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OUTSOURCING OPTIONS FOR MICROFINANCE INSTITUTIONS

AN ONLINE SPEAKER'S CORNER FACILITATED BY ALICE LIU AND
HOSTED ON WWW.MICROLINKS.ORG



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DAY 1: OUTSOURCING: BENEFITS AND DECISION CRITERIA

WELCOME TO THE SPEAKER'S CORNER ON OUTSOURCING OPTIONS FOR MFIS

Post by: Alice Liu

Welcome to the Speaker's Corner on Outsourcing Options for MFIs. Over the next three days we will focus on the benefits and challenges related to outsourcing of MFI core banking systems and the experiences of MFIs who have implemented both in-house (hosted) and outsourced core banking systems. Our just-published study (see the microNOTE), designed to relate experiences from small U.S. banks, vendors, and consultants to MFIs in developing countries, is the springboard for this discussion. While there are certainly differences between small U.S. banks and MFIs in developing countries, the assumption is that small U.S. banks share similar concerns about outsourcing, similar competitive challenges, and similar resource constraints as MFIs and that they have found outsourcing to be a viable, cost effective option that allows them to compete.

Key research questions included: can outsourced MIS solutions sufficiently resolve the MIS, IT capacity, and infrastructure challenges of MFIs and enable MFIs to perform more effectively and focus on their business goals? What would MFIs gain from outsourcing and what would the trade-offs be? Would they still be able to provide additional services (such as additional delivery channels) by using an outsourced core MIS?

Outsourcing of core banking systems has been a common practice in the U.S. for over forty years (see the study), but is a fairly new product and service for MFIs in developing countries, so the first day will serve as an introduction to outsourcing. We will discuss the potential benefits for MFIs, based on the U.S. experience, and examine the challenges that may be unique to MFIs in developing countries, the variant approaches to outsourcing, and the criteria for deciding whether an outsourced or in-house solution is best for an MFI.

The second day's focus will be on actual implementations in the field of both in-house and outsourced systems. We would like to hear directly from MFIs about their experiences with these implementations, including their decision-making process and lessons learned, as well as from vendors of core banking solutions for MFIs.

The third day is a chance to explore issues that affect the viability of and market for outsourcing as a solution for MFIs in developing countries. The enabling environment that is taken as a given in the U.S., such as rule of law, reliable and stable network connectivity and power, and a competitive market, is not as strong in many countries, yet there are vendors providing solutions to MFIs and MFIs beginning to adopt them.

Hosted by USAID, the Speaker's Corner is moderated by me, Alice T. Liu. I'm based in the Washington, D.C. area and will facilitate the discussions during the next three days during East Coast working hours. I have assembled a panel of specialists with outsourcing experience in the U.S. and in developing countries, and expertise in ICT for microfinance and banking IT-- James Godish, Gautam Ivatury, Karuna Krishnaswamy, Paul Meyer, Judy Payne, Lauren Reese, Sandeep Chatterjee, Steve Sellers, and Daryl Skoog – who will be able to comment and share their own experiences.

We have representatives of both MFIs and vendors on the panel, and I expect as well amongst the Speaker's Corner audience, so I encourage an open and honest and objective discussion. There are both successes and hard lessons learned, so after these three days I hope everyone comes closer to understanding which model will be most sustainable for them.

I'll be posting the discussion questions for Day 1 in a separate email message, so you can respond to that post.

WELCOME TO DAY 1: OUTSOURCING BENEFITS AND DECISION CRITERIA

Post by: Alice Liu

Welcome to the first day of the Speaker's Corner on Outsourcing Options for MFIs. Today we will introduce the concept of outsourcing and discuss its potential benefits and how to decide whether an outsourced or in-house solution is most appropriate. We will also discuss the vendor evaluation and selection process.

I would like to introduce our two guest panelists for today, James (Jim) Godish and Paul Meyer. James Godish is a Partner & Senior Consultant at Catalyst Consulting Group. He has many insights to share on the evaluation and selection of core banking solutions and their vendors. Paul Meyer is Co-Founder, Chairman and President of Voxiva. For the last seven years Paul has been implementing outsourced solutions in several countries of the developing world.

Outsourcing has had many names over the years, such as “application service provider” (ASP) and more recently “software-as-a-service” (SaaS), but the model is essentially the same: the vendor develops and supports the application software, providing new releases, patches, bug fixes, upgrades, and enhancements on a periodic basis. The vendor hosts the application software on their own servers in their data center, providing the environment (power, network connectivity, cooling, security, fire suppression) and staff to deliver 24 hour, 7 day a week support and maintenance, system monitoring, backup and recovery, disaster management and recovery, and more. The usual pricing model is that the customer pays a monthly fee instead of paying a large fee up-front to purchase a software license and hardware to host the system. One can think of it as “renting” the software instead of buying a software license and owning the executable code.

The trend in the U.S. appears to be moving towards outsourcing. One source states that 70 percent of new core sales to financial institutions in 2007 were for outsourced systems, while 30 percent were for in-house systems. From the case studies we conducted and other studies, the main reasons that small U.S. banks, especially start-up or “de novo” banks, choose to outsource is to reduce IT staff and IT infrastructure costs, and partly because they lack sufficient IT staff and resources. Small U.S. banks also report that technology helps level the playing field against larger banks.

These are some of the same issues MFIs face – shortage of qualified IT resources, high infrastructure costs, and competition from larger financial institutions. Drawing from the U.S. experience, can outsourcing address the challenges MFIs face, increase their efficiency, and enable them to focus on improved client service and achieve their business goals?

I would like to start this discussion by talking about three related questions:

1. What are the main benefits that banks and MFIs would receive from outsourcing? What problems does it solve?
2. In what ways are the issues for MFIs different than for small U.S. banks? Can outsourcing address these issues?
3. What are some of the tradeoffs with outsourcing? How do you decide whether outsourcing or an in-house solution is best?

Vendors can also respond based on their customers' experiences.

Your contributions to these questions as well as related areas are welcomed. You are also encouraged to ask questions or raise other topics. I am looking forward to a lively discussion.

Alice T. Liu

Emerging ICT Group

Post by: James Godish

Good Morning Alice,

Regarding your first question - a few of the main benefits derived from outsourcing by small banks in the US are:

1. Software systems, which enable them to compete with peers as well as the largest financial institutions in the world, which conduct business in their market place.
2. Ability to adjust their strategies by being able to obtain software to support updated plans without significant new capital investments.
3. Deployed scarce capital into business ventures, which will produce larger returns than those derived from data processing - which is in effect a tool to assist the bank obtain business goal.
4. In concert with the deployment of capital resources outsource allows smaller institutions to apply limited human resources to business ventures versus data processing activities.

The second part of your question, regarding a few problems outsourcing allows small banks to avoid:

1. Updating of software systems to accommodate regulatory compliance for both national and state authorities as well as international regulations often being faced by community banks in the world economy. This not only includes expenses associated with software but also expenses associated with the legal interpretation of regulations.
2. Assuming a reliable and trustworthy outsource provider the time associated with keeping the institution up to date on the latest technology available to the financial industry.
3. The burden and expense associated with maintaining appropriate disaster and recovery solutions for the data center, data center security, data communications, privacy of data, adequate staff, general burdens associated with running and managing a data centers as well as others unique to each institution.

Post by: Alice Liu

Thanks Jim. You bring up several good points. One point you touch on is regulation, and I'd like to point out to the participants on this thread that in the US, the regulatory oversight of banking IT systems and IT management practices is very strong, so strong that one vendor (ranked in the top ten in the world) that we spoke to said that governance drives all product development. We'll dive deeper into the regulatory issues on Day 3.

I like the idea of cooperatives that was mentioned earlier. Coops exist in the US also. There are some efforts underway in developing countries that might be considered a coop model and I hope we hear from some of these projects during this forum.

I think some ways in which the issues are different for MFIs is the shortage of vendors to choose from, which makes for a less competitive environment, and the outsourcing model is new and not many MFIs are familiar with it.

Outsourcing is happening in other parts of the world, however, in other business sectors. For seven years Voxiva has been providing solutions for public health and government institutions based on the outsourcing model. People may be outsourcing just the hosting of the servers.

