

# Look Before You Leap: A Checklist for Successful Vendor Relationship Management

By Timothy J. Reimink

Banks of all sizes increasingly are finding that it can be tough to go it alone. Instead, they are forging relationships and hiring external vendors to manage routine operations. These relationships can deliver substantial expertise and provide efficiency while also creating additional responsibility and risk. To uphold quality customer service, protect an institution's reputation and maximize satisfaction with a vendor's performance, banks must thoughtfully establish a framework for overseeing service providers.



## Look at the Big Picture

Before addressing the day-to-day management of vendors, banks first should examine their enterprise-wide process for engaging service providers. Large banks often have an entire department committed to this endeavor. Smaller banks, which might lack the resources to dedicate employees to the effort exclusively, should establish a policy to govern their use of vendors. This approach creates a clearly communicated process for all employees to follow, avoids unnecessary duplication of work and keeps critical considerations top-of-mind when new relationships are being solidified.

As part of any vendor management policy, banks should make certain that vendors are:

- Financially sound
- Capable of providing services that meet a bank's specific needs
- Bound by a contract negotiated with proper protection of the bank
- Prepared to undergo regular performance reviews

## Setting Up Relationships for Success

Vendors are hired to handle a wide variety of responsibilities—from software systems and customer communications oversight to regular account maintenance; however, the best practices for managing vendor relationships typically do not vary. Following are steps to create successful relationships with service providers.

1. **Establish accountability.** It is important to assign ownership of each vendor relationship, asking the manager most actively involved with a vendor to oversee its work. Without a primary point of contact accountable for a vendor's activities, the quality of service could slip and potentially tarnish the bank's reputation or cause financial harm.



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2. **Share objectives from the start.** Before beginning to work with a vendor, banks should make their objectives clear. Some of this information is contractual, but what about expectations that are not spelled out in writing? A relationship with a vendor can be defined by levels of service, such as the exact timing of when reports will be received or how quickly emails will be returned. Failure to identify such expectations upfront could result in dissatisfaction with a vendor's performance as well as wasted time and resources.
3. **Create a performance scorecard.** Relationship managers should assess the performance and costs associated with a vendor on a consistent basis. Regularly scheduled conversations or reviews are a good way to keep vendors on track toward meeting objectives. These discussions, which could be held as infrequently as twice a year or as regularly as weekly for critical service providers, are opportunities to talk about concerns and share any changes at the bank that could affect the vendor.
4. **Measure and manage risk on an ongoing basis.** Vendors should be monitored regularly to assess their stability. Organizational developments at a service provider, such as a vendor filing for bankruptcy or making major changes to its service offerings, could have substantial consequences for a bank. Banks should work to remain up to date on any information that would necessitate switching to a more reliable provider.
5. **Evaluate alternatives.** The best time to consider switching service providers is long before a vendor's contract matures. If a manager believes a bank could receive better service or could find a more cost-effective vendor, then it is a good idea to explore alternatives early.

## Redefined Regulatory Rules

In addition to helping banks better serve customers and operate more efficiently, managing vendors effectively is important for another reason: Bank regulators have increased their focus on vendor oversight and view it as essential to banks' risk and performance management. Banks that fail to follow through in this area could face heightened regulatory scrutiny or penalties.

Overall, banks likely will find that forging a successful alliance with a vendor is similar to building any other healthy relationship—it will take time and commitment to make the relationship work for the long term. Given recent trends, banks should make sure they—and their customers—are getting the best possible value from their service providers.

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