

Navigating Vendor Contracts

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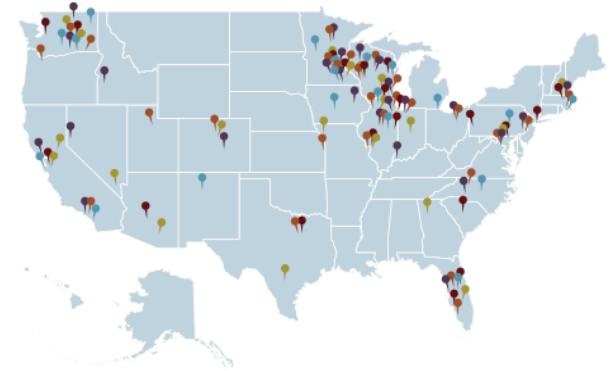
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Introduction

CliftonLarsonAllen, LLP

- A professional services firm with three integrated service lines to advance our client's success
- Serving more than 1,800 financial institutions
- More than 5,000 employees




Sherry Jessen

- Manager, Technology Advisory & Strategy
- 20 years combined FI and consulting experience
- Navigating contracts since 2002






Navigation – A Risk Management Process:

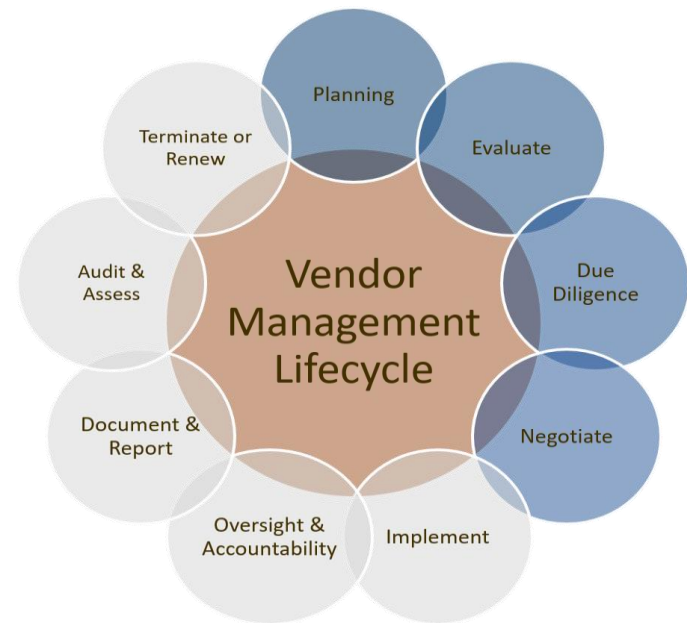


Gone are the days of handshake deals, simplistic contracts, and set and forget management.



Vendor Risk Management

- Vendor management starts with thorough evaluation, due diligence, and negotiating terms that protect the bank before the ink is on the contract.
- In this session we will share some successful strategies and experiences to help you navigate the process, reduce risk, and secure favorable contracts with long-term benefits.





Navigation Considerations:



Proper planning, selection and negotiation can be significant contributors to the bank's ability to respond to market conditions, drive growth, and improve the balance sheet.



Business Considerations

- Through proper planning, assessment, and negotiation institutions can:
 - Reduce expenses
 - Improve operating efficiencies
 - Grow deposits
 - Improve margins
 - Foster growth
 - Increase accountability
 - Manage risks
- Uncover what you don't know, but should
- Achieve strategic initiatives



Expense Considerations

- The core/ancillary contract is usually the largest and most complex technology contract, and usually the second highest non-interest expense, just after personnel cost.

- A recent survey reflects that banks who have adopted a modern technology platform on average achieve a 25% higher ROA and a 37% higher ROC compared to banks on legacy technology.

- On average, FIs pay about 24% above FMV for core/ancillary services. Institutions can recognize savings from 11.5% to 43.4% through proper contract re-negotiation.

- Securing the right technologies and product offerings can help to sustain margins in the midst of interest rate risks.

- Research shows that bank IT spending continues to grow about 4% year-over-year.