Post by: Alice Liu

Hello everyone. I just want to bring to your attention that the research papers that we're using as a springboard for this discussion are now available on this Speaker's Corner. They're on the main page for the Outsourcing Speaker's Corner under Documents. I'll post the links here also:

MFI Business Case for Outsourcing:

http://www.microlinks.org/ev.php?ID=26286_201&ID2=DO_TOPIC

MFI Decision Guide for Outsourced MIS:

http://www.microlinks.org/ev.php?ID=26288_201&ID2=DO_TOPIC

This microNOTE provides a brief overview of both the Business Case and Decision Guide:

http://www.microlinks.org/ev.php?ID=26284_201&ID2=DO_TOPIC

Post by: Muhammad Junaid

Dear All:

By discussing outsourcing issues we recognize that Microfinance Industry is ready to accept on more challenge. Congratulations!

We need to look at three things:

1. What functions could be outsourced by the MFIs? While Information systems certainly seem to be one area that could be outsourced, we all need to think innovatively about other parts of the business. Internal audit, Accounting, Legal services...
2. What should not be outsourced? I believe this is an equally important question to ask. It's too soon for the MFIs to outsource their core business. Strategic planning should not be outsourced (in many instances I have seen MFIs to "outsource" this important task resulting in lack of buy in from the employees. And finally, please, please never outsource the leadership... it can only come from within the organization.
3. Where to outsource: many practitioners and stakeholders perceive that that outsourcing could be to only an outside specialized company or a network organization. However, as the industry grows, other models need to be considered. In case of global MFIs for example, one country office can serve the entire global network for example.

We also need to think what can be "in-sourced" by the MFIs.

We should keep one thing in mind: how will outsourcing any MFI business processes will help the clients we work with. We have a very special lot...and we should make the things easier for them.

Post by: Alice Liu

Hi Muhammad. I'll reply here - it might be too confusing to repost this.

I'd like to add to your excellent questions:

1. What functions could be outsourced by the MFIs? While Information systems certainly seem to be one area that could be outsourced, we all need to think innovatively about other parts of the business. Internal audit, Accounting, Legal services...

This is a good point, but generally the focus of this online forum is the outsourcing of core banking systems, which at the most basic level is comprised of modules for loan portfolio management, accounting, and basic reporting. I may be forgetting other modules needed by small MFIs to track clients and manage loans and payments against the loans. Larger MFIs offer more services and therefore need modules to manage deposits and savings, more client tracking features (customer relationship management or CRM), enhanced reporting features such as both ad-hoc and canned reports, the ability to develop custom reports, branch (teller) automation functions, integration with an automated teller machine (ATM) network or point-of-sale (POS) network.

2. What should not be outsourced?

Great points here. Jim Godish also stressed this with us - you might outsource the systems but you never outsource the management or overall responsibility. Anecdotally I'd heard of an MFI in Mexico that felt they were at the mercy of their vendor - hopefully through this discussion and the research it's based on, we'll have educated MFIs about their options and how to work with vendors.

3. Where to outsource: many practitioners and stakeholders perceive that that outsourcing could be to only an outside specialized company or a network organization.

I think we will hear more from CGAP and Daryl Skoog about current efforts under way. IBM is currently developing "shared processing hubs" in Latin America and Africa specifically for the MFI market.

We should keep one thing in mind: how will outsourcing any MFI business processes will help the clients we work with.

Absolutely. The core banking system is the foundation for any MFI. If that is solid, then services such as mobile banking, ATMs, and POS will also be more reliable and stable. Loan officers will have accurate information to use when processing loan applications and payments. Although in the case of G-Cash, their first implementation did not integrate with a core banking MIS - staff received the

transactions and manually executed them, like a Western Union money transfer. This isn't sustainable long-term and they do intend to integrate with a core banking MIS (my info on this is about a year old, so they may have made progress on this).

I am curious how MFIs who have implemented mobile banking, ATMs, and POS are supporting these services, which theoretically are available 24x7. Is the core banking system that these delivery systems transact with also available 24x7? Meaning, for example, if a client gets an error while making a mobile phone, ATM, or POS transaction and it's 11 pm at night, are they out of luck or is there someone they can call to solve the problem? I raise this question because one benefit of outsourcing is that the outsourced solution provider has the economies of scale (due to supporting multiple MFIs or banking institutions) to cost-effectively provide longer hours of support than an individual MFI could.

Post by: James Godish

Muhammad,

To follow-up on Alice's comment pertaining to not being able to outsource management or responsibility. An element to consider when evaluating vendors, which I have found to be important in the US, is measuring the vendor's compatibility with the institution. For example am I looking for a "hands on provider", e. g. communications and interaction is crucial or one that simply provides a commodity, e. g. software required to run my business that is stable.

Post by: VENKATARAMAN MACHIRAJU

Hi. It's heartening to see such a good response to this topic or Outsourcing of MF operations to third party service Provider. As a MF solution provider we have just recently initiated a pilot for a potential MFI in Hyderabad, and we have facilitated the completed backend IT support systems to this client.

When we suggested this option to the client instead of buying a software form us, they have readily agreed to work on this new concept which is first in India , where we will be accepting complete information of their members, loan processing/ loan disbursements / credit scoring/ generating reports both financial and MIS and provide them timely information about their clients and make them available online for any reference, We are in the process of establishing a complete infrastructure and necessary staff to run an entire backend operations for any MFI.

In this regard I wish to know form members of this forum their experience with regards to this kind operations for any typical MFI / and what are the learnings from the experiment, or what are the critical areas we need to keep in mind while developing this concept and implement in India or else where.? What kind of costing we should adopt or suggest to MFIs for a win - win approach on this model. I look forward to the discussion on these aspects also.

Post by: Alice Liu

Hello Venkata Raman. Congratulations on your pilot project. I'd like to learn more about how you made the business case to your MFI customer to go with outsourcing. What are the main benefits they're seeking? Did you discuss total cost of ownership (TCO) with them? What were their main concerns? I've heard anecdotally that MFIs are resistant because they fear losing control of valuable customer data or allowing others access to the data, they're concerned about data security, they think outsourcing won't be more cost-effective, etc. There are myths and realities for each of these issues.

Can you also tell us a little about the size of the MFI you are working with, in terms of number of clients or accounts, branches, or geographic coverage? From our study I believe that very small MFIs would be better off with a small in-house system, if their needs are simple and they're not growing too fast. Their TCO is low if only one or two IT people and two or three desktop machines are required, so one of the main drivers for outsourcing doesn't exist in this situation.

Are you building the core banking software also, or implementing an existing commercial-off-the-shelf (COTS) package? Am I correct in understanding that you're planning to provide the full suite of managed services - application software support and development (if you're not using packaged software), and the server hosting and data center environment with full admin and monitoring, redundancy, backups, disaster recovery, etc.?

Post by: Venkataraman Machiraju

Dear Alice Liu,

Thank You very much for the response. In fact last couple of days I was held up with some pressing works at the office. However I am really happy to read all the responses from the forum members on the day I questions.

Regarding the questions you raised on our pilot project:

How you made the business case to your MFI customer to go with outsourcing?

Ans: We in fact approached this client to accept our existing standard MicroFinancer solution which suits their requirement almost 98% .This client is a large financial services provider NBFC with huge portfolio and they just entered into MF segment very recently and they have plans to cover the entire country INDIA and plans to expand into Asia Pacific in the near future

As they want to reach the market very quickly and expand, they felt integrating MF operations with their regular financial products would be a difficult thing as they totally different financial services currently. Therefore they wanted to look for other options. Secondly setting up the complete IT support systems for MF activity would also involve time and cost. Thirdly, the nature MF operations and the plans with which they wanted to scale up the reach, they wanted to look for outsourcing model and enquired us if we can take up the entire back end IT operations for them. We readily accepted and estimated the cost to set up the infrastructure and Manpower and suggested that we would be charging monthly some fixed price for the services we render to the client.

What are the main benefits they're seeking?

Ans: They wanted complete support systems from us, starting from data entry of al the member information, loan Processing , Credit scoring systems , Loan disbursement statements, generation of DCB, financial Reports and MIS on a day to day basis. They appreciated the benefits they would get in terms of cost and time. so that they can fully concentrate on the market and reach to their customers

Did you discuss total cost of ownership (TCO) with them?

And: Yes we discussed with TCO and showed them how it would benefit in the long run, if they outsource their work to us, as we have a full fledged development center, with domain expertise of more than 9 years in MF segment. Plus a stable solution etc.

What were their main concerns? I've heard anecdotally that MFIs are resistant because they fear losing control of valuable customer data or allowing others access to the data, they're concerned about data security, they think outsourcing won't be more cost-effective, etc.

Ans: This client is assured of our commitment of keeping the data fully secure and regarding infrastructure / manpower capabilities We also assured our client that we will provide dedicated services with professionals in the field of MF.

