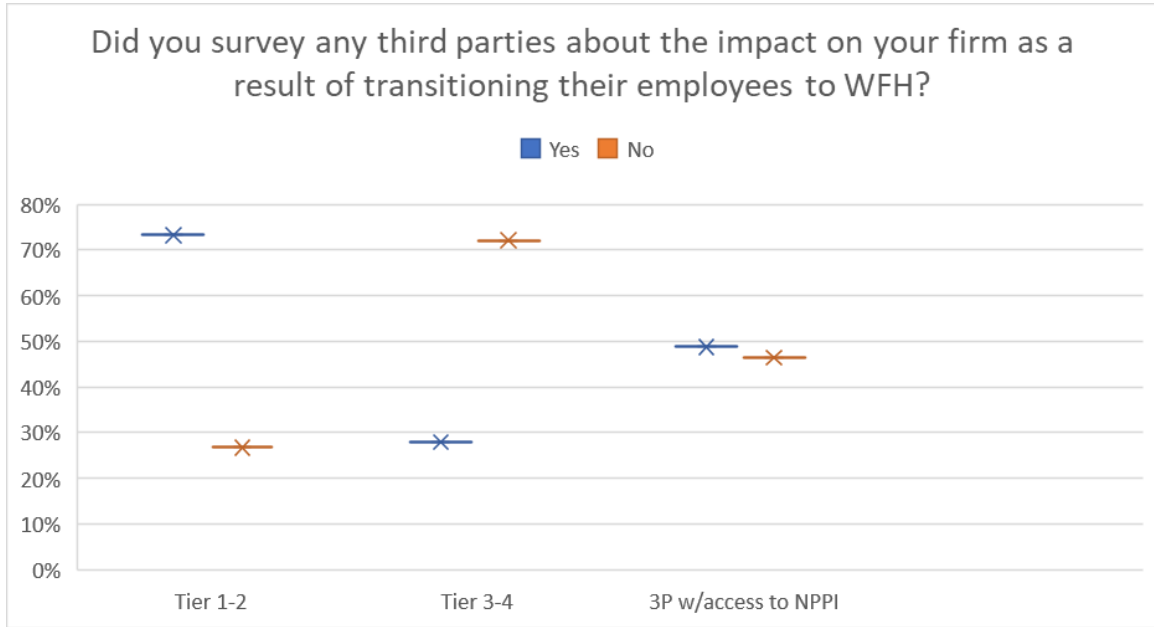
We have also asked if the institution’s most critical third parties are experiencing a serious decline in their financial health as a result of COVID-19. The analysis shows that regardless if we look at Tier 1-2 or Tier 3-4 third parties, the responses were 83% and 52% (both for less than 25% of vendors), respectively. Leading up to June 2020, more than 93% hadn’t experienced failure of their critical third or fourth parties as a result of COVID-19.



As the survey was conducted at the beginning of the pandemic, many institutions anticipate some future issues with third parties. To have a better understanding of third parties that may jeopardize an institution’s performance, they started identifying critical third parties at the greatest risk of a serious business interruption or failure due to deteriorating or poor financial health. Most reliance on the data to help determine such vendors comes from subscriptions to alerts from third parties providing financial health rating services.

Even though this is a global pandemic, close to 83% have not negotiated relocation or required any third parties to move service delivery from an offshore to a domestic location. To this point, 78% have not offered any financial support (in the form of short-term loans or pre-payment against future services) to any third parties to help them survive the effects of the pandemic.

**Issues Related to Third Parties’ Employees Working from Home (Questions 28- 33)**



There are a lot of unknowns with how the work environment will look in the future. Will people return to facilities? Will schools reopen? And will employees need to find a balance between work and home activities? We were interested to see if institutions have made plans to any roles transitioning temporarily or permanently from fulltime to part-time in support of employees with children who are unable to return to school or daycare. Not surprisingly, close to 49% were not sure, and 38% hadn’t made any plans.

The remaining questions in this section were open ended and detailed descriptions/answers are available as a benefit to those who have contributed to the survey.

**Monitoring Changes as a Result of COVID-19 (Questions 34- 39)**

Knowing how important ongoing monitoring is throughout the lifecycle, we asked if firms are changing ongoing monitoring requirements for critical third parties as a result of pandemic-related issues? We have learned that 51% answered “yes”, 36% answered “no”, and 13% were unsure.

