

Managing Service Provider Relationships

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First Thing to Do

- Inventory your service providers
 - What services are being provided and by whom?
 - How long has the services been provided by the service provider?
 - Who are the contacts for Service Provider and CU?
 - Gather the service provider agreements (end dates).
 - What are the performance issues, if any?
 - Do you have any due diligence on the service provider?



First Thing to Do

- Inventory the key sub-service providers
 - Who are the key providers that your providers are depending on and do you have any due diligence on them?
- Rate the criticality of the services provided
 - Essential to daily function of core services
 - Desirable to have to support core services but not essential on a daily basis
 - Will not effect core services



What are the big questions?

- Does outsourcing fit with our credit union's strategy and risk tolerance?
 - Risk Assessment and Planning
- Is the proposed vendor a credible and effective provider?
 - Due Diligence
- How do we monitor the relationship and manage the risk?
 - Risk Measurement, Monitoring and Control



Planning

- Strategic and Philosophy Fit
 - In-house vs. outside solutions
 - CUSO vs. non-CUSO providers
- Business Plan Fit
 - Short and long term objectives
 - ROI or Cost Savings
 - CU's strength and weaknesses
 - Internal changes needed to implement plan



Risk Assessment

Seven risk areas

- Credit
- Interest Rate
- Liquidity
- Transaction
- Compliance
- Strategic
- Reputation



Risk Assessment

- Criticality of Activity
- Expectations of Outsourced Function
- Staff vs. Service Provider Expertise
- Risk-Reward or Cost-Benefit Analysis
- Insurance
- Impact on Membership
- Exit Strategy



Due Diligence

Credibility of Service Provider

- Experience of Service Provider
- Experience of Service Provider's key employees
- References of existing and past clients
- Background Check
 - Representations of Service Provider
 - Claims and lawsuits
 - Reputation verification from non-clients



Due Diligence Business Model

- Longevity and adaptability of business model
- Understand each player's role in the business model
 - Risks and duties assumed
 - Complete cash flow of transactions, ability to independently verify
 - Relationship between Service Provider and other players and background on other players



Due Diligence

Financial and Operational Control Review

- Review Service Provider's financial ability to meet its commitments, ability to periodically review
- Financial statements – outstanding commitments, capital strength, liquidity and operating results
- NRSO Ratings and SAS 70 (Type II)
- Review financial and internal control structure of Service Provider



Due Diligence Contract Review

- Description of services
- Responsibilities of parties and players
- Service and performance standards
- Performance of reports
- Penalties for lack of performance
- Ownership and control of records
- Ownership of servicing rights



Due Diligence Contract Review

- Audit rights and requirements
- Data security and confidentiality (audit)
- Business contingency planning
- Insurance
- Member complaints and service
- Compliance with regulations
- Dispute resolution
- Default and termination clauses



Due Diligence

Accounting Considerations

- How does the CU account for a non-traditional service?
- Does the Service Provider relationship change a traditional method of accounting for a service?
- Independent accounting review of Service Provider arrangements



Service Provider Policies and Procedures

- State staff responsibilities and authority for Service Provider processes and oversight
- Define content and frequency of reporting to CU management
- Establish program limitations on pace of introduction of services to limit risk exposure as programs are working out initial issues



Risk Measurement and Monitoring

- Must have the knowledgeable staff, equipment and technology to monitor Service Provider performance
- Risk is not outsourced, still must monitor risk
- Need to measure risk and performance (profitability, benefit and service delivery)



Control Systems and Reporting

- On-going risk assessment
- Internal controls and audit functions
 - Is the Service Provider appropriately safeguarding member assets, producing reliable results and following the terms of the third party arrangement?



Re-Organizing the Credit Union's Skill Sets to Manage Outsourced Solutions



Preparing for the Outsourced Credit Union Model

- Integrate the philosophy within the strategic planning and business planning process
- Create Service Provider Policy and Procedures
- Who will implement the Service Provider Policy?



Service Provider Manager

- Assists in development of and insures compliance with Service Provider Policy and Procedures
- VP Level, reports to the CU President
- Works with Subject Matter Expert in the selection, integration and management of Service Provider relationships



Service Provider Manager

- Has knowledge with Service Provider options in and out of the CU Industry
- Assists in the integration of Service Provider's services in the CU
- Reports on Service Provider performance



Collaboration Policy

- What is our philosophy on collaborations?
- If we decide to outsource a solution, how do we decide whether to own or not to invest in a Service Provider?
- When services do we deliver collaboratively?
- How do we choose our collaborators?
- How do we monitor the success of our collaborations?
- What are the reasons to end a collaboration?



Collaboration Policy

- Are there non-negotiable terms to our collaborations?
 - Co-owners
 - Customers
 - Services
 - ROI or Cost Savings
 - Control



Questions

