Vendor Management:

How Banks Can Gain a Competitive Edge

A Cornerstone Advisors Whitepaper

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Introduction

The use of third-party vendors that support the needs of banks and credit unions has become ubiquitous. Every financial institution relies on its vendors to deliver critical services to meet client expectations. From core banking systems to payment processing, technology infrastructure to call centers, vendors play an integral role in service delivery across the industry.

While outsourcing provides financial institutions with cost and efficiency advantages, it also introduces risks that must be actively managed.

Ineffective processes, poor contract negotiations and mismanaged renewals can cost institutions millions in missed savings—funds that could otherwise be used to launch new products, deliver service improvements and offer shareholder returns.

Proper vendor management enables your organization to:

- **Reduce vendor expenses** by aligning vendors with strategic plans, consolidating agreements and optimizing contracts
- **Control risk** by properly handling due diligence, regulatory exams, contingency planning and exit strategies
- **Increase agility** by identifying scalable partnerships and viable new solutions
- **Increase efficiency** by standardizing processes, integrating systems and automating workflows

You Are Only As Good As Your Vendors

While dramatic cost savings and reduced risk are compelling reasons to implement a next-level approach to vendor management, there is another, equally compelling reason why vendor management is crucial to an institution's success:

Your vendor's performance is your performance.

Think about it. Any misstep on the vendor's part, such as downtime or slow resolution to critical issues, directly impacts the customer or member experience and the reputation of the financial institution. If your client's debit card transaction is denied, the client blames you, not the vendor. If the bill payment system isn't working, customers have no idea who created the software, nor do they care. It's your reputation and image on the line.

Vendor performance is inextricably tied to your bank or credit union's performance. Poor vendor management has the potential to eat away at customers' trust, which is at the heart of banking relationships.

With today's intense competitive environment, getting vendor management right — which means moving beyond viewing it solely as a compliance function — is crucial.

Why? Because vendor management can be leveraged and turned into a powerful competitive advantage and is an incredibly smart way to grow your financial institution.

Defining Vendor Management

Gartner defines vendor management this way:

Vendor management /ˈvendər,ˈvenˌdôr ˈmanijmənt/

Noun

1. “A discipline that enables organizations to control costs, drive service excellence and mitigate risks to gain increased value from their vendors throughout the deal lifecycle.”

That lifecycle looks like this:

Needs Analysis

Define challenges or deficiencies to be solved by vendors. This allows you to align partnerships to strategic goals.

Due Diligence

Thoroughly vet prospective vendors for security, stability, support capabilities and other risk factors prior to selection.

Contracting

Negotiate agreements that outline services, performance requirements, metrics and protections to hold vendors accountable.

Integration

Onboard vendors operationally once agreements are signed to ensure readiness and compatibility with systems.

Renewal/Termination

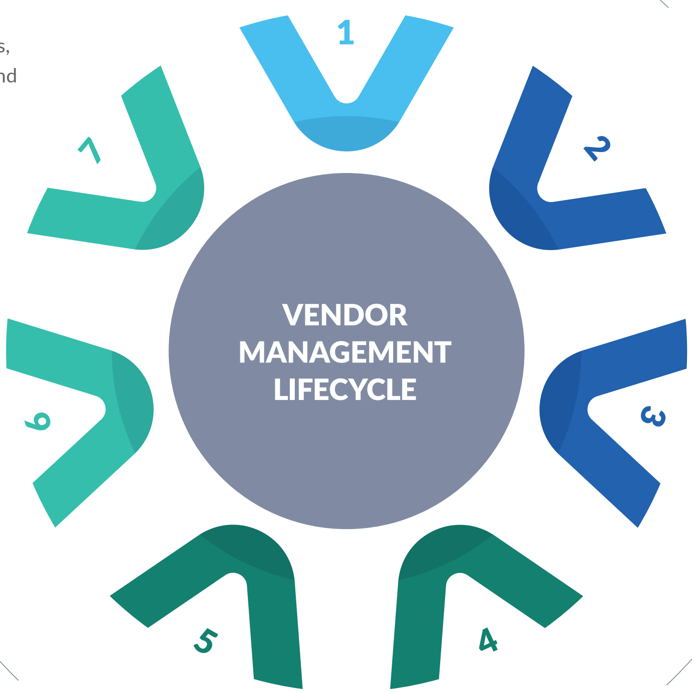
Evaluate vendor performance and fit prior to contract expiration to determine whether to renew, renegotiate or replace.

