



Vendor Information Management for the Banking and Financial Services Sector

In recent times, increased outsourcing and heightened regulatory concern has generated a need for financial institutions to carefully manage and evaluate their relationships with vendors of all shapes and sizes. The safety and soundness of an institution is becoming increasingly contingent upon its ability to effectively select and manage its vendors. Regulatory compliance has increased dramatically, partly due to the increased outsourcing of services and technology. The economic crisis has further turned the spotlight on Vendor Risk Management, especially among financial institutions. Regulatory compliance fine-tuned corporate management and huge opportunity for bottom-line savings has substantially elevated the importance of vendor management from a department-level process to an enterprise-wide one. Banks and other financial institutions must address new accounting and compliance obligations with the emergence of new and evolving regulations, e.g., SOX, FDIC, FFEIC, GLBA, and OCC.

The banking and financial services industry, driven by these regulations, is seeing increased competition from non-traditional players, commoditization of products, and advances in technology and has experienced significant change in the last decade. This change has placed constant pressure on the industry to manage new risks, lower costs, improve efficiencies, and rethink traditional business models. As a result, institutions are searching for ways to streamline internal operations and automate their supply and resource management processes.

Vendor Management has thus evolved as a core necessity for a financial institution. It yields additional value beyond reducing risk and meeting regulatory compliance requirements. A sound Vendor Management program solidifies partnerships and relationships between customers and vendors and contributes heavily to the overall financial health of a BFSI institution. There are significant penalties for failure to adhere to these regulations and the strategic objective of protecting the highly sensitive information driving operations.

In light of these concerns, financial institutions are taking strides to create robust vendor management policies and systematically organizing their vendor relationships while at the same time, achieving and maintaining compliance and adhering to increasingly stringent regulations. But in order to achieve this, the institution should first have access to high quality and reliable information about the business partners it is dealing with, the sources of risk it is dependent on and the cost-centers which are keys to its successful operations.

This is where Vendor Information Management solutions come into picture. It is highly important that the organization choose the right software solution for implementing the vendor management program.

Financial Institutions rely heavily on IT vendors for systemic, core bank functions and their contribution to the overall strategy of the business is hence, on the rise. Managing IT vendors is more challenging than managing typical operational vendors (due to the immeasurable access to

“Federal and Internal regulators, Auditors - all require us to take a hard look at our vendors and the access they have to our information, the amount, quality and quantum of information we have on them, the risk they pose and the ability to monitor their performance. But when you have thousands of vendors it's hard to identify and monitor all of them at a single focal point. The vendors agree to your terms up front, but that doesn't protect the banks in case of any failure. You can outsource your responsibility to the vendors, but not your liability. This is where an effective vendor management program comes into the picture by providing you with a superior capability to counter the unplanned, unforeseen risk and ensuring that your institution is open to minimal liability.”

Vendor Risk Manager,
Large US Multinational Bank
(~\$8B)

the core data these software have - be it about customers, finances, investors or shareholders), so it is important that internal IT sits at the table to define and implement a powerful yet methodical vendor management business process. In the concurrent financial turmoil, regulators in the BFSI Sector have made it very clear that the Board of Directors and senior management must identify and control the risk associated with third-party relationships.

Objectives of Vendor Information Management

Vendor Information Management

- Centralize Vendor Information and Documentation
- Clean, Cleanse and enrich with business value the vendor master
- Establish accurate vendor information as the source of critical decision making in A/P, Finance, Operations and Procurement
- Enable cross functional availability of vendor information to legal and compliance, etc.
- Develop robust business process and approval workflows to maintain a clean and consistent vendor information

Vendor Risk Assessment

- Define policies and procedures to assess risk and establish controls
- Develop risk rating and ranking criteria
- Devise risk mitigation strategies
- Track the performance of vendors on key financial parameters
- Review vendors on key credit ratings and business operations

Vendor Due Diligence

- Adopt a fact and evidence-based approach
- Look at the risks associated with ongoing portfolios
- Continuous & Consistent monitoring
- Include results of third-party verifications and analysis around trends and root causes as part of supplier documentation over and above data collection, analysis and reports that are prepared for each review