From the pilot project, we could estimate and understand, some of the key areas, like:

Time required to key in the data of each member's information.

Time required to process the data, Receive and send back the information of Members with specific time lines. Facilitating collection sheets with collection data, updating the information, generating monthly financial reports and around 20 different MIS reports , location wise, etc..

Moreover the client is happy as the entire data entry work is also taken up by us, as this would cost more time for any one. They are now expanding a rapid speed to more customers. Earlier their field personnel used to perform all the activities manually and generate Repayment schedules, collection sheets, MIS, Fin reports on Excel sheets. This now they can be avoided. Already within 20 days we could create a database of 2500 members for them. The plan is to touch an average of 8000 to 10000 new members per month

Irrespective of Loan type, frequency or period, the software is taking care of all the necessary report generation with accuracy.

Secondly we are providing a browser Interface to view and print all the reports for the client.

For future last leg transactions we are planning to integrate mobile technologies and 24X7 support systems for the MFIs. Complete Data Management center for this client.

Lastly we also plan to keep a separate Credit Bureau Information systems for the benefit of MFIs.

We are confident with our understanding on the requirements we can provide this service to multiple MFIs, with absolute security and promptness.

Hope I could answer all the points for you.

Post by: Alice Liu

Thanks Venkataraman for checking back with the Speaker's Corner and posting such a detailed response. I think you and another poster both have mentioned data entry services, which I'd like to ask a bit more about since I'm not fully familiar with the business process of the MFI and probably have a gap in my understanding. It's interesting to hear you describe some of the tasks as part of the back office IT operations. I think of back office IT as the application software development and support and hardware support and maintenance, and not things like generating collections reports, financial reports, etc. In my thinking, the end user such as a financial analyst or a supervisor would have the ability to generate these reports from the system themselves. Where I've worked, we've tried to reduce the dependency on IT and give users more ability to generate their own reports, design their own reports with tools like Crystal Reports, automate them so they receive daily, weekly, or monthly reports in their email, etc. But this was not a banking environment so the job definitions may be different.

You also mentioned entering member info. What is the business process - is this info collected in the field by a loan officer? Does the loan officer have a PDA or laptop (not entirely feasible in all situations I'm sure), with the ability to upload the data to the core banking system? Or is that not available, so it's collected on paper, explaining why it has to be manually entered by the back office staff?

Post by: Venkataraman Machiraju

Dear Alice Liu,

You are absolutely right that MFI can do lot of things from the software solution we provide, since this client wants to outsource complete data entry work as they do not want go with the laptop or Handheld device to collect Member information at this stage. In the member information we are providing a form, which can have nearly 50 - 60 parameters and the same application form when available online at a later date can be uploaded online without any data entry.

Even generation of reports is done for the time being, but we are planning to provide access to database and when the client calls for a report it can generate and make it available thru a browser interface. We are planning to improvise all the options to minimise the dependency of the client on IT company.

This is what we are doing at present under the pilot project

Post by: Paul Meyer

Good Morning Alice and James,

I think James did a good job of outlining many of the benefits of outsourcing. For me it comes down to focusing on core competence. Should MFIs focus their energies on building sound financial institutions or focus on developing software and maintaining IT infrastructure? No organization can do everything well and needs to focus its efforts on things it can be really good at.

In terms of some of the challenges of the model, the biggest one is for the MFI to have a clear sense of what it is looking for. Any IT project (insource or outsource) will fail if the customer doesn't have a clear idea of the problem they are trying to solve and a good set of requirements. One advantage of the outsource model is that the service provider develops standard offerings that are designed to meet the generic needs of clients. That makes it easier for the MFI so they don't have to design their requirements from scratch.

In terms of tradeoffs, there is a perception that the customer has less control if their data is in the service provider's data center. That concern can be allayed with the appropriate service level agreements and security policies with the service providers. In general, because the service provider is supporting many customers, they are able to invest in a more robust and secure infrastructure than any MFI would be able to set up on their own. This results in more robust and more secure deployments.

Post by: Paul Meyer

Another key point to underline is the importance of managing the relationship with providers. While the MFI should be able to outsource the much of the software development and IT infrastructure to service providers, as Alice points out, they can't outsource the management of their systems. They need to have a clear understanding of the systems they are getting and strong service level agreements in place with providers to ensure that the providers deliver as promised. If this model is to take off, an area where MFIs need to develop more capacity is in managing contracts with providers to ensure high levels of service.

DAY 1: OUTSOURCING DECISION CRITERIA

Post by: Alice Liu

We came up with several decision criteria that MFIs should consider when deciding whether to build, buy, or outsource their core banking system. Does anyone have others to add to the list or wish to elaborate further?

- Implementation time/time to market and the opportunity costs
- Total Cost of Ownership (TCO), which includes both tangible and intangible costs as well as ongoing costs
- The breadth and depth of requirements the system must satisfy
- Need for frequent customizations and changes
- Availability of qualified, reputable, and viable software vendors and outsourced solution providers
- Skill and availability of IT staff and within the local IT sector
- Technology preferences
- System availability, performance, and security
- Regulations or government policy governing financial information, IT systems and electronic data
- Other priorities (for example, someone e wants to establish their own legacy)

Post by: James Godish

Alice,

Additional criteria we often suggest a client consider are:

1. May the system under consideration by efficiently and effectively operate using an in house scenario? This allows the institution to control its own destiny.
2. Are there other service providers, which offer the same application software? Again providing the institution with options and control.
3. Previous experience with the provider?
4. Cooperates with other vendors?
5. Impact of the conversion on the institution's resources?
Initial and on-going training capabilities?

Post by: James Godish

Please note my response is based on the US market therefore, I am not certain of the applicability to other locations throughout the world. Additionally it is tempered by the needs of what I will define as a commercial bank catering to the needs of consumers as well as micro and small businesses. Such an institution, e. g. de novo, would require a full suite of deposit and loan products as well as internal financial applications at the minimum.

To build such a system on your own in the US given the competitive landscape and regulatory requirements is virtually impossible from a financial point of view.

POTENTIAL TRADEOFFS WITH OUTSOURCING

Post by: Alice Liu

I would like to follow-up on the question of potential tradeoffs an MFI may have to make if they choose to outsource. These tradeoffs may also factor into their decision whether to build their own core banking system, buy a software package, or outsource. Does anyone have other tradeoffs and mitigation strategies to offer?

1. MFIs relinquish some control to the vendor, so vendor management is critical to success. Both of our panelists, Jim Godish and Paul Meyer, have brought up vendor management. The MFI is still ultimately responsible and in control, but the day-to-day oversight and management is in the hands of the outsourced solution provider. This is a major reason for MFIs to outsource – to transfer responsibilities and tasks to a third party, thereby relieving the MFI of the burden and cost and allowing it to focus financial and human resources on more strategic issues. Detailed contracts and service level agreements are the tools MFIs have to assert their control when needed and hold the outsourced solution provider accountable.
2. MFIs may need to adapt some business processes to the vendor's product, rather than adapting the product to the MFIs process. It may be less ideal but also less costly than trying to customize the product.
3. The vendor's product release schedule may not match the MFIs plans. This can be mitigated and the customer can have a greater voice in the product design if the vendor has a process for collecting customer requests and feedback. This tradeoff exists as well for in-house implementations of a commercial-off-the-shelf software package (COTS). Even with a custom-built solution, an MFIs IT staff is resource constrained and cannot implement changes as quickly as an MFI manager might like.
4. The vendor's technology may not be state-of-the-art. However, if the vendor has a history and base of satisfied clients, that is strong evidence that the solution is sound. As long as the technology is still supported by the original maker and does not limit the MFIs ability to integrate other desired functionality, the solution should be sufficient. Core banking software in developing countries may be based on more recent technology if the software is more recently developed. A lot of the vendors in the U.S. are based on legacy technologies such as mainframe computers, so developing countries don't have this baggage and can leapfrog to new technologies.

Post by: Rajeev Natarajan

Thanks for the email Alice!

In short: yes - we take co-ownership of the data entry and other transaction processing requirements of the client. Whether it is done by the MFI staff, our staff but in their office, our staff remotely is pretty much decided on a case-to-case basis. Sometimes, it's even a combination depending on transaction type, volume - essentially a combination of in-sourcing and out-sourcing.