Governance

Manage relationships on an ongoing basis to enforce contracts, control costs, improve service and mitigate risks.

Monitoring

Track service levels, milestones, performance, financial health and other metrics to detect issues proactively. Conduct audits.



Beyond Compliance and Checklists

No discussion of vendor management would be complete without a discussion of what vendor management *is not*.

Because vendor management originated from regulatory guidance, resulting processes at many institutions remain highly mechanical, with a disproportionate focus on routine checklist tasks that deliver minimal value.

Here is what vendor management is not:

Vendor management is not a checklist.

The vendor management myth perpetuates that if you check the boxes and follow the rules, your institution will be protected. That's a compliance fantasy. In reality, institutions are hemorrhaging money and opportunity due to an incomplete, ineffective vendor management approach.

Vendor management is not compliance.

As a financial institution in today's marketplace, a vendor management program is necessary to meet your compliance risk requirements. Without vigilant oversight across the entire vendor lifecycle, these relationships can detonate like a risk time bomb. Incomplete, poorly designed or incorrectly focused vendor management results in increased risk, wasted resources and significant losses, as it fails to address the critical elements of a comprehensive vendor management system.

An effective vendor management program moves beyond a compliance-centric approach and creates a culture that actively manages vendor governance across the entire organization.

Vendor Management Program: 6 Key Steps

So you're convinced that you *can* manage your vendors and that proper vendor management is the way to reduce expenses, improve vendor performance, manage risk, differentiate—and pass your exam with flying colors.

Great! But… how?

Let's take a look at 6 key steps you must take:

1. INTEGRATE VENDOR MANAGEMENT INTO YOUR CULTURE
2. ALIGN VENDORS WITH STRATEGIC GOALS
3. SELECT VENDORS CAREFULLY
4. MASTER CONTRACTING
5. BE PROACTIVE ABOUT OVERSIGHT
6. MANAGE RISK

Of course, implementing these steps is easier said than done—but the payoff is immense. ***Let's dig in.***

1 Set the Foundation with the Right Culture

To be successful, vendor management must be tightly woven into the fabric of your financial institution—your culture.

The cultural change is this: Don't treat vendor management as a compliance obligation or a checklist for your next exam or audit. Treat it as part of your decision-making culture as a bank or credit union. Treat it like every vendor you contract with has a connection to your customers' or members' experience that impact their loyalty to you.

You will need to care about not only your exams and your audits, but also about vendor performance and getting the best out of each vendor relationship.

If you treat it that way, then the compliance comes organically. Moreover, you drive better vendor performance and savings to pass on to your customers and members.

How do you make that culture shift?

- **Assign roles and create policies** — This includes designating owners to serve as relationship managers for each vendor, as well as outlining flexible policies and committing to ongoing training.

- **Take inventory and gather contracts** — The contract management system includes a process to get copies of all vendor contracts, maintain them as changes develop, and provide clarity of contract dates and time frames.

A culture shift is the foundation of your vendor management program—and the mindset shift on vendor management is the hardest to make. However, once you get your institution to think differently, to think smarter about vendor management, you'll be ready to drive real change.

Who Should Own the Relationship?

Careful consideration of who to assign as vendor owners is crucial for vendor management success. As you start designing your program, take a few moments to reflect on the following:

1. What departments or teams should have input into vendor owner selection? How will you get their buy-in?

2. What qualities or skills make someone an effective vendor owner? What will be expected of them?

3. Which vendors or service categories should have dedicated relationship managers? Which can be grouped?

4. Who in your organization shows potential to thrive in the vendor owner role? What makes them a good fit?

5. How will you clearly define and communicate vendor owner responsibilities across the institution?

6. What training or resources do vendor owners need to excel in the role?

Thoughtfully answering these questions will help you identify and empower the right internal champions to coordinate vendor relationships and create accountability.

