The Vendor Conundrum for Banks
by Charles Wendel

These days, bank management faces a myriad of challenges. Listing these issues could take up this entire newsletter. One area that presents multiple challenges can also provide substantial leverage and support to banks. The role of vendors of various assortment and type has become more important than ever before for effective bank management. And, as costs rise and complexity in many areas of bank management increases, being able to select, manage, and partner with vendors will become a critical bank skill. In fact it already is, but too many banks continue to lack a rigorous process related to vendors, their care, feeding, and use.

In these comments I will avoid the morass of compliance hurdles that vendors need to jump over. However, in some cases senior management needs to put a harness on Compliance personnel. To the extent possible Compliance should have a dual and interconnected role: protecting the bank and ensuring that regulations are adhered to while at the same time facilitating the initiation or continuation of a vendor relationship. Over the years I have seen compliance personnel (and IT for that matter) act as a roadblock, playing Dr. No, while others have addressed and resolved issues that ultimately allow a bank to proceed with a successful vendor relationship. This latter attitude should be encouraged and rewarded.

Much of vendor activity centers on two areas: IT and product, new line of business development. Many banks are totally dependent on vendors for both core systems as well as IT-based new product introductions, related to areas such as cash management, mobile banking, and consumer and small business loan processing, among other areas. The biggest vendors make it difficult at best to integrate smaller vendors into their world, even though they may have more appropriate solutions for the bank. Oftentimes, the big players acquire smaller players, but in the view of some bankers we know, fail to integrate them into their increasing byzantine structure. Frequently, senior management lacks the time and, understandably, the skill set to roll up their sleeves and perform a deep dive into the IT world and related decision processes. However, they need to do so. No offense to the often overworked and misunderstood IT staff, but in some cases IT decisions are too important to be solely left up to IT personnel.

What is the alternative? I have seen banks where senior management, overwhelmed by acronyms, simply relies on their IT head, positioning him as guru, decision maker, and manager of third parties. Since top management supports him, questioning of his decisions is limited. At the same time business heads are focusing on their own worlds and are happy to have someone take over the IT burden, particularly if they then have someone they can blame when things go wrong. While they may not want to do so, top management not only needs to get involved, but must also enlist the heads of key business lines (LOBs) in the IT process. At a minimum LOBs need to establish liaisons with IT. The problem with that approach is that the person chosen for that role may be at too low a level or has split responsibilities that limit the time he has available to understand IT-related issues. IT and the LOB liaison need to develop a standard and regularly issued communications piece that while not quite "IT for Dummies," highlights what top management needs to know, tracks progress, and raises issues for management attention. Basically this requires no more that a two-page summary. The regularity of reporting and discussion will make all the difference at many banks and serve as an agent of cultural change.

Regarding new products and business lines, banks need to work with others as they struggle for revenue growth. As noted in other newsletters and our upcoming webinar banks should be assessing whether and how to work with alternative finance company lenders (AFC), particularly in the small business space. However, the process that many banks use to assess potential partners often seems ragtag in nature, based upon an article that someone has read or an opportunistic meeting at a conference rather than a more rigorous process, probably involving an RFP.

We find that many of the banks considering working with an AFC have yet to determine their ultimate goal in doing so. For example, do they simply want to pass along their turndowns or are they ultimately interested in considering integrating fully with the AFC, potentially reducing their cost structure and improving productivity by working with a third party? They also need to quantify the economics of working with AFCs in part to determine the level of priority this initiative should receive versus others.

While I hesitate to recommend increasing a bank's bureaucracy, banks should consider if it makes sense to establish a head of third-party relationships or conduct a one-time bank-wide assessment of how they engage with third parties. This area merits a spotlight, one that uncovers areas for improvement and new opportunities moving forward.