Longer version: Our core focus is Information Systems Services layered on a Governance, Risks and Compliance (GRC) framework mapped to the business process of the client. We use the word Information Systems and Management to essentially point out that IT is only an enabler in the eco-system. The specifics of the business process might actually warrant non-use of IT. For instance, in one my earlier posts, I had talked of how we have been able to effectively use contact center support for data entry. A more technology-focused way might be to insist on PDA or a smartphone but that will not fly with the typical field staff here. With the focus of ensuring accuracy, we are able to build other tools around it - for instance, calls are recorded, there's a variance analysis that we do that will flag any 'crazy entries' - like if the average repayment amount is Rs.500 but the field staff want to enter something like Rs. 3000, it goes into a 'to-be-audited' box and someone cross-checks.

Another instance of transaction processing support and its relation to GRC is the following: let's assume that an Operations Manager wants to buy an item for his/her team. The company may have different approval processes depending on the nature of the request and in a typical Small and Mid-sized Business (SMB), asking around is what they do. And there are whole other issues related to training, staff retention in order for this system to 'just work'. Our approach is to go and say that the manager needs to simply fill out a requisition - we ensure that necessary approvals are obtained, request to receive competitive quotes go out - essentially manage their purchase cycle. An in-house purchase manager might be overkill considering the volume of purchases and so the responsibility falls on an admin assistant or an accountant who may be multi-tasking across functions causing 'holes' in the system. With our staff trained in specific processes, it's easy for them to multi-task across organizations and with sufficient volumes, there is no need to multi-task across functions. This ensures compliance and efficiency.

DOCUMENTS POSTED ON SUCCESSFUL OUTSOURCING RELATIONSHIPS

Post by: Alice Liu

I just want to call your attention to two documents just posted (see the Documents section on the website) that provide guidance regarding successful outsourcing relationships. These documents were likely written for a corporate audience but the points made are applicable to MFIs as well.

OUTSOURCE FOR MICROFINANCE SOFTWARE APPLICATION

Post by: Shahid Ahmed

My suggestion is that all microfinance institutions create an international network - one software for all microfinance, organization, including bank, NGO, and sharing cost of the software.

Post by: Venkataraman Machiraju

Dear Mr. Shahid Ahmed,

I do agree that a common software platform for all the MF operations can be desired, but as you are aware, because of varied systems that are followed in different regions and by each MFI, it will be very difficult but not impossible to achieve a single solution. However, when we standardise the Accounting Practises and MIS globally, all the solution providers can adhere to these standards and then we can at least build a Network of MFIs, with a common solution.

Keeping in view of this difficulty of having single solution and commonality across MFIS, I fully subscribe the idea of Outsourcing, where the entire IT support can be given with complete security of information, by experienced IT solutions provider like us with a stable MF solution. When this is done, at least MFIs can concentrate more on the market and meet the demand with peace.

Post by: James Godish

Good Morning,

Given the cited constraints of one software application being applicable to all MFIs world side an alternative may be consortiums or co-operatives comprised of non-competing or friendly competitor MFIs in the same geographic areas. Another alternative could be regional of local independent outsource companies.

Jim

Maryland US

Post by: Patrick Gobin

The need for a common, international software and infrastructure platform that supports MFIs and banks, thereby distributing the costs of the system over many and making it more affordable for all.

I am aware of a global NGO (similar to O.I.) who was trying to find a unique global solution that could be used in South America, Asia and Africa. They could not find a vendor that could provide the appropriate level of support everywhere, so they decided to select a solution per continent instead.

Post by: Venkataraman Machiraju

Dear Patrick,

I wish to inform you we had interacted with Operational International (INDIA) and Australia and World Vision India, regarding providing a good solution matching to their requirements for their partners across the globe in the last year and even this year. The response and decision making with these organisations is very slow. We are yet to hear from them.

I believe if the requirements are clearly specified and documented, developing a good solution and establishing a complete network of support systems is no difficult thing.

We need to seriously work out on the need. Most of the funding agencies keep their options so open and the MFIs continue to experiment with the solutions from different vendors and at the end declare that no solution is suitable for their needs. And funding agencies also leave the decision of choosing the software solution on to the MFIs. MFIs cannot per say decide on the requirement for various reasons.

Having worked for all these years and even after getting an evaluation from CGAP (HORACE Management Consultancy) in 2005, we are still trying MFIs to get convinced that a good solution is available within their reach. Here comes the authenticity and belief the MFIs have on these respected forums.

I faced a response from one of the MFIs in India that the international forums evaluation does not fully justify their choices for solutions and they prefer a solution which they would like to continuously customise and change the solution as and when required.

I wonder when we can hear from the MFIs that they are really sure on what they want from the solution. Even in the recent study from ING Netherlands on ICT for MFIs in India clearly stated that MFIs should first adopt technology and try to adopt some of their systems to the solution and start automisation rather keep experimenting on the solutions.

Further open source software like MIFOS is also yet to really meet the requirement of MFIs in tot al, and we find it is called for a lot customisation. We also helped in providing a small customisation work for a client in Philippines.

In these conditions & circumstances, how can we expect vendors to provide an international software which may match all the needs and everyone?

This is my observation, Hope you agree with me.

Post by: Venkataraman Machiraju

Dear Karuna Krishnaswamy,

I agree with this idea of a certification for a vendor who can provide outsourcing services. However, I think we should start educating all the MFIs on this model especially in India, and at the same time arrive at the willingness of MFIs to opt for this service.

At least in India, forums like ACCESS Development / SA Dhan or even Government should work out on this subject at least in the near future we can more and more company forward to shift to the idea of Outsourcing apart from Selling Software solutions to each MFI.

Please do let us know if CGAP can work out on this subject at least on a pilot basis for India.

Post by: Garrett Wyse

It would seem like there are an awful lot of wheels being invented. Every MFI appears to want its MIS to do exactly what it wants, each seller is trying to sell what it has, so the two will never be happy. There would seem to be ample scope for the development of a common template for MFI MIS, a basic platform, better open source, adaptable, learnable, that fulfils reasonable regulatory criteria (governments charging for private software seems rather pathetic to be honest and similar to telcos being treated like gods in developing countries, as long as they throw some scraps (bribes, presents, take your pick of terms) to local and national politicians then they can do as they like, which in itself is not a problem as it gets connectivity up and running, but ensures that the network has a purely private function, rather than perhaps considering the potential for healthcare, education, information, financial services, which may all benefit from better MIS systems, mobile networks etc.

By the by whatever happened to the Global Public Good of Communications that I read about in UNDP books and the like??? But imagine if a real (as in genuinely developed without undue vested interest involvement, and then adhered to with adequate resources put in place to ensure so) set of rules and regulations were established that set out parameters for national MIS minimal requirements for financial institutions (regulate activates, offer help in establishing a basic scaleable MIS, charge a reasonable rate for this etc.) with the necessity for data capability on networks etc., crossover of operators, wholesale selling of time, secure networks available for financial services, financial regulatory authorities to have access to ensure compliance etc. How about a global MFI body developing a broad outline of a system to begin with and then work toward a global compact on such matters, bringing in MFI's, ICT providers, governments, NGO's etc.

All too much to ask for???

Sorry for going on a bit.

Post by: Anupam Varghese

Hi,

Responding especially to Garrett, I think Mifos (www.mifos.org) is an initiative in this direction. It is an open source platform that is participatory and non exploitative by nature. True, customizations need to be done - at times quite a lot, for which I believe there are enough professionals around. This is something one could and should outsource simply because MFI should be able to concentrate on their proposition which is MF and not software and let the experts handle the software bit. If trust is an issue, then I believe trust on an open source solution with reputed participants is the best bet. Just my opinion. Would also love to hear how many participants in this discussion actually use mifos and how they find it. Thanks.

DAY I SUMMARY

Post by: Alice Liu

Hello everyone. Thank you for your participation in the first day of the Speaker's Corner on Outsourcing Options for MFIs. I especially want to thank our two guest panelists, Jim Godish and Paul Meyer, for sharing their experience with outsourcing.

The day started early, with some enthusiastic comments from India, Sri Lanka, and Pakistan. The main subjects discussed were:

The need for a common, international software and infrastructure platform that supports MFIs and banks, thereby distributing the costs of the system over many and making it more affordable for all.

It would be quite difficult to develop a single platform that would meet the needs of both banks and MFIs worldwide, because their business processes and requirements are so different and regulations could vary widely, but there are models that have a more narrow focus. The cooperative model, where a network of MFIs shares a single platform, is one possibility (there are U.S. examples of coops as well). This could be a network within the same country or region, or an MFI that operates worldwide could manage the shared platform for all of its MFI branches. There are people trying this and I hope we hear from them during this Speaker's Corner. IBM has embarked on an initiative with CARE to build a shared infrastructure platform in Latin America and Africa.