2 Align Vendors with Your Strategic Goals

Now that the foundation is set, it's time to get strategic.

Financial institutions must recognize vendor management as a make-or-break strategic priority with lasting ramifications. *The partners you choose and how you manage vendor relationships directly impact your ability to grow and compete.*

When you align growth strategy with vendor strategy, the possibilities are endless. You gain the freedom to focus on your strengths while vendors patch capability gaps and lift you higher. This shared vision breeds collaboration. To achieve this, institutions must develop and maintain a strategic, multi-year vendor plan encompassing all partnerships. This long-range outlook provides a blueprint for aligning vendors with growth goals.

An effective strategic vendor plan:

- Details which relationships impact strategic objectives
- Determines how to modify relationships to optimize support
- Spotlights when and why to onboard new partners or solutions to elevate capabilities
- Provides clarity about the appetite and capacity for change
- Defines planned vendor changes and the timing to maximize negotiation power
- Acknowledges vendor strengths and limitations
- Incorporate vendor readiness, vendor performance, employee expertise, timelines and budgets
- Includes a vendor calendar to map out project timeframes, assignments and resource needs
- Defines success measures through scorecards and KPIs tied directly to strategic goals and desired results

This closed-loop system enables performance management.

Before moving to the next step in creating a vendor management program, you need to evaluate which of your current vendors fit your strategic plan. Great news—since you're following this plan, you've already gathered all your contracts, so you know about all of your vendors.

Ask yourself these questions about your current vendors:

1. **Are we still using this service?** If the answer is no, this is an opportunity to eliminate waste.
2. **Are we satisfied with this vendor's performance?** Use your response to gauge partnership potential.
3. **Do we plan to change or replace this relationship?** Time to get ahead of necessary adjustments.

With needs validated, institutions can apply data to develop a detailed vendor calendar, mapping out project timelines for deploying or transitioning partner solutions. Now that you know what you have and what you need, it's time to go get it.

3 Select Vendors Carefully

The vendor selection process is make-or-break — no amount of vendor management can overcome a poor initial partnership choice.

Institutions must follow a rigorous, objective methodology to leverage negotiation power and extract maximum value from vendor relationships. **There are no shortcuts here.**

Here are 10 things to think about before you dive in
(yes, 10—we said there are no shortcuts).

1. **Alignment with strategy.** Evaluate how the vendor's offerings align with your strategic goals and objectives.

2. **Vendor management approach.** Analyze how you currently manage vendors and how the new vendor will be integrated into the existing management framework.

3. **Stakeholder involvement.** Identify the key stakeholders involved in the selection process and those who may be impacted by the vendor relationship.

4. **Methodology.** Define the methodology used for vendor selection, ensuring it is objective, and aligns with institutional needs.

5. **Budget and costs.** Determine the budget available for the vendor relationship, including both current and anticipated costs.

6. **Complexity and interrelationship.** Assess the complexity of integrating the vendor's offerings with existing vendors, platforms and services, considering potential interdependencies.

7. **Timing and deadlines.** Define the timeline for the selection process and any associated deadlines that need to be met.

8. **Expected results and ROI.** Clearly outline the desired results, from the vendor's products or services and the expected return on investment. Think in terms of "SMART" goals.

9. **Measurement and reporting.** Identify how results will be measured and reported, including the metrics and mechanisms to be employed. Require the vendor to provide the information it has available to measure results.

10. **Discovery and RFP process.** Establish a comprehensive discovery and Request for Proposal (RFP) process to gather detailed information from potential vendors. In the RFP, ask the vendor how it helps you achieve the specific results you want, what it provides and—most importantly—what you have to do to get those results.

The RFP Process

To identify potential service providers, consider using a Request for Information (RFI) or Request for Proposal (RFP) to do a high-level review of vendor products, services and capabilities.

Once leading proposals are identified, it's time to put prospective vendors under the microscope via comprehensive due diligence across numerous factors:

FINANCIAL STATEMENTS:

Scrutinize financial stability, profitability, growth trends and potential risks.

LEADERSHIP BACKGROUND:

Vet the leadership team's experience, turnover rates, controversies, compensation structures and organizational setup.

