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Service Level Agreements: What Should You Include?

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It goes without saying - contracts with vendors and service providers should be scanned and reviewed, edited and vetted. You don't want to be stuck with a deal that is going to cause you financial or reputational trouble. The secret to a good business relationship is having a Service Level Agreement (SLA) within your contract.

Ok, so maybe it's not that much of a secret, but an effective SLA will hold your providers to certain standards that your credit union can measure and monitor. These metrics will ensure that the services you are providing to your members through the third party are a) working properly, b) upholding quality standards and c) meeting expectations for both your organization and your membership.

So when is an SLA necessary? The short answer is pretty obvious - anytime you are working with an external vendor. This is especially true when the vendor is providing services through a database or program that your members use directly.

Perhaps the more important question is, what should you include in an SLA? That's a bit more complicated. It really depends on how much flexibility you want to build in to the contract. But before we get into the extras, let's focus on the five MUST-HAVES of every SLA.

1. **Objectives.** Spell out exactly what the agreement between your credit union and the vendor is for. If it's to provide mobile banking services through the vendor's platform, the SLA should say so. If it's to perform an internal IT audit for the credit union, the SLA should state as much. This section is to clearly define the purpose of the contract, so no party is unsure of the services to be rendered.

2. **Description of Services.** How exactly will the services described in the Objectives section play out? That's what should be included here. Every component of the service

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from implementation to contract fulfillment should be listed, along with who will be responsible for the tasks and what resources will be needed to complete the job.

3. **Standards of Performance.** Performance standards can be a bit tricky to nail down. You need to give a level of expectation for the services you will be receiving so you can measure performance, but it may not benefit your credit union to be too specific. Using the example of mobile banking, you need to ensure that the app is available to your members a majority of the time (accounting for maintenance outages and occasional unexpected downtimes), and that your members do not have trouble navigating the app. However, you need to consider realistic transaction numbers and the cost of any extras you will need to achieve your desired performance level. Regardless, both your credit union and the vendor need to be on the same page as far as service standards so that they can be reasonably met.

4. **Service Credit Compensation.** Now that you've determined your performance standards, you need to have a method to back them up. In other words, include a system of penalties as an incentive for your vendor to perform well. This is often done through service credits that reduce your payment or provide a flat rate for poor performance. If the vendor fails to meet the agreed upon standards, then they will need to grant your credit union service credit compensation as a result of poor performance. If, in your performance standards for the mobile banking service, you have app availability to be 95 percent of the time and the metrics show that it was available only 92 percent, the vendor may owe you service credits.

5. **Critical Failure.** Your SLA should also include a Critical Failure component to protect you against poor vendor performance. If the contract terms are not being met, and service credits do not seem to be improving the quality of service, this piece will allow you to end the agreement. Keep in mind that Critical Failure is a last resort upon several instances of performance failure and needs to be very specific. For example, you may state that more than four unexpected service outages that last 24 hours or more in a six-month period is grounds for critical failure termination.

In addition to the five key components of an SLA, you may also want to include clauses for periodic pricing reviews, contract/vendor management procedures and change control procedures for agreed upon changes to the contract by both parties.

The purpose of an SLA is to be specific in spelling out EXACTLY what you want to see from your vendor over the course of the contract term. Make sure your SLA has the five necessary components listed above, and you'll leave no questions to chance.

About Belinda Mumma

Belinda Mumma has over 12 years of experience implementing and maintaining vendor management and vendor due diligence software. During her career, she also has been responsible for policy and legal review processes; implementing, directing, and maintaining enterprise risk management software; and implementing and maintaining audit and exam findings software