This also raised the question of what should be kept in-house and what should be outsourced. Non-IT functions could be outsourced also, such as legal services.

Benefits that banks and MFIs could receive from outsourcing

Jim Godish provided a succinct list under "Welcome to Day I: Outsourcing Benefits and Decision Criteria", but let me try to paraphrase here:

Ability to compete with peers and larger competitors

Ability to scale cost-effectively. One can obtain new software or updates to meet business strategies without making significant new capital investments.

Able to dedicate scarce financial and human resources to activities, which will generate greater returns than returns from managing IT

On that last point, Paul Meyer emphasized the issue of core competence. MFIs need to ask themselves, do they want to devote their human and financial resources on the core mission and services of the MFI or on maintaining IT systems? It is difficult to be good at everything.

Outsourcing solves some problems as well:

An MFI reduces its regulatory compliance burden because the outsourced solution provider is responsible for the legal interpretation of the regulations, the implications to the banking software, and the implementation of the software changes to bring the system into compliance.

An MFI can rely on a reliable and trustworthy outsourcing partner to stay abreast of the latest technologies. This is easier for the outsourcing partner because they have more technical staff than a typical MFI and a broader set of experience by virtue of supporting multiple customers.

An MFI transfers the burden of the IT systems support – backups, disaster recovery, data security, network availability, staff retention – to the outsourcing partner.

One should never outsource the management and overall responsibility of the core banking system. MFIs still need to understand the system they are using and manage the vendor through strong contracts and service level agreements. We posted two documents that provide guidance regarding successful outsourcing relationships. These documents were likely written for a corporate audience but the points made are applicable to MFIs as well.

A list of decision criteria was provided to guide MFIs who are deciding whether to build a system from scratch (not usually recommended), buy a software package, or outsource. See the microNOTE for a comparison of the reasons to choose each option. Jim Godish provided additional criteria that included criteria to use to evaluate vendors. See the discussion.

We also discussed some of the potential tradeoffs of outsourcing. See the discussion.

While Day 1 is technically over, you can continue replying to messages posted on Day 1 while we shift gears to Day 2's topic on implementation experiences with both in-house and outsourced systems. We've already heard from one vendor who has a pilot project with an MFI, so I look forward to more details from all of you on your implementation experiences I will be posting the Day 2 Welcome message shortly to officially open the second day of the Speaker's Corner.

DAY 2: CORE BANKING SYSTEM EXPERIENCES FROM THE FIELD

WELCOME TO DAY 2: CORE BANKING SYSTEM IMPLEMENTATION EXPERIENCES

Post by: Alice Liu

Thank you to everyone who participated yesterday – we are off to a good start.

Welcome to the second day of the Speaker's Corner on Outsourcing Options for MFIs. Today we would like to hear from your experiences implementing both in-house and especially outsourced core banking systems in developing countries. MFIs have much to gain from the lessons learned by others, and vendors may also gain valuable insights into how they can design their products and services to better meet customer demand.

I would like to introduce our guest panelists for today: Judy Payne, USAID e-Business Advisor, Daryl Skoog, Vice President, MIS Services for Opportunity International (OI) and Chief Technology Officer for the OI Network of Implementing Partners, Gautam Ivatury, manager of CGAP's Technology program, and Lauren Reese, manager of CGAP's Information Systems program. They will

be online primarily during Eastern time and I will be online during those hours and also at other hours to try and interact with as many people as possible around the world.

To start with, we would like to know from MFIs:

If you have implemented outsourced solutions, what systems or parts of your IT operation have you outsourced and why did you choose to outsource?

If you have implemented an in-house solution, did you implement a packaged solution or build a system from scratch? Did you consider outsourcing and if not, why not?

What surprises did you encounter? What were the keys to success? What lessons have you learned? What would you do differently if you could do it over again?

Vendors and development professionals can also respond based on their customer experiences.

Please continue to raise questions or start a related discussion thread (please preface your subject line with "Day 2", to make it easier to track the sequence of the discussion). I am looking forward to another day of thought-provoking discussion.

Post by: Lauren Reese

Yesterday we heard a lot about the potential benefits of outsourcing. I think it'd also be great to hear reactions to those based on the experience of those that have outsourced or have considered outsourcing. Have these benefits been realized in practice? Are there other factors to consider which haven't already been mentioned?

Whether choosing to maintain a manual system, build a system from scratch, purchase off-the-shelf software, or outsource, MFIs need to complete a cost/benefit analysis of the different options. Based on some very preliminary work with one of our partners, we found that in some cases outsourcing may actually increase the IT costs of many small cooperatives and credit unions interested in outsourcing (this completely depends on the country context and cost of the proposed solution). These organizations have made very small upfront investments in technology (often less than US\$ 5,000 for a system they expect to last about 10 years) and have little to no ongoing costs. Even considering a long-term horizon, outsourcing may end up being more expensive than maintaining the system in-house.

Cost is always a factor, but is it the only factor? It shouldn't be. Outsourcing can provide access to a more robust and secure system; for MFIs looking to expand their client base and add new products and services, a stronger system can help facilitate this growth and thus outweigh the additional costs. So as many people mentioned yesterday, MFIs need to have a clear idea of what they're looking for and the problems they're trying to solve. Once this is clear, it will be easier to determine whether outsourcing is in line with their strategic goals.

It would be interesting to hear from those that have gone through a similar decision-making process and decided why outsourcing made sense, or why not.

Post by: Alice Liu

Hello Lauren. To add to your comment, our very limited research also seems to indicate that for very small MFIs, outsourcing may not be cost-effective. We interviewed the Latino Economic Development Corporation (LEDC), which is like an MFI (called Community Development Financial Institution or CDFI), serving Washington DC area residents. They initially were going to outsource but decided to go in-house instead (they spent \$5000 for the software, \$1000 for maintenance, and have now purchased other modules). LEDC is quite small by MFI standards, with only 60 or so active loans, but they have received great benefits from the package they purchased over their manual spreadsheet-based system that they relied on previously.

In addition, the top ten vendor that we interviewed decided not to create an outsourced version of the product they have targeted at institutions with \$50k-\$400K in assets because their analysis showed it would be too expensive for the customer.

So based on this limited evidence, I think we may find that there is a "tipping point" or threshold where outsourcing will make sense for some and not for others. MFIs do need to fully analyze the total cost of ownership - short and long-term ongoing costs of maintenance, staff, etc.

For a summary of the case study findings, see the micronote. For the case study on LEDC, see the business case and to read about the top ten vendor case, see the decision guide. The decision guide also has a table for the TCO of maintaining a commercial off-the-shelf software package, which MFIs can use to start analyzing their TCO. Both the business case and decision guide have a bibliography that includes articles that have analyzed the TCO of other systems. I can post these to the Speaker's Corner Document section.

Post by: Daryl Skoog

Reese,

I would like to respond to your question with specific attention to the Buy or Build of a portfolio management system. In my experiences since the early 70's with computer systems, I have found that the most difficult part of building a system is knowing what you want today and preparing for adding those capabilities that you haven't imagined so that you don't have to throw away today's system for tomorrow's enhancements. This is tough and expensive work. When our organization entered the formal financial sector, we had NGO knowledge, skills and abilities and not that of banks. We outsourced our portfolio management system using a 'trailing edge' strategy to the banking industry. In other words, we wanted to leverage the industry knowledge that the banking industry had invested in systems rather than envisioning our needs and building our own solutions. We had capital constraints as well as knowledge constraints at all parts of our organization in addition to being geographically dispersed to the point that it would be nearly impossible to pull together all the systems specifications needed to build what we wanted. In addition, in the year 2000, so much software was available that is shrink wrapped and immediately available, we accessed that our organization would not be patient enough to wait 2 years to get started with a newly developed system, they wanted to get started immediately.

Our decision to follow the lead and knowledge of the banking industry has served us well. While we started out with loans and deposits as our core functionality, we have over the past 8 years grown additional business function in the banks such as forex, payment system connections, Swift transfers, insurance brokerage, payroll distribution, ATM, PoS and a variety of other functions. In most cases, the software vendor had built the functionality we desired for the banking industry and we were able to purchase the module we wanted, install it, modify it to fit our needs and be very quick to market with our new business functionality. The bankers who designed the various aspects of the system we purchased had thought through all the difficult integration issues and interfaces that we were able to take advantage at relatively low cost, and with no time delays compared to having to build the functionality ourselves.