DELIVERY HISTORY:

Verify the claims of capabilities by cross-referencing with client references and track records.

SECURITY POSTURE:

Review audits, security policies, controls and the level of transparency regarding their security measures.

BUSINESS CONTINUITY:

Examine provisions for redundancy, backups, disaster recovery mechanisms and testing practices.

TECHNICAL ARCHITECTURE:

Assess compatibility with your existing infrastructure and the potential for scalable integration.

COMPANY CULTURE:

Gauge alignment with your institution's mission, values and commitment to client satisfaction.

COMPETITIVE COMPARISON:

Evaluate features, costs and expected benefits.

TRUE COST:

Evaluate costs of your time, money and human resources necessary to get expected results.

Being diligent in the RFP and vetting process will give your financial institution clear insights to confidently pick the right vendors and get the most out of projects. Think of this as your last line of defense before costly, multi-year commitments.

4 Master Contracting

Contracting is a vital part of both the vendor lifecycle and vendor management.

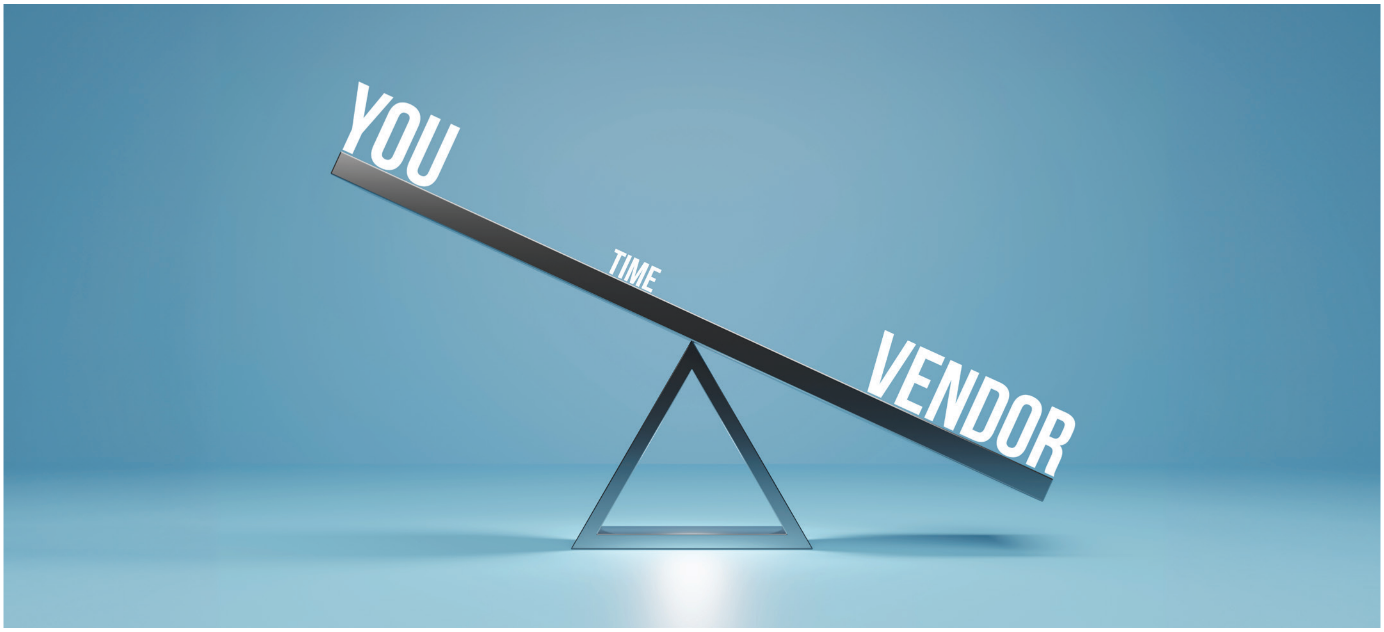
Why? Because the vendor contract is the linchpin of vendor management. Tangible change in the vendor landscape stems from a well-balanced, risk-conscious contract, a product of consistent, effective negotiations. Here's how you get it.

