



# Cash Automation: Supplier Selection & Risk Management

Financial Industry Perspective | July 2016



# CASH AUTOMATION: SUPPLIER SELECTION & RISK MANAGEMENT

**With the latest guidance from the OCC and other agencies, financial institutions are called to a much higher standard today for managing the risks in their vendor relationships as well as in the oversight of those relationships. In fact, vendor management has taken over the second spot among all compliance challenges for 2016, according to CSI's Executive Report: 2016 Banking Priorities Study. It was listed by 42.7% of bankers surveyed as their biggest compliance challenge for 2016, second only to Mortgage Compliance.<sup>i</sup>**

## **Compliance Needs to Go Beyond 'Lip Service'**

Jimmy Sawyers of Sawyers & Jacobs lists vendor management as one of the top ten trends for 2016, in his article, Vendor Management Moves Beyond a Check-the Box Exercise. He goes on to state, "The banking regulatory agencies have been serious about vendor management for several years now, requiring banks to maintain significant documentation and perform vendor management risk assessments. Unfortunately, in some cases, this risk management function has become more about the amount of paper than the significance and practicality of the relationship. ... In 2016, bankers will shine a light on vendors and require them to fully disclose important matters of ownership, location, and business practices."<sup>ii</sup>

PwC adds, "Even after years of growing reliance on third parties and increasing regulation, oversight at most financial institutions still has far too many gaps."<sup>iii</sup>

In our view, to avoid needless complexities and to mitigate potential risks, there are a handful of important considerations that should be applied to your cash automation supplier selection and vendor management process.

**IS BRANCH CASH  
AUTOMATION REALLY IN  
THE SUPPLIER'S CORE  
BUSINESS, OR IS IT JUST  
ANOTHER OFFERING?**

## Financial Viability, Demonstrated Capability

It is obviously important that the supplier is financially stable and has a sound business plan and performance outlook. However, it is equally important that the supplier has a proven record of delivering on its promises, both initially and for the long haul. Ask for examples or business cases for successful cash automation deployments. We have seen a number of suppliers alter their market presence with some changing their distribution and support structures on multiple occasions. This often involves forming new third-party relationships and abandoning old ones. In short, how long a supplier has been delivering results is important, as is how well they have been doing it!

## Supplier Focus

If cash recyclers or other types of cash handling devices are not in the supplier's core offering, lagging sales combined with an unclear commitment could represent a significant business risk. Understand where such products fit in the supplier's 'big picture.' As part of initiating your supplier due diligence, it is helpful to ask, "What percentage of your total company revenues are attributable to the sales and servicing of cash automation equipment and software?" Is branch cash automation really in the supplier's core business, or is it just another offering?

## End-to-End Control

Suppliers with full end-to-end control or ownership of the product through planning, development, and deployment are generally more likely to deliver quality solutions consistently as compared to suppliers who simply resell factored products. Suppliers who are also manufacturers, direct sellers, and servicers of cash automation generally bring greater expertise and commitment in all aspects of the customer relationship.

The best practice here is to ask for specifics as to engineering resources, product management, sales representatives, and service/support resources. Knowing how many there are, where they reside, who they work for, and what portion of these resources are dedicated to cash automation products is essential. It is also important to understand the supplier's supply chain for, and the availability of parts and components. This is especially true for suppliers who are not the equipment manufacturer.

## Subcontractors and Risk Mitigation

When your supplier is proposing the use of service subcontractors, either partially or totally, it is important to make sure that the service subcontractor is held to the same capability, readiness, and performance standards as compared to a direct organization, including background screening, factory technician certification standards, business continuity plans, and general business practices.

Whenever a supplier is proposing the use of subcontractors to deliver goods and/or services, current guidance requires financial institutions to use the same due diligence, ongoing performance monitoring, and reporting processes for each subcontractor as are being used for the supplier. As stated in Bank Technology News, “One of the most troubling requirements is the expectation that banks must apply every control they would apply to their own third-party agreements to their vendors’ third-party agreements.”<sup>iv</sup>

Also understanding the details of the contractual arrangements between the supplier and their subcontractors is essential. For instance, if the term of an agreement with a recommended service subcontractor is not sufficient to cover the planned useful life of the equipment being considered, that should be identified and monitored as a potential business risk.

## Continuing the Conversation

Amidst a sea of new rules and regulations, financial institutions are called upon today to also comply with a higher standard of risk management and oversight in their vendor relationships. As with most ventures, knowing what to ask is paramount to success. We believe that, alongside your assessment of a potential supplier’s financial viability, questions about a supplier’s demonstrated capability, company focus, and level of control over, or ownership of, their supply chain are all key areas of discovery in making the right supplier choice both from a ROI and risk management and oversight standpoint.

Glory is committed to end-to-end control of its supply chain, its full range of cash handling solutions and its depth of resources in all critical areas of the business. We invite your scrutiny and comparison as part of the vendor selection and management process.

- i Executive Report: 2016 Banking Priorities Study, CSI, p 10.
- ii Banker as Buyers 2016, Wm. Mills Agency, “Top Ten Trends Impacting Bank Technology for 2016,” J. Sawyers, p 34.
- iii Significant others: How financial firms can manage third party risks, fs viewpoint, PwC, May 2015, p 5.
- iv “Tough Vendor Rule May Drive Some Bank IT Work Back In-House”, Penny Crosman, Bank Technology News, 6-11-2014

Glory, 3333 Warrenville Road, Suite 310, Lisle, IL 60532 USA

+1 (800) 527-2638 [info@us.glory-global.com](mailto:info@us.glory-global.com) [glory-global.com](http://glory-global.com)

PER-SUPPLIERSELECTION&RISK-0717/US

Glory Global Solutions is part of GLORY LTD. This document is for general guidance only. As the Company's products and services are continually being developed it is important for customers to check that the information contained herein includes the latest particulars. Although every precaution has been taken in preparation of this document, the Company and the publisher accept no responsibility for errors or omissions. The Company and the publisher accept no liability for loss or damages resulting from the use of the information contained herein. This document is not part of a contract or license save insofar as may be expressly agreed. All capabilities and capacity and throughput figures are subject to note/coin size, note/coin quality and process used. GLORY is a registered trademark of GLORY LTD. in Japan, the United States of America, and EU. All trademarks are owned by the GLORY Limited Group of companies. © Glory Global Solutions (International) Limited 2017.