While we took a 'trailing edge' strategy to banking, we have been able to take a more 'leading edge' strategy with adapting the banking industry products for our operating environments. For example, we have built software that enables a teller to operate without connectivity to the banking system for short periods of time so that if we don't have telecom connectivity, we can still serve our clients where they live rather than asking them to come to our bank to do their business. We have built the insurance brokerage capabilities that will either standalone as an insurance business or be added to the banking system so that our clients can purchase insurance along with other financial products.

Outsourcing has enabled us to be quicker to market with products that are supportable by the portfolio management system, which the banking industry defined before us.

Post by: Patrick Gobin

We have taken the same option for our MFIs (Advans) to have on standardised Core Banking System that gives us economy of scale on all the aspects of an MIS (license, setup, support...). On the other end the End of Day process is run locally by the IT staff that is trained on it. We need an e-mail and phone to do remote support for the points that cannot be handled locally. The key of all this is to choose the right software that is appropriate for your needs.

Post by: Patrick Gobin

On the build vs. buy debate, I just wanted to convey our judgment when we go to provide advice to MFIs. Building a solution that is tailored to your needs is always a tempting proposition when you compare the wage of a local staff to the cost of a good MIS. The point is that developers always underestimate the work load since they only see the visible part of what needs to be done (20% of time is spent on the immediate functionality whereas 80 % is spent on less visible features setup, maintenance, security ..). The major risk point to us is that you depend on one or two people. We translate this in a graphical way by talking of the “bus” factor. How many buses do you require to take away those people? I have seen large MFIs that are getting stuck because they have lost that key resource (generally looking for a better job somewhere else and not run over by a bus) and the system is not capable of accompanying the expansion of the MFI.

Post by: Alice Liu

Patrick, thanks for bringing up the "lock-in" issue, which I've heard is one argument people have against outsourcing. Sometime people feel locked-in with a vendor, not realizing you can become just as locked-in to your own staff. Staff get sick, go on vacation, quit. If they leave behind poorly documented or undocumented code, it makes it more difficult for their replacement to learn the system. As you said, we sometimes say "what happens if person x gets hit by a bus"?

You don't want to feel like a hostage to your vendor or your staff. With outsourcing, there are ways to work around this - in addition to the contract and service level agreements, you can ask for periodic data dumps, for code to be put in escrow, and as Jim Godish recommended on Day 1, choose an outsourced solution that can be brought in-house at a later time if you decide to switch strategies in the future. With staff, it starts with hiring good people; Once you get a rogue employee, you have to deal with them decisively and quickly given the kind of access an IT person has to the system, otherwise you're in for a whole lot of trouble (did anyone follow the recent case in the city of San Francisco and their network engineer?).

Post by: Daryl Skoog

Good Morning Alice,

I will be speaking from my experience at Opportunity International, which is a network of partners organizations both NGO and Formal Financial institutions.

Regarding our outsourcing, yes we have done some outsourcing in a modified set of ways. With our core banking system, which we have purchased rather than building, we have an outsourced option for our banks that enable them to turn over the End of Day processing, DisasterBackup, Report generation, and other configuration and support activities to our Denver Colorado based services group. Essentially at the end of the work day, the local bank staff is able to go home and by morning all of the processes that need to take place to prepare the bank for the next business day are accomplished via the internet post by operators that are located in Colorado. The staff at the data center is part of an organization that we have outsourced to that acts and operates as though they were a part of our organizational staff. In other words there is a seamless relationship between our vendor and our in-house operations. The reason we have been offering outsourcing or managed services addresses the issues and concerns that having come from a legacy of standalone homebuilt systems to run our portfolio into the formal banking world utilizing banking technology that is used in major banks around the world, we simply do not have a steady supply of local staff in our served countries that have had educational opportunities or experiences that enable them to transition into running a mission critical system with complex networking all at once. Our outsourcing functions are intended to be a partner to the local IT staff at the banks who can work as a team to make sure that the banking systems are up and running 24 hours per day so that our clients have little to no interruption in our business services.

I mentioned earlier that our outsourcing is a modified approach to some of the more classical approaches being used. To explain why we have taken this approach it is valuable to understand that in many of our served locations, the availability of affordable broadband communications is limited. We may purchase 256kb of internet bandwidth but due to contention, we may experience only a 6-10kb throughput. Our banking system will run over the internet and on private networks but again due to cost constraints we always prefer to use the internet where ever possible. So with the throughput constraints, we have chosen to keep our banking system in the country served and utilize local private networking options and LAN options for serving our headquarters and branch

operations instead of moving the system to another location (such as Denver) and try to replicate the connectivity over the internet.

The lessons we have learned in our experiences to date are many. To share at least a few of them would be:

1. We must work like a team and that means we must trust each other to do our respective jobs professionally.
2. We must have clearly stated Service Level Agreements (sla) to ensure that everyone knows their role. And what to do when a problem occurs and needs to be escalated.
3. We must have knowledgeable and caring staff in our support groups that know more than just the portfolio management system. They have to know all aspects of systems configuration, hardware, software operating systems, banking practices, telecommunications, database management systems, security systems, and sound system management practices to ensure the health of the environment that is being supported.
4. We must have available low cost channels of communications to enable our local and remote workers to talk to each other in a real time mode to work through problems.
5. We need to have access to highly reliable testing and problem solving facilities that enable us to recreate system problems being experienced in the field so that we can test corrections. Also we need to be able to have these same facilities available to our banking system vendor so that if we have to escalate a problem to them, they are able to access a copy of the broken system.

I will stop here so that this response doesn't get any longer.

Post by: Gautam Ivatury

Hi everyone, thanks Alice and all for the great comments so far. A simple question for Daryl and anyone who is implementing or using hosted software:

How high are the connectivity costs when taking this approach?

In some discussions we find that MFIs and others believe that it these costs are simply too high to make the approach viable, and therefore a locally-hosted solution is preferred.

What are your views?

Gautam Ivatury

CGAP

Post by: Alice Liu

Hi Gautam. I hope others respond, but there was a person who couldn't be available for this Speaker's Corner who has a lot of telecom experience in these parts of the world, and I promised to forward to him any relevant messages. I'll forward yours as well as Daryl's posts to him as I don't think he's signed up to this and receiving the messages.

Post by: Christian Rodriguez

Hi all:

Gautam, your question might have more than one answer, depending on the market you want to reach. For example, if you are looking for a hosted solution for Latin America and some countries in Africa, connectivity costs are reasonable enough to allow MFIs to adopt and benefit from a regional hosted solution. On the other hand, if you are looking for a hosted solution for South East Asia, especially India, the connectivity costs do play a key role and might jeopardize the ability of the MFIs to benefit from a regional hosted solution. Hence, using a local (in-country) solution might be the best approach as long as you have enough volume to justify the cost of operating a local host.

Also, it is important to note that Latin American, African and Eastern European MFIs spend a good amount of financial resources in keeping up their international IT departments, while Indian MFIs expenditure in IT is very limited, making it difficult to create a cost-benefit solution for those MFIs.

Thanks,

Christian Rodriguez

Post by: Daryl Skoog

Gautam,

The way we have implemented to date, the costs have been minimal because we are taking control of the portfolio management system console from our remote location and then only console messages are actually passing over the internet. As we add data base backup to the scenario, the bandwidth issue becomes a major challenge. We will be bypassing the overloaded local ISPs with VSAT which is costly but is our only way to provide a host of services in and out of the local partner.

Post by: Alice Liu

Thanks for this post, Daryl, there's a wealth of information here. I'm not going to add much new here, but just to reinforce the need for both offline and online capabilities, as this is a common issue for any ICT solution where the network is less reliable and where the ability to function even if the network is unavailable is critical.

I agree on the buy approach versus building and I think most people do as well. If someone is building a solution, can you tell us what led you to that approach? With e-government apps, political priorities sometimes take precedence over time and cost, but I think these priorities wouldn't be the MFIs priorities so there must be other compelling reasons to build from scratch. For instance, governments want to use an e-government project as a way to build the local capacity and the local IT sector, so instead of acquiring a commercially sold financial management system or procurement system (as an example), they choose to build it from scratch, taking years instead of months to go online, if they're successful in the end.

Lastly, it was good to learn that you followed the example of the banking industry. I wonder if other MFI networks have had as coordinated an approach as you have had? Perhaps this is part of the issue - some MFIs need the IT leadership at the top to have the vision to develop such a strategy and carry it out, and only larger MFIs or MFI networks can attract these experienced IT managers? Which perhaps takes us back to Day 1 and the idea of regional coops with a seasoned IT manager leading the coop core banking system and interfacing with the IT staff of the member MFIs.