Market Considerations

- Core Platform and Hosting
 - Systems Pros/Cons
 - Bundling vs Best of Breed
 - In-House, Service Bureau, Cloud, and Hybrid
- Core Market Oligopoly
 - FIS, Jack Henry, and Fiserv own 80% market share
- Merger & Acquisition
 - Banks, Vendors, and FinTechs
- Guidance & Regulatory
 - 2008 Guidance on Third Party Service Providers
 - 2015 IT Handbook update, “Technology Service Providers”
 - 2018 updates/enforcements, FDIC TSP Contract Assessment





Set the Course:

Making decisions based on cost alone without regard to overall technology strategy or the inclusive solution value can lead to negative long-term consequences.

How To Set Course



Why Start

- Preparation for significant strategic change
- Diving into a new technology/services
- Consolidation of products/services
- Promotion of operational efficiency
- Changes in delivery/support model
- Shift in the IT infrastructure
- Challenged by staffing, resources, and talent
- Bank or Vendor M&A
- Selection/Renewal in the next 12-36 months
- System limitations / End of Life



Who to Consider

- Core processing
- Ancillary systems
 - Digital services
 - EFT and card services
 - Lending
 - Item processing
- Telecommunications
- Managed services
 - Network
 - Phones
 - Desktop
 - Security
- Website design, development, and hosting
- FinTech companies



When To Do It

Stage	Time in Months			
	Core and Ancillary Systems	Telecommunications (Voice/Data Circuits)	IT Managed Services	Website Design, Development & Hosting
Needs Assessment	2-3	1	1-2	1-2
Evaluation	4-6	2-3	2-4	2-4
Due Diligence	2-3	1	1-2	1-2
Price, Contract, and SLA	4-6	1-2	2-3	2-3
Timeline Total	12-18 months	5-7 months	6-12 months	6-12 months

**Timelines above do not include time for implementation or conversion to a new system.*



Where to Begin

- Select a Team
- Define the Needs
 - Business
 - Employees
 - Customer
 - Market
- Review/Perform a Systems Assessment
- Identify the Model
- Understand the Vendors





Steer the Course:

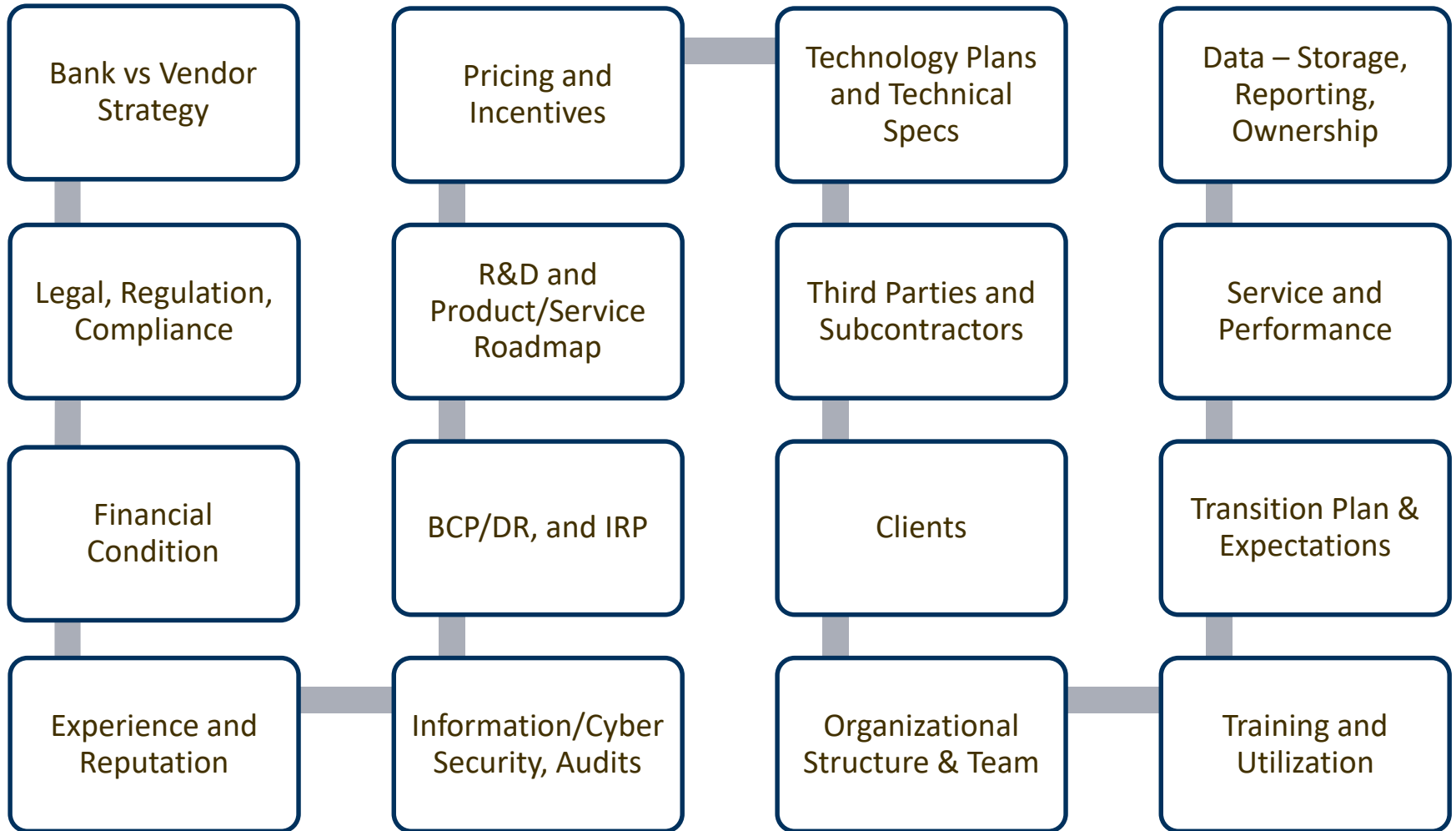
Stick to the course you've set and leverage it effectively during the evaluation, due diligence, and negotiation to steer direction and achieve long-term returns.

Evaluate the Vendors

1. Request for Proposal (RFP) Responses
2. Demonstrations
3. Employee Evaluations
4. Visits and Calls
5. Risk Management / Due Diligence