Start early (earlier than you think)

Understanding that your power comes from the vendor's desire to get your money, starting early on negotiations lets your vendor know you can choose alternatives. This generates competitive pressure you can use to your advantage to get the best price and fairest contract terms. For major contracts, starting the process 2 ½ to 3 years before contract term dates is the recommended best practice.

Endorse strong contract standards

The negotiation process should be focused on creating the strongest relationship possible. This means a focus on a fair price and business terms that meet your organizational objectives and address your top priorities. Fortified contract terms are your primary leverage once the sale is completed. Contracting guidelines should include authorization protocols for procurement events; mandatory legal, risk and security reviews; required executive signoffs on key agreements; centralized post-signature contract management; and the transition of vendors into the oversight program.



Enforce contract standards persistently

The contract should define the results identified in the RFP process and commit the vendor to providing the data and information necessary to measure results, ideally with the vendor's commitment to review the results with the institution.

The contracting process should also include:

Comprehensive measurement

Establish and document expected benefits using a measurement process. Regularly evaluate vendor performance through scorecards aligned with institution goals.

Outcome-focused vendors

Identify vendors critical to service delivery. Define the specific outcomes expected from their products or services. Align vendor contracts with these outcomes.

Effective performance metrics

Specify performance measurement and data provision for key vendors. Craft contracts that foster relationships, not just transactions, leveraging vendor resources for targeted results.

Three rules for terms

Adhere to the contract term rules: 1) Get something in return for terms exceeding one year, 2) limit terms to five years and 3) restrict renewal terms beyond one year.

Detailed performance terms

During planning, identify and negotiate detailed performance terms, SLAs and uptime requirements. Determine measurement methods and data provision for scorecarding.

Simple language

Insist on plain language contract terms that are easily understood by all parties involved.

Fair pricing

Negotiate pricing based on current market rates rather than existing costs. Include provisions for growth, contraction, future services and potential price increases.

Equitable terms

Negotiate fair terms for fee disputes, billing discrepancies, dispute resolution, late fees and termination or deconversion costs.

Right to audit

Include the right to audit in every contract to ensure accountability and transparency.

Meaningful performance metrics

Collaborate with vendors to establish meaningful contract performance requirements and SLAs aligned with your institution's strategy and goals.

Data security and ownership

If relevant, ensure clear contract terms regarding data generated within vendor services, including creation, management, transmission, ownership and security measures.

Compliance assurance

Integrate language obligating vendors to comply with all applicable laws, codes, regulations and requirements.

Indemnification and liability

Include appropriate indemnification and liability terms in contracts relating to vendor services to mitigate potential risks.

Renewal limitations

Decline vendor contracts with automatic renewals exceeding one year to maintain flexibility and control.

Legal review

Obtain formal legal review, internally or externally, for key contracts with substantial risk implications.

End-of-life considerations

Prioritize end-of-life terms during negotiations to avoid future complications.

5 Be Proactive About Oversight

Once you have contracted with a vendor, integrating them into your system should be natural if you assigned your vendor owners correctly. The next part of the vendor lifecycle (monitoring and governance) can be summed up easily—evaluate, evaluate, evaluate.

Hopefully you've already done much of the legwork here, because a solid planning process includes the definition of results expected from each vendor relationship, and a good selection process includes the discovery of what results can be expected. A well-negotiated contract will include the identification and agreement of results, a method of determining whether results have been achieved and the identification and sharing of data available to measure success of a vendor's performance (scorecard).

Financial institutions should prioritize ongoing vendor performance monitoring over routine compliance and financial risk tracking. Any vendor performance lapse immediately impacts employees or members/customers and your organization. Poor vendor performance equates to poor performance by the institution—and that's how you lose customers or members.

Establish a scorecard and be sure to include:

- **Service levels**—Response times, issue resolution, uptime/availability
- **Volume**—Transactions, inquiries and service requests over time
- **Quality**—Error rates, defects, customer satisfaction scores
- **Milestones**—Progress against roadmaps and launch timelines
- **Reporting**—Timeliness, accuracy and comprehensiveness
- **Communications**—Responsiveness and transparency

But data alone isn't enough—regularly discuss results with vendors. Balance accountability with finding paths to improvement, and build a relationship with the vendor as your partner. We recommend a regular 10-minute conversation with your vendor account representative. This can be incredibly effective to review performance information can be incredibly effective at understanding what needs to happen to achieve results. Ongoing dialog related to performance often brings clarity to performance-related issues and will bring alignment.