Post by: Rajeev Natarajan

Well - one thing we have looked at is to see how much can be done over phone calls (say using a contact center or an IVR) and over SMS. We have had considerable success with both in Small and Mid-sized enterprises and are piloting the same with an MFI here in India

Rajeev Natarajan

Post by: Alice Liu

Hi Daryl. Could you clarify for us the network architecture you have, in a non-technical way? I think I follow most of it but maybe not all. It sounds to me that for your MFIs, their core banking system is hosted in-country and the branch locations connect to it through a local Internet service provider (ISP - this is lower cost than VSAT but also lower bandwidth and less reliable). Then for your end of day processing, there's a virtual private network (VPN) or local area network (LAN) that connects the in-country core banking system over the Internet back to your center in Colorado? I may be getting too technical myself - hope some people out there are interested in this. :-) Just want to be clear, since there are different costs for different portions of the network, as you mentioned.

So are you running the same core banking software at all your MFI locations? Where does the system reside: in the MFIs main office or at a hosting facility (if such is available)? Is the local IT staff or hosting facility performing the sysadmin functions, backups, etc.?

Post by: Daryl Skoog

Alice,

Thank you for asking for a clarification. As they say 'what's clear to me is clear to me' and maybe no one else.

Our banking system resides in the country served. The headquarters location houses the banking system so for that local staff they are able to use the system over a local area network with no wide area network costs. For the branch locations we typically connect to the host server via private network leased lines or with VSAT or with cell phone network connections.

We connect our headquarters server to our Colorado facility via the internet over a virtual private connection (vpn) when we perform the End of Day processes for the bank after their employees have gone home for the night. It is the internet connection from our bank headquarters back to Denver that frustrates us due to heavy contention and slow throughput. Our solution to this after a great deal of study is to put in VSAT connectivity for those countries where the local ISPs have proven to be inadequate for our needs. This connectivity will improve our work in several ways. For example, we can use Voice over Internet to carry on voice and type chat conversations for support, we can provide disaster backup of the database, we can provide

collaboration system support so that documents and co-developed work can be accomplished between partners and our support people, improved email, conference calling, financial performance consolidation reporting etc. etc. VSAT is expensive but so is the inability to communicate and support our operations.

We have one core banking standard system which we support and build additional functionality for partner utilization. It is not THE only system being used as we have a 37 year history of legacy systems and practices to grapple with. The core banking systems reside in the operating country of the bank. In the case of our insurance systems, they reside on a classical ASP basis in Colorado with updates to the systems coming from offline data capture locations that send their updates to the system via secure email.

The local IT staff at the banks run the system during daylight operating hours with Colorado and India as the 1st line support helpdesks available as needed. The day time operations are focused on keeping the system up and running to support tellers, backoffice personnel, mobile branch banks, branch banks, and ATM/POS networks. It is the nighttime activities that are being performed from Colorado.

Hope this helps to clarify. Thanks for asking.

Post by: Kendall Mau

Hello, Kendall Mau here. This is my first input. My company started with one small MFI in Nicaragua and opened another one in Honduras. Our approach to outsourcing was the most basic you can find.

To get our feet wet in the Honduras market, we outsourced our entire back office function and General Manager position to a local 1st and 2nd tier savings and loan cooperative. The cooperative had excess management, accounting, and IT capacity to handle our business. We could start with a head office and 2 branches from day one. It worked for 2 years and at fairly low cost. We then decided that we had enough experience in the market to go on our own. We then built our own back office functions.

As a small MFI with a loan portfolio of \$1.0M in each country, it was very hard to find suitable software that featured fully automated loan, GL, and cashier modules in Spanish. We only found 2 and picked the lesser of the two evils. Not expensive at \$10K/country - MicroBanker and with a new local vendor in Honduras. It took about 4 months to get it fully installed and working. Once it was up and running in Honduras, we had it installed in Nicaragua with the hopes of linking Honduras/Nicaragua/US Admn office. To date, we have not hooked up the 3-country system. The capability is there via Internet, but we just haven't yet reached that level.

We were originally offered a service bureau system via Mexico via another system from South Africa, but the cost was prohibitive (I remember about \$300K.) We also have in-country transmission problems that have been solved (actually not solved) by using land couriers between the head office and 2 of our branches. 3 other branches have on-line transmittal systems.

Post by: Alice Liu

Hello Kendall, this is great to learn about your experience. What were the reasons that you decided to take your back office solution in-house (I assume it was based partly on cost based on your poll answer)? Was it the desire to connect your headquarters

with your two locations which wasn't possible through the vendor you were using? Did you factor in cost of the staff you would have to hire, infrastructure to set up and support, etc.? I'm not trying to second-guess you, just trying to understand the key factors behind your decision.

You gave some figures that I'd like a little more info about:

The banking software license was \$10K USD - what is the annual maintenance and support cost?

What did the 1st and 2nd tier savings and loan cooperative charge you annually to run your back office for you? To compare to the other solution you later investigated that was roughly \$300K (this was the annual cost I assume)?

Thanks again for sharing. Let's hear from others - both about outsourcing or in-house solutions!

Post by: Kendall Mau

Alice,

We paid \$2K/mth the first year. \$4K the second. This was for accounting, HR, General Management, use of 3 branch offices. All loan personnel and an administrator for the head office were employees of our company. We also had the benefit of health insurance for our employees through the cooperative's health plan. We reimbursed them for that.

The first 2 years was just experimentation for us to see if we could be players in Honduras without making a big initial capital investment. At the start of the 3rd year, the cooperative was ready to end the relationship as they were doing an expansion and needed to use the extra management and back office capacities that we were using. We were also ready by the 3rd year to be independent and make a larger capital investment commitment. Upon going it alone, we had to hire the back office staff, look for a new IT system, and we bought the loan portfolio of another MFI.

Several of the key back office employees left the cooperative, preferring to work for us. This caused some political problems. We asked those employees to completely separate from the cooperative before we would offer them employment. Our monthly costs for our own back office staff was about \$5-6.0K/month.

The \$300K was initial investment for setting up a service bureau and equipment in Mexico with one of the vendor's big clients. We never got past that figure to set monthly maintenance as we clearly could not afford it. The vendor also spoke of putting a service bureau in Costa Rica with one of its larger customers. It came to nothing.

The \$10K was the initial cost for license and installation for each country. I'm not exactly sure of how much we're currently paying for monthly maintenance. I'll have to check on that. Might be about \$500/month per country. We keep one full time computer operator on staff in Honduras. In Nicaragua we had the vendor train a contracted individual for us. We use his services as needed; he's not on our permanent staff.

VENDORS OF CORE BANKING SOLUTIONS FOR MFIS

Post by: Alice Liu

This is a question for both MFIs and vendors. I'm wondering how many viable vendor choices MFIs have for outsourced core banking systems. It may be a chicken-or-the-egg scenario: outsourcing is a new concept for MFIs so they are not aware of this option and therefore don't demand from it, and because there is low demand the solution providers do not offer full managed services (full application software and support, upgrades, integration with other networks and third-party software, etc. and the hosting of the servers including system administration, disaster recovery, backups, redundant networks, servers, and power supplies, etc.).

For MFIs: do you have good choices for both in-house packaged software or outsourced solutions? What has been your experience with them, their strengths and weaknesses? How would you rate the quality of service?

For vendors: is there much demand for outsourced services? Do you see MFIs as an attractive market? Are commercial banks in your country using outsourced services? If so, what kind?

For anyone: what sort of outsourced services are available in your country or region? The outsourcing options will probably range from the simplest, which would be co-location (just the hosting of the servers to provide the power, network, cooling, fire suppression, physical security) - to the most complex, that is, full managed services.

Date: 09-18-2008

Post by: Venkataraman Machiraju

Dear Alice Liu,

I missed one point in my response, regarding Core Banking Solution. We are at present working exclusively on Microfinance Solution. However we are making the solution flexible enough to get integrated with regular core banking solution. We have prepared doc on complete solution with our client server solution as a base solution and conveniently get to integrate with an established core banking solution. For a total financial inclusion Project. If the client desires depending on the connectivity we can also provide a browser based solution.

Post by: Venkataraman Machiraju

Dear Alice Liu,

Yes the availability of Vendors with complete capability of infrastructure and stable softwares is very difficult, the market is still evolving and MFIs are still in old mindset of doing everything on their own in many parts of the world. Especially with our experience in India and Asia Pacific where we have been providing standard off the shelf solutions and customised solutions depending upon the client's need all these years.

