Quick Q&A

ON VENDOR DIVERSIFICATION

with Jason Blair

Executive Managing Director at R&T Deposit Solutions

Jason Blair is executive managing director for R&T Deposit Solutions, which provides deposit, liquidity and cash management solutions for U.S. banks and other financial institutions. Previously, Blair held senior roles at Incenter, a Blackstone company, and Promontory Interfinancial Network, now IntraFi Network. Prior to his experience in banking services, Jason spent over 15 years in leadership positions in banking. He warns of the risks of working with a single vendor.

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1 Why is it important for banks and credit unions to have diversification within the vendor space?

Banks and credit unions may see a small benefit from the economies of scale from just one vendor relationship. However, they could be exposing themselves to risk and should always have a backup plan in case something goes wrong. For instance, if a third-party vendor encounters systematic or operational issues that result in a disruption of service, the financial institution could be exposed to liquidity, market, reputational and even financial risks. This would not only affect the financial institution, but also their clients. Therefore, it's no surprise that regulators encourage banks to reduce vendor concentration. Financial institutions were put to the test by the COVID-19 pandemic. As we emerge from it, systems and processes undoubtedly will be re-evaluated to ensure contingency plans are updated and solid.

2 How are mergers and acquisitions impacting financial services organizations' vendor base?

This is the perfect time to either keep multiple service providers or even add a vendor. Many banks are being proactive by keeping two or more cash-sweep vendors. It allows the bank to enhance its contingency plan. Multiple service providers can be used in different divisions of the bank so divisions within the bank don't have overlapping funds. Multiple vendors also improve both the bank's contingency funding plan and its Asset-Liability Committee (ALCO) policy by adding one or more funding options. It likely takes just as much work to remove a vendor than it does to add one.

3 If one vendor gets hacked or its system goes down, how quickly can an alternate vendor step in and eliminate any disruption to its business and to its customers?

It depends on the vendor sector. In our sector, meaning FDIC-insured cash sweeps, there are a few outlets that financial institutions can rely on to make certain their customers' funds are protected. Banks can buy additional collateral and provide a repurchase agreement to their clients. They can also purchase a surety bond or Federal Home Loan Bank Letter of Credit, which can be expensive and likely more of a short-term play. Financial institutions also have the option to sweep their customers' funds off the balance sheet into a potentially riskier investment, like money market funds. If a bank has adopted the "multiple vendor" approach, there should be no delay in getting their customers transitioned to the other program. Otherwise, R&T offers a solution that can be running in as little as two weeks on a Demand Deposit Marketplace (DDM) "lite" basis, which offers the same service as our flagship DDM product. It's just not fully integrated with the bank's core processor. When banks choose this option, both the bank, R&T and the core processor work in the background to get the bank fully integrated.

4 What regulatory agencies encourage or require financial services organizations to have decentralized supplier bases?

All regulators constantly review banks' internal policies and procedures to ensure that both the bank's and their clients' funds are secure. The FDIC and the Office of the Comptroller of the Currency (OCC) have pointed out the importance of contingency planning and decentralization of vendors. The OCC even warned about "concentrated points of failure," noting that examiners have identified concentrations of third-party service providers for specialized services. Regulators want to make sure banks can react to a liquidity situation by having the right framework and policies in place and by consistently testing their funding lines and stress testing their balance sheet.

5 Is automation making it easier for financial services organizations to diversify their vendor ranks?

The short answer is yes. It's much easier to do integration these days with advanced automation and technology to help streamline the process. In our sector, we work hand-in-hand with both the bank and the core processor to make certain the bank's cash sweep flows smoothly. It comes down to efficiencies of scale and the maturity of our cash-sweep programs. Most, if not all, bank processors offer the ability to plug into multiple sweep vendors.

*Sponsored content by R&T Deposit Solutions. Jason Blair can be reached at **jblair@rnt.com**.*