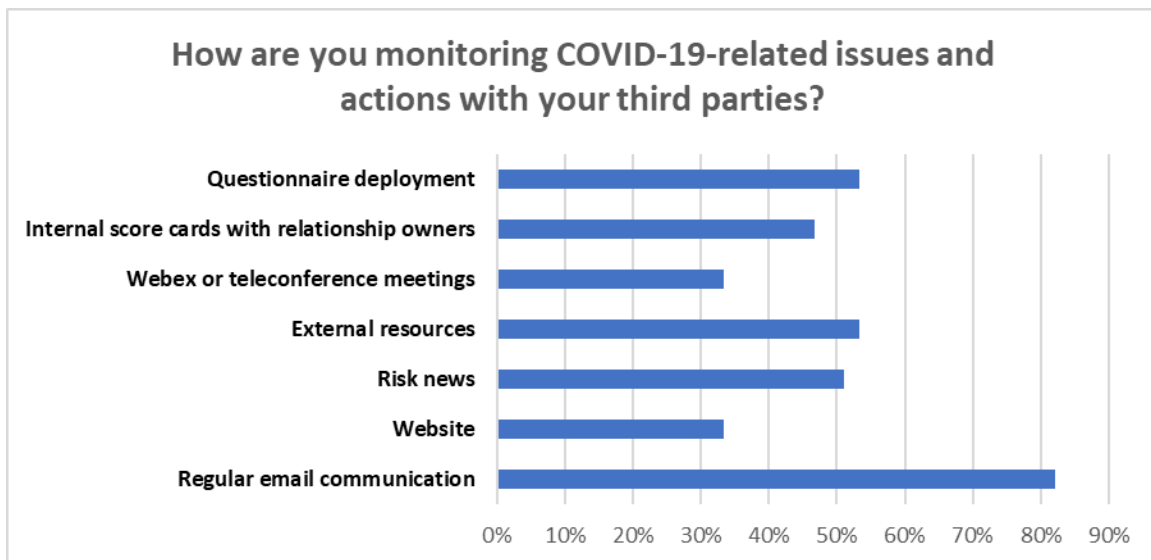
We then asked if firms have changed requirements for third-party oversight/monitoring to address heightened COVID-19 risks including financial viability, cybersecurity, and other operational risks.

No change	27%
Heightened focus on specific risk areas	69%
Reduced or scaled back standard monitoring procedures to re-deploy resources to other activities	11%

Those who indicated “Heightened focus on specific risk areas”, provided specific areas of risk they focused on (listed in the order of highest to lowest response rate):

- Cyber
- Performance
- Financial
- Business resilience
- Contractual
- Not Applicable
- Other

Information on institutions who are monitoring COVID-19-related issues and action with their third parties is listed below. The top three sources used are: (1) Regular email communication, (2) Questionnaire deployment, (2) External resources, and (3) Risk news.



When it comes to relaxing contractual SLAs and/or forgiving earned penalties during the pandemic, 68% are not doing so, and 29% do it selectively, with approved exceptions.

Members responded “no” to the question about experiencing serious SLA misses related to COVID-19. That answer has been consistent for Tiers 1-4.

**Risk Assessment Changes as a Result of COVID-19 (Questions 40-41)**

In this section of the survey we had asked if firms are planning to make changes to methodologies to rate inherent risk and/or residual risk or introduce an interim risk rating process. Regardless of the institution size, responses have been consistent, and we have learned that the answer was “no” for each of the risks.

Approximately 44% of respondents confirmed that their firms are not planning to change their onboarding or recertification controls assessments going forward as a result of lessons learned during the pandemic. For institutions with assets above \$250 billion the respondents are planning to make changes. This may be dictated by many factors: the maturity level of the organization, budgets, or resources available.

Based on practices that are in place, we see that institutions implemented or are considering additional control ratings on subcontractor contract provisions and business resilience capabilities.

### **Insight and Advice**

Survey participants were very generous in sharing information, advice, and lessons learned. Thank you!

There are insightful comments throughout the survey. Where RMA asked for specific advice and information, we've provided the following list of question numbers for easy access to their golden nuggets (not presented by asset size to prevent participant's discoverability):

- Q17) To what extent do third-party business continuity plans and/or pandemic response plans mitigate your firm's risk of a serious business disruption and support its business resilience goals?
- Q20) How are you addressing financial viability risk for non-public third parties?
- Q29) What is the high-level plan for your firm to bring non-customer-facing personnel (e.g., operations, second line, audit, accounting, underwriting, etc.) back into the office as stay-at-home orders are lifted?
- Q30) What support will your firm offer to employees when their local government orders continued school/daycare closures?
- Q33) What actions have you taken/will take as a result of ineffective SOC I/II controls?
- Q34) Are you changing ongoing monitoring requirements for critical third parties as a result of pandemic-related issues?

### **Conclusion**

COVID-19 has disrupted the way bank operations have performed so far, challenging institutions and its employees to operate in a new environment. Since this survey was conducted four months into a remote, working environment, many institutions were still in the process of figuring out their approaches. As such, we see that there is a range of practices depending on the maturity level of the institution. Investment in technology made prior to the pandemic plays a significant role in a smoother transition to a remote environment. As institutions continue to adjust their practices to the "new normal" environment, we can expect that those practices will continue to evolve and grow.

The members of the RMA Third-Party Round Table continue to share their practices, including lessons learned. Recently, the group has drafted a document titled "SARS-COV-2 Recommendations for Third Parties Working from Home and Return to Facilities". These

practices are added as an appendix to the RMA’s document “SARS-COV-2 Principles of Workforce Return to Facilities”.

Thanks again to all Third-Party Risk Management Round Table members as well as other RMA institutions that contributed to and completed the 2020 RMA COVID-19 & Third-Party Risk Management Impact Survey. We really appreciate your contribution to this study and look forward to your continued support.

Please see the pages following for detailed responses and examples of the range of practices institutions employ in managing third-party/vendor risk management amid COVID-19. Due to the sufficient number of responses received, we were able to present the analysis by asset size.