investment in resources to implement the relationship and manage risk, or could have major impact on the financial institution's operations – especially if the company must find an alternate third-party or if the outsourced activity must be brought in-house. We have found that the nexus between third-parties and new activities is a critical juncture, but will vary in risk exposure as they may pertain to payments, clearing, settlements, custody, information technology, and other operational areas.[x]

Effective risk management processes should be commensurate with the level of risk, risk tolerance and complexity of a company's third-party relationships. A third-party service provider's inferior performance or service may result in loss of business, increased legal costs, and heightened risks, including credit, operational, compliance, strategic, and reputational risks. Such risks may be exacerbated by so-called "turnkey" or "plug and play" arrangements for products or services or the use of "white label" product branding. If there is a difference between "turnkey" and "white label," it seems that often a "turnkey" product or service is provided to a financial institution fully complete and ready for immediate use with no modifications, whereas "white label" products or services may be modified or customized and offered under the institution's own brand name. Whatever the case, there is inherently elevated risk in "turnkey" and "white label" activities, given that they are essentially designed for minimal involvement by the financial institution in administering the new activities.

When contracting with third-party service providers, company management should understand the risks associated with the new activities and conduct adequate due diligence of service providers. Due diligence includes assessing a service provider's management, reputation, product or service performance, and may also include its financial condition.[xi]

The degree of due diligence should be commensurate with the level of risk and complexity of the third-party relationship. Regulators are not satisfied with compilation of documents. They expect to see actual due diligence reviews conducted by the institution as part of the on-boarding and maintenance of third-party relationships.

Importantly, management should determine whether service providers and the company's new activities align with the financial institution's strategic plans and risk appetite. To accomplish this endeavor, the company must implement an on-going and effective third-party risk management program for service providers. Regulators refer to this process as the "third-party relationship's life cycle," so as to emphasize the risk management monitoring process that should continue throughout the course of the relationship. The "life cycle" should set forth an outline for managing a contingency plan in the event the financial institution terminates the relationship, a contract expires,[xii] the service provider cannot perform as expected, or the provider changes its business strategy.

FINANCIAL TECHNOLOGY

As I close, I want to emphasize that financial institutions these days are directly impacted by financial technology, so called "Fintech." Entities providing Fintech leverage emerging technologies to provide delivery channels and accessibility to financial products and services. Fintech continues to grow significantly in importance as it relates to effectuating the risk involving new activities.

Any financial institution that uses Fintech should only do so through the prudent risk management of such relationships. Often, the management of Fintech is left to the "Techies" on staff, which is