Vendor Contract Review

- Establish clear and accurate terms and conditions, time frames and duration of activities
- Ensure security, confidentiality and privacy requirements are met in line with regulatory requirements
- Set up Performance Standards / Service Level Agreements (SLAs) to monitor performance of vendors

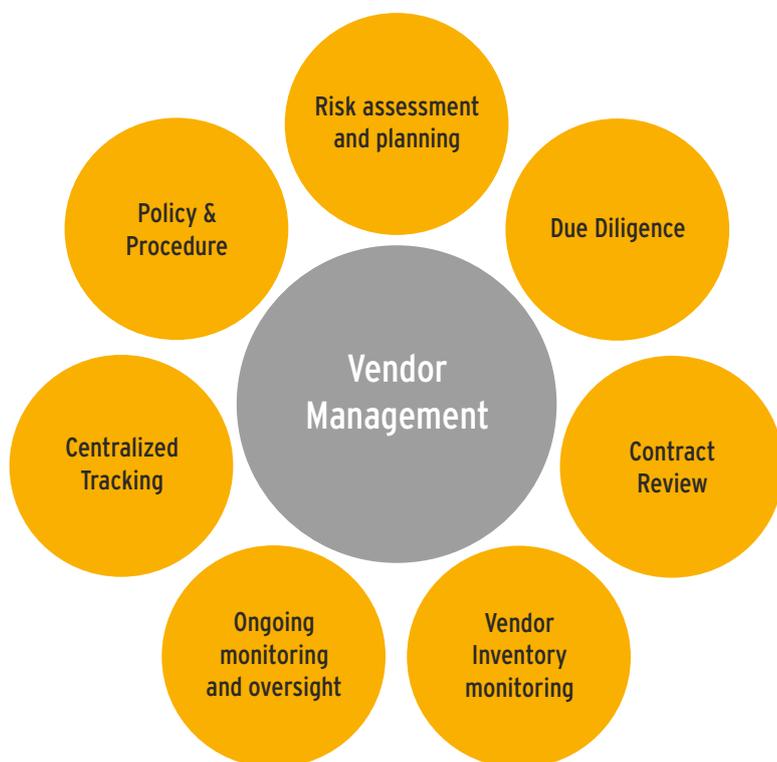
Vendor Governance

- Set up an enterprise wide vendor management database
- Create a Vendor Performance Management process
- Monitor and Manage financial Health of Vendors
- Setup Vendor Relationship Management process
- Create an Auditing process of vendor information

“Every year, the regulatory and management reviews have a new area of focus. Newer regulations crop up from different bodies and it is hard to keep track of them and implement & modify our vendor management strategies accordingly. Regulators look for an overall view of the vendor base and any existing loopholes and risks, and follow-up actions in case of a failure. IT vendor management is hence predominantly driven by regulations and their directive guidelines. You have to be confident enough to say to the regulators that you have an effective and capable program to manage your vendors and everything there is to know about them.”

Sr. Consultant - IT Vendor Management,
Large Credit Union, Boston Area, US

Financial institutions should ensure that the software solutions they invest upon for vendor management address all these areas. Vendor management solutions have thus evolved as per the requirements of the banks of the areas with specific areas of focus.



A successful vendor management program led by a good Vendor Information Management solution drives many significant benefits to institutions for sound financial health.

- Normalized and enriched vendor details
- Real-time validation and assurance of vendor information quality through data governance and configurable approval workflows
- Visibility of vendors across the financial enterprise
- Higher contract compliance and vendor base rationalization
- Better vendor performance tracking and reporting
- Improved collaboration with vendors and third-party service providers and across the institution
- Monitor and improve vendor compliance as per regulatory guidelines
- Minimize risks due to non-compliance, breach of information security

While compliance requirements are increasingly driving financial institutions to embrace vendor information management, a real business value is also delivered in the form of improved operational efficiency, control and effectiveness.

“We want a centralized system that every one across the institution can use. It is difficult to achieve a single version of truth with manual processes from multiple versions of the data and the business value that data represents. Automated solutions have a clear advantage as they deliver faster, real-time and more accurate results. We look at effectiveness of our vendor management program as a valuable competitive advantage. It gives us the ability to grow and improve our financial health while protecting our reputation.”

Director, IT & Business Support Systems
Insurance Giant (>\$15B), Greater New York Area