Due Diligence Checkpoints



Price Considerations

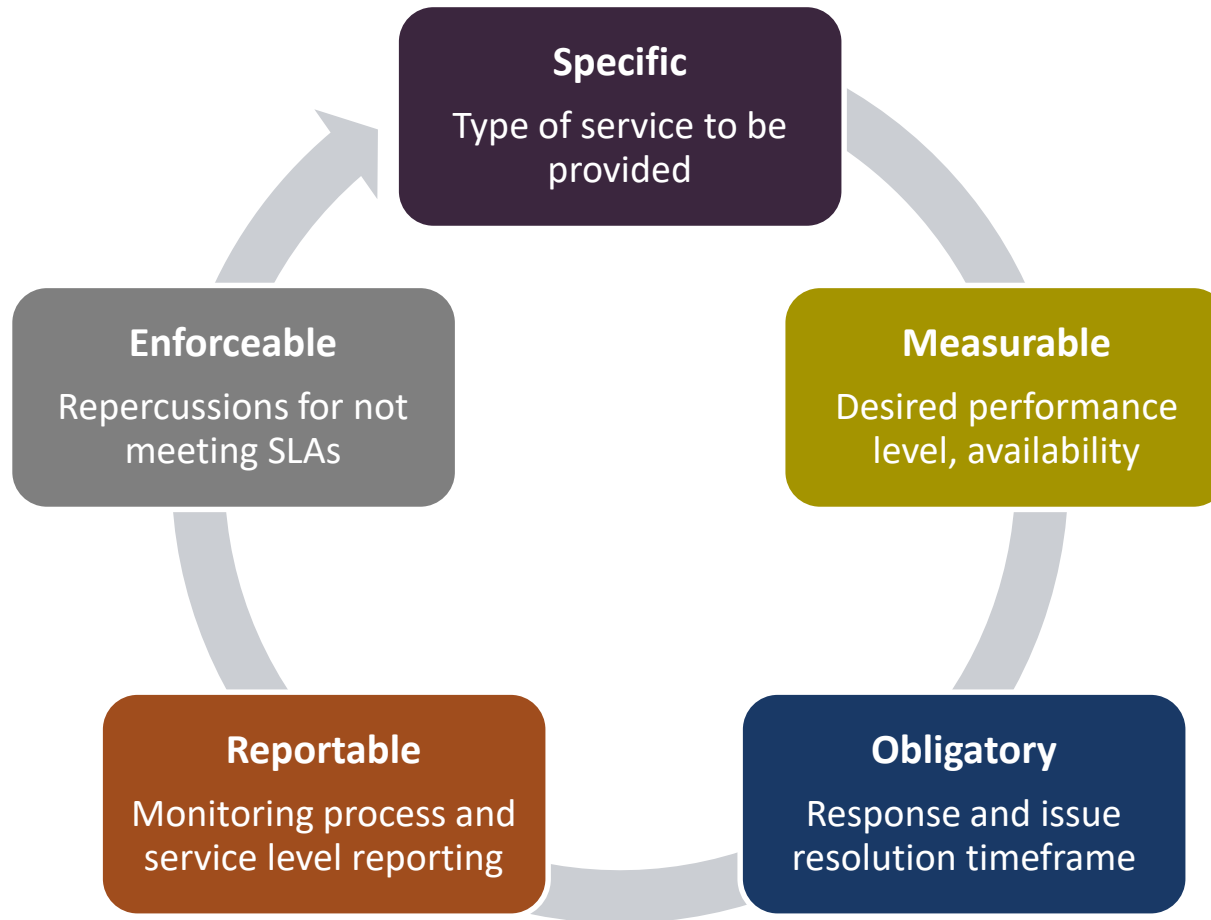
- Stated Fees
 - One-time
 - Monthly
 - Annual
- Unforeseen Fees
 - Term
 - Growth
 - Regulatory/Compliance
 - Professional Services
 - Product/Service Charges
 - Third Party



Contract Considerations



Service and Performance Considerations





Navigation Tips



Selecting mission-critical vendors and systems is a complicated and time intensive process because there is a lot riding on your final decision impacting your business, your employees, and your customers. Plan Ahead and Plan Wisely!



Best Practices

- Define success upfront
- Obtain and maintain control
- Look holistically
- Involve the business units
- Leverage expertise
- Think strategically
- Give yourself time
- Ask for everything
- Never let trust cloud your thinking



Dead Ends

- Not having plan
- Not knowing the market
- Reacting to short term needs
- Focusing on price alone
- Not getting it in writing
- Moving to contract before finalizing price
- Not knowing what/how to ask
- Not understanding transition expectations
- Not performing ample due diligence
- Not sticking to the course



Questions?



Technology Advisory & Strategy (TAS)

Outsourced Technology Advisor (OTA) or Outsourced Security Advisor (OSA)

- On going and on-demand technical, operational, regulatory, security, and business strategy assistance

Strategic Technology Planning

- Development of an overall technology strategy aligned with business goals

Technology Assessments: Network Infrastructure, Organizational, & Systems

- Tactical assessment on the IT infrastructure, the people, and/or the systems deployed

System Selections, Contract Advisory and Conversion Services

- **Planning, Assessment, Selection, and Advisory of critical technology systems and vendors**

Blending Systems, Mergers & Acquisitions

- Pre and Post-Merger evaluation, planning, and implementation

Digital Service Strategy & Deployment

- Assessment and development of a digital services strategy allowing for more convenient, and consistent customer experiences

Vendor Management

- Assessment, development, and implementation of a more agile vendor operating model

Technology Regulation & Compliance

- Assistance and/or validation of security program/components keeping governance and execution up-held



Thank you!

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