When issues arise, contracting for clear metrics and prompt notifications from partners and then regularly monitoring vendors allows for accurate measurement and leads to better performance. And completing a scorecard form can help you determine the last step of the vendor lifecycle—which vendors should be renewed and which need to be terminated.

6 Manage Risk

Finally, the reason we're all here—risk. As we said before, vendor management originated from regulatory guidance. If you knew much about vendor management before you started reading, we're going to bet it was about risk.

Risk encompasses the entire vendor lifecycle and is behind every building block of a vendor management program we've discussed, so you need to keep reading. But it's not the only part—and that's the most important message to leave with today.

That said, let's talk about what you actually need to do when it comes to risk, or due diligence.

Assess inherent risk

In the realm of financial institutions, it's imperative to methodically assess and rank vendors based on the inherent risks associated with outsourced products and services. This means looking at the risk associated with the vendor's service before any measures are put in place.

In breaking down inherent risk scoring for services, meticulously examine the various types of risk exposure each service introduces. Each exposure type carries a unique weight and is scored independently for every service. The cumulative scores for all exposure risks culminate in the inherent risk score for that particular service.

The types, or dimensions, of inherent risk most commonly applied and defined in FFIEC, NCUA and FDIC guidance include: access to customer/member non-public personal information (NPPI), operational risk, strategic risk, concentration risk, transaction risk, compliance risk, financial risk, legal risk and reputation risk.

Simplicity is crucial in structuring risk-ranking tiers. All stakeholders, from staff members to executives and auditors, should be able to immediately comprehend tier definitions, ranking methodology and a vendor's position within the risk spectrum. The assignment of risk levels to vendors to understand the dimensions of a vendor's risk aligns with the following general criteria:

EXEMPT

The vendor has no access to (or only incidental contact with) non-public personal information, does not impact the core mission of the institution directly and/or may be easy to replace with internal processes or an alternative vendor.

These vendors are exempt from certain recurring vendor management activities unless substantial risk issues arise, or when selecting a new vendor.

IMPORTANT

The vendor may have infrequent and/or a moderate level of access to non-public personal information and/or is important but not critical to the core mission of the institution, and any interruption of services will not have a critical impact on operations and may be temporarily satisfied by internal processes if required.

CRITICAL

The vendor has a high frequency and/or high level of access to non-public personal information and/or is critical to the core mission of the institution, and any interruption of services would have a critical impact on operations.

Once inherent risk ranks are established, they become the reference point for regular check-ins, ensuring a vigilant assessment of a vendor's ongoing risk considering the preventive measures in place.

Assess residual risk

After the initial or periodic review of a vendor's due diligence documentation and controls, it's important to delve into the remaining risk and potential exposure to future risks—the residual risk.

Following FFIEC guidelines and the expectations of examiners, institutions must establish a robust methodology and process to assess, document and unequivocally accept the residual risk in their vendor relationships. This isn't just a suggestion—it's a requirement.

A best practice, one that should be ingrained in your institution's approach, is to conduct vendor residual risk assessments hand-in-hand with due diligence reviews. Why? Because much of the legwork involved in reviewing due diligence documentation—Service Organization Control (SOC) reports, audits, security and continuity plans, financial health and insurance coverage adequacy—can and should seamlessly translate into a thorough residual risk assessment.

Based on the risk(s) identified in evaluating each vendor, some or all of the following categories will need to be considered as part of the assessment process:

Security — Includes, but is not limited to, how data is encrypted, background checks, password protection, firewalls, intrusion identification and anti-malware software.

Privacy — The institution has obligations to its members or customers to keep certain information private. The institution must ensure that third parties have a privacy policy regarding customer information and that the policy is in accordance with the institution's privacy policy and compliance obligations.

Performance — The institution needs to ensure that third parties are complying with the terms and conditions of the contracts being signed; otherwise, the institution risks suffering reputational, financial and compliance risk.

Accountability and continuity — The institution and the vendor need to clearly define which party is responsible in the event of an emergency. If there is an attack on the system used by the third-party vendor, the vendor must report 1) the attack to the institution, 2) what, if any, data was compromised or damaged due to the attack, and 3) any subsequent remedies the vendor took to stop the attack and prevent future occurrences.

Financial condition — The institution needs to review the financial condition of its critical and important vendors. Vendors that are not financially viable or whose viability cannot be assessed represent risks to the institution.

At the very least, the institution should mandate residual risk assessments for its most critical vendors annually. This responsibility falls squarely on the shoulders of the people or committees responsible for managing each vendor's relationship. This is non-negotiable for critical vendors.

Going a step further

When conducting risk assessments for vendors, SOC 2 is the gold standard for digging into how a third-party service provider minimizes interruptions of service and insulates you and your customers/members from breach events.

A key area when reviewing SOC reports that is often overlooked is Complementary User Entity Controls (CUECs). These are the controls the vendor's auditor lists in the SOC report that the vendor expects its customers to have in place for the vendor's own controls to work effectively.

If you plan to spend time reviewing SOC reports in any depth, the CUEC are a great place to spend most of that time because it is one of the few areas of due diligence review you have control over.

Complementary User Entity Controls generally come in two flavors:

1 IT PROCESSES AND SYSTEMS-RELATED ACTIVITIES

2 HR OR EMPLOYEE-USER-FACING PROCESSES AND ACTIVITIES

A best practice is to list the CUECs when encountered in SOC reports, review and understand the intent of each control and verify clearly that the control is in place on the institution's side. Because controls can come in flavors that may not be in the wheelhouse of a business owner assigned to the vendor, this is best done as a collaborative exercise. By bringing in the subject matter experts where the controls may live and be in effect within the institution, such as IT, operations and HR leads, the correct people will verify whether these controls are in place. If it is found that a control may not be in place, the right stakeholder is immediately made aware and can pivot quickly to ensure it will be put in place.

Having a consistent CUEC validation process and tracking toolset to assign, communicate then validate or resolve missing CUECs quickly and effectively is key.

Ongoing Risk Monitoring

Don't let this be a trap...

Many institutions place a heavy emphasis on risk and spend a good deal of resources, time and money on software platforms and vendor monitoring over which they have little control. Unfortunately, all of the time spent monitoring every angle of potential risk a vendor may pose will mostly not improve the existing relationships, performance or pricing.

In a nutshell, the emphasis on constant monitoring is often a result of compliance pressure, complex tools and unrealistic advice.

Our recommendation? *Take a practical approach.* Focus on what you can actually control and aim to manage risk through better contracting whenever possible.

Significant changes to risk, such as breaches or service interruptions with a high probability of immediate impact, need to be escalated to stakeholders. Management, IS/IT, operations and in severe cases executive leadership and board members may need to be looped into the issue. However, jumping to the conclusion that a breach of contract occurred or that termination is necessary isn't usually the best option.

For most situations, log the events, discuss them with the vendor and internal stakeholders and use them to inform decisions about the next contract or vendor replacement.

Substantial changes to risk may come from certain events, including (and in order of impact significance):

- Data breaches
- Service interruptions
- Bankruptcy filings
- Natural disasters at a vendor's HQ or regional offices
- Changes in ownership and mergers and acquisitions (and specifically foreign ownership)
- Layoffs or frequent staff turnover
- Continued performance concerns
- Significant and sustained financial health issues
- Expanding or contracting into financial or other markets
- Open litigation, audit findings or CFBP fines or investigations

Vendor Lifecycle Management: Putting It All Together

Vendor partnerships are absolutely critical for financial institutions today. When managed well, vendors provide essential capabilities to enable growth and deliver great customer experiences. But outsourcing also introduces new risks that require vigilant oversight across the vendor lifecycle. By taking a holistic, enterprise approach, financial institutions can get the most value from vendors while proactively controlling risks.

By implementing the strategies outlined in this whitepaper, financial institutions can make vendors a core competitive advantage through:

Cultural Integration

Effective vendor management requires executive endorsement and leadership participation to reinforce its strategic importance.

Employees across the institution should recognize vendors' direct impact on customer experience and corporate objectives. Open communication and training ingrain the value of vendor governance institution-wide.

Mastery of Contracting

Centralized contract oversight enables financial institutions to maximize value through persistent negotiations.

Favorable terms focus on performance requirements, guardrails, protections and renewal leverage. Continual reviews modify agreements to better meet strategic needs.

Strategic Alignment

Vendor strategy must directly complement corporate strategy through multi-year planning.

Assessments determine the optimal vendor fit and changes needed to fill capability gaps. Vendor selections and modifications are tied to strategic goals. Performance metrics create accountability.

Proactive Oversight

Targeted monitoring focuses on vendor performance versus abstract risks. SLAs and metrics are embedded into contracts to maintain accountability.

Customized oversight practices based on risk profiles optimize resources. Assessments provide insights to continuously improve programs.

Diligent Selection

A rigorous methodology thoroughly vets vendor qualifications and risks during selection. Targeted RFPs clearly define expected results.

Due diligence investigates financial health, security, architecture, delivery history and more. This reduces blind spots and positions partnerships for mutual success.

Risk Management

Vendors are ranked by contracted service risk levels rather than reputation.

Tailored control approaches are designed to match inherent risk tiers. Residual risk assessments gauge remaining exposures to hone mitigation strategies over time.

A Final Note: DIY or Outsource?

For many financial institutions, building an internal vendor management program from scratch poses challenges. Developing expertise across vendor selection, contracting, implementation, risk management and performance governance represents a major undertaking.

Realistically, assessing capabilities and bandwidth is crucial. While outsourcing key functions to vendors can provide advantages, managing those relationships requires specialized skills and resources.

For smaller institutions especially, attempting to handle comprehensive vendor management in-house may distract from the core business.

In these scenarios, partnering with an experienced vendor management firm can accelerate results while optimizing resources. The key is selecting the right strategic partner to match needs and integrate s eamlessly into existing processes.

When evaluating the build versus buy decision, consider the following:

Expertise—Specialized vendors possess regulatory knowledge and best practices honed across diverse clients and verticals.

Objectivity—Third parties often provide unbiased perspectives on risks, vendor qualifications and agreements.

Resources—Contract experts, auditors and tools create efficiencies that are difficult to replicate internally.

Scalability—External teams and systems can scale to manage fluctuations in vendor portfolios.

Costs—Weigh estimated expenses to hire, train, develop and manage an internal team.

An outsourced vendor management partner essentially becomes an extension of your institution. Vet partners based on expertise, experience, client results and cultural fit. The decision to outsource aspects of vendor oversight must also focus on value, not just cost. The real return comes from reducing expenses, improving efficiency, managing risks and strengthening vendor performance. Using software systems to manage risk may be unavoidable in some circumstances, but understanding the number of human resources to make effective use of the software is critical when weighing options.

Software alone doesn't do anything to help manage vendors. With the rigorous selection and oversight of an experienced vendor management partner, financial institutions can implement enterprise programs that deliver ROI across critical functions.

Summary

With the right vendor management strategy, you *can* manage your vendors—starting from partner selection and contracting to ongoing measurement, monitoring and risk mitigation. You must choose the right technology, systems and service providers that enable the required performance. You must continually manage relationships to control expenses, ensure acceptable risk tolerance and compel accountability for service disruptions that impact clients.

With this comprehensive approach, vendor relationships transform from an obligation into a strategic asset, empowering financial institutions to reduce expenses, accelerate growth and deliver standout customer experiences.

About Cornerstone Advisors

For more than 20 years, Cornerstone Advisors has delivered gritty insights, bold strategies, and data-driven solutions to build smarter banks, credit unions, and fintechs. From technology systems selection and implementation to contract negotiations, performance improvement, vendor management, strategic planning, and merger and acquisition services, Cornerstone combines its expertise with proprietary data to help financial institutions thrive in today's challenging environment. For more information, visit www.crnrstone.com or connect with us on [LinkedIn](#).

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