MicroSave Briefing Note # 43

What C.E.O.s Need To Know About Software Selection

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As financial institutions change, their markets evolve and new IT/e-banking innovations mature, many will need to identify new IT systems that will drive their growth or help them transform their institutions.

Earlier briefing notes have highlighted the dramatic cost reduction that can accompany the effective use of technology (Briefing Note # 21 Meeting the Challenge: the Impact of Changing Technology on Microfinance Institutions), and developed a business case for pushing technology to provide electronic banking services for the poor (Briefing Note #31 Electronic Banking for the Poor).

Many managers in MFIs do not have a peer network within which to share experiences and exchange ideas. The *MicroSave* Action Research Partners (ARPs) however, have been fortunate in having a group of institutions in a geographical spread over eastern and southern Africa, which meet regularly. During one of these meetings, IT managers met to discuss issues relating to their information systems.

All the institutions previously had information systems that functioned with various degrees of efficiency. Some ARPs have recently upgraded their systems and others are in the process of changing them. Successful implementations were characterised by proper planning, with a phased approach and strong support from top management.

This briefing note presents and discusses some of the issues that were discussed.

Why Do Institutions Upgrade?

Older institutions have legacy systems that simply stop working. By the time the Tanzanian Postal Bank (TPB) was upgrading its centralised IT system, there was a processing backlog of two years' worth of transactions. Having now implemented new software, this backlog has been cleared. Pride Tanzania had outgrown its in-house developed software and needed software that would support new products and a wider geographical network. U-Trust was changing its structure from an NGO into a regulated financial institution, and needed reliable software that could provide banking-standard operational support.

How Can Institutions Avoid Introductory Problems?

Although it is possible to drive the computerisation process internally, as Equity Bank has done, one common problem is not having the in-house skills required to kick-start the project. The first step is to define organisational needs and draw up a shortlist of possible providers. Many organisations find it useful to employ an external consultant. Commercial MicroFinance (CMF) found this invaluable, as their consultant offered an independent view of which packages would best suit their requirements. However, although the consultant provided technical advice, the final decision still rested with the CMF management team.

Focused project management from the beginning can help to prevent some common problems, which include:

➢ Implementation drift when the project takes too long to deliver,

➢ Over-customisation of features leading to new errors and unreliable software,

➢ Cash flow problems, which can be avoided by explicitly budgeting from internal resources, using donor money only when it is ready cash already banked, or when it is provided as a technical service.

How Do We Define Our Needs?

If we visualise the selection process as a pyramid, the steps that follow all depend on a solid base – a proper identification of organisational requirements. But what can happen is that the list of requirements contains a host of "we have always done it like this" issues. Kenya Post Office Savings Bank (KPOSB) defined a long list of features that needed to be customised to match how their internal processing worked. However, what they most needed then was a thorough understanding of what their key processes were, and an analysis and re-engineering of the processes in order to make the necessary changes internally. It is also important to think ahead and review e-banking trends. Some questions to ask are:

> - What emerging technologies may make a dramatic difference to how we deliver services to our clients?
> - Does our software use 'open hooks' to allow new features to be bolted on?
> - Is the software using open standards, or is it relying on proprietary technology?

How Do We Plan For Growth?

It is impractical to plan to stick with one software package for the long-term. It is much more realistic to ensure the software will cope with the institution's requirements for the medium term (5-8 years). Even this may be too short a timeframe, as Equity Bank has discovered. They found they were pushing the limits of their existing software, and needed to upgrade to accommodate a rapid growth (40% year on year) in customer numbers. On the other hand, there is no point in over-spending on fully featured software if it is primarily targeted towards larger institutions or those who provide an array of banking style services that your institution does not plan to offer. Review your business plan to see where your institution is aiming so you can select software that is appropriate for your business goals.

New Software Often Means Change – How Do We Manage This?

Equity Bank uses an internal IT team for implementation. However, recognising the importance of change management, they also employed an independent consultant to guide them through a series of change management workshops. Equity staff have used a tool to help them in defining their mission and listing specific activities required to support strategies at different levels – institutional, departmental, and at the unit level.

Equity Bank also needed to verify that the current processes and procedures were being followed accurately. They used compliance checklists to observe what was going on in branches and recommend what each branch had to do to comply. All branches have to be standardised, doing the same thing so that when the new software is introduced, they can all use and interface with it in a standard way.

What Other Key Software Selection Issues Should We Be Aware Of?

1. *Connecting the branch network.*
    Different combinations of networking solutions have been chosen by different ARPs. Some ARPs connected their branches using a centralised system, with real-time transactions, and this involved the use of a mix of leased lines, satellite connections, GSM mobile connections and microwave radio links. Other institutions with transactions that can be done without real-time processing, use dial up on regular phone lines, or transfer files by email, or physical media such as CDs. The appropriate configuration depends on the telecommunications facilities available as well as the cost of the service relative to amount of business that will be generated by the branch.

2. *Reporting.*
    This is key, but often overlooked. Without reports, managers cannot understand and respond to their business operations and results. The way the information is stored must be clearly documented so that internal staff can understand it well enough to create additional reports. Pride Tanzania found that the reports within the software they chose did not quite correspond to what they needed so they are designing new ones. Good documentation provided by the vendor, and in-house skills in report writing, are essential to respond to changing institutional needs or new regulations imposed by external agencies.

3. *Technical Support.*
    The further away the technicians are, the harder it can be to get support quickly. It will be more expensive if airfares and accommodation have to be included. Also, with time zone differences, response can be delayed. It is also important to investigate the quality of technical support. Two ARPs had some problems with their technical support based in the Philippines, and Guatemala. Implementation can stall for want of adequate technical support. But even if the technical support is geographically close, the team might not have the capacity to support all their existing clients – several ARPs had to come together to form a users' group to ensure that their vendor increased its capacity to service the system.

4. *Vendor management.*
    TPB found that the use of penalty clauses within the contract quickly reduced their shortlist of software providers, and helped ensure a level of service they paid for. Teba Bank have found that it helps to have named individuals within various departments 'own' different components of the contract, so there are key individuals who are responsible for easing interactions with providers.