Even choosing a right solution and utilising it to the maximum is a big question and concern in the market. Now when we look back from the past to present at least MFIs are not reluctant to discuss on the technology now. Thanks to continuous education from forums like CGAP/ MIX / MicroLinks /Micro Finance Focus. As the banks have entered into the business through a model of Business Correspondent or Business Partners, Necessity of meeting the Banking norms and systems these MFIs are now coming forward to accept technology. However there is a long way to go.

Outsourcing of MF operations is all together a new concept for MFIs and I should appreciate and congratulate your team for starting the debate on this subject timely . Two Years back when I discussed with CARE India Partners for their CASHE project on outsourcing, none was ready to take up this idea. Now when I tried this today, we could reach a stage of Pilot project.

Though we have and are ready to have all the points you had mentioned such as (full application software and support, upgrades, integration with other networks and our own software, etc. and the hosting of the servers including system administration, disaster recovery, backups, redundant networks, servers, and power supplies, etc.). We are yet to find a willing client or clients. How MFIs take up this and utilise our services is still a question.

We are in the market by a ready to use software and to also take up outsourcing activity depending on the MFI requirement. Moreover we have also business partnership with other vendors who have experience in other areas, such as Smart Card /PDA / or 24x7 Support systems like we see in Banking sector. We are open to any good idea or opportunity to explore and contribute for this growing sector.

I believe the MFI market is certainly a potential market. We would like to evolve as a one stop shop for all the requirements of a MFI and see how best we can service and benefit in the long run. Once we prove in the market on this outsourcing model, at least Banks would certainly come forward to take up the services in the future. At present Commercial Banks are not outsourcing any MF operations to third party agencies. I think some activities may be just started by one or two private banks like ICICI Bank or HDFC Bank in India.

Hope this info is useful.

Post by: Camille Striffling

We are indeed faced with a chicken and egg issue here, but are the conditions right for the little bird to hatch? On the vendor side, we have heard some vendors interested in the idea but to lower the entry cost for their relatively expensive solutions. So they go as

far as to have proof of concept that shows that it can be done with their technology, but without addressing the other issues. On the MFI side, it is a question of first deciding to move from a decentralised Microfinance solution to a centralised Core Banking System before considering to outsource this to a third party. So maybe with the initiative that are appearing in some countries (Mexico) will be the right seed to start the ball rolling.

POTENTIAL TRADEOFFS WITH OUTSOURCING

Post by: Rajeev Natarajan

One conversation that we get into with our potential and existing clients is to find out WHAT they want outsourced. Essentially our offering both as a consultant and as a service provider (yes - there's a seemingly potential conflict but nothing that transparency of processes cannot solve) is to ask our client whether they will be willing to outsource their Information Management and not just the IT. In our opinion, IT outsourcing still does not solve a few basic issues that many of our clients faced (leading us to begin this service offering) - which is the ability for the client to hire and retain a team that will ensure that the data is entered regularly, accurately and in a manner that is compliant with internal processes and regulatory requirement. By exposing the service layer to the MFI while guaranteeing service levels, standardization in processes, adherence to risks and compliance, we believe that the MFI can be adequately protected against variances that they may come up in their processes or products. Clearly, the C level executives and operations managers are interested in reports that get generated periodically that help them in decision making more than the raw data itself. Again, we have been able to demonstrate this with small organizations that are not MFIs and are in conversation with a couple of MFIs currently on this.

Rajeev Natarajan

Impetus Consulting Private Limited

Post by: Alice Liu

Hi Rajeev, thanks for describing your service offering. If you could clarify for me, when you say you're providing the Information Management by providing the team to do the data entry, etc., does this mean for instance that the MFI's loan officers, tellers, etc are your employees? Or are you referring to different bank staff? I'm making the assumption that they're entering data as part of their jobs - entering loan applications, recording deposits and withdrawals, etc. I just want to make sure I'm understanding this correctly.

If these bank staff are actually your employees, I think this is what we would call "in-sourcing". This is not uncommon in the IT world. When an IBM or EDS takes over the IT operations of a company, they often hire the company's IT employees and continue to use them to run the operations.

DAY 2: A QUICK POLL

Post by: Alice Liu

I'd like to use this opportunity to take a quick poll:

Do you feel there are enough quality core banking solutions for you to choose from for your MFI, (disregard whether it is packaged software or an outsourced solution)?

Give an answer on a scale of 1 to 5, with 1 meaning there aren't enough good solutions and 5 meaning there are many good solutions. If you don't know, just say "don't know".

Which do you think is more expensive - buying a software package or outsourcing?

Reply with "software package", "outsourcing", "same", or "don't know".

Thanks for your answer. We'd like to hear from as wide an audience as possible!

Post by: Kendall Mau

#1 and "outsourcing" in Central America.

Post by: Alice Liu

Thanks Kendall. That's a good idea to also mention which country or region you are in. Also, you can answer "the same" if you think buying a software package and outsourcing cost the same.

Post by: Franz Gomez

3 and outsourcing in Latin America, particularly Colombia.

Post by: Daryl Skoog

Alice,

I would say 1 for NGOs and 5 for banks.

Post by: Patrick Gobin

For small MFIs = 2

For larger MFIs = 3

Post by: Venkataraman Machiraju

Dear Alice Liu,

As a vendor for IT solutions, I say 5 for good solutions available. Choice of Solution will depend upon the need, and some customisation is required to suit the requirement of client. Once the standards are set in the system, providing a solution is no difficulty. Of course cost is always a concern, which MFIs need to prepare themselves to get the best and value for their investment.

DAY 2 SUMMARY

Post by: Alice Liu

Hello everyone. We heard about several experiences with core banking system implementations on Day 2 of the Speaker's Corner on Outsourcing Options for MFIs. One of our three guest panelists, Daryl Skoog of Opportunity International (OI), provided a detailed description of his organization's core banking system architecture, in which there is a combination of locally hosted banking software run by local IT staff, and connectivity to a third-party data processor in Colorado for certain data transfers and end-of-day processing. This architecture is designed to balance the realities of the poorer quality of broadband connectivity in some countries (less expensive but lower bandwidth Internet Service Provider (ISP) services with higher cost but higher bandwidth and more efficient VSAT (Internet access via satellite), and the realities of the available skills of the local IT staff who have not had the educational or career opportunities to prepare them for managing complex networks. Daryl also provided some lessons learned, including two issues not always highlighted: (1) the human element as a key to success, the team commitment, trust, and collaboration; and (2) the need for a testing environment that mirrors the systems in the field so that problems can be reproduced and the resolution tested before applying it to the live system.

We also briefly discussed that building a system from scratch is not a practical option for most people these days, due to the time, cost, and complexity of such an endeavor. The most realistic options are to buy a software package and host it in-house or outsource, if one is considering implementing a modern core banking system.

Panelists from CGAP, Lauren Reese and Gautam Ivatury, shared some of their experiences with small MFIs. For small MFIs, outsourcing may be more expensive than a solution hosted in-house, and there is concern that the cost of connectivity is too high.

Christian Rodriguez noted that the cost of connectivity will vary by region, and also that MFIs in some regions tend to invest more in IT than in others.

Kendall Mau shared his experience creating a new MFI and outsourcing at the start, but as they gained experience and grew, they decided to bring the systems in-house. We hope to hear more from Kendall about his decision to switch from an outsourced solution to an in-house solution.

Rajeev Natarajan's described his company's services, where they have found that small banks need not only IT infrastructure and support services but information management services as well. His clients have asked for this assistance because they struggle with

recruiting and retaining staff that will accurately and regularly enter data properly according to internal processes and regulations. This is yet another flavor of outsourcing. His company is also experimenting with conducting more transactions over the phone – whether it be via a contact center, interactive voice response (IVR) system (“press 1 for balance inquiry, 2 for recent transactions, ...”), and SMS (text messaging), to overcome the broadband network connectivity problems.

From these comments we can see that there are multiple approaches to outsourcing and that one can switch approaches as the organization changes and grows.

So far we have heard some positive stories and optimism about outsourcing and some early projects. Thanks to everyone who has participated so far I hope people will not be too shy to share more frustrating experiences, raise skepticism about outsourcing, ask tough questions, etc. Outsourcing for MFIs is still in an experimental stage and the early adopters are learning the hard way and the goal here is to learn from others, debunk the myths, and help MFIs understand their options. In short, I like to say that we want to hear the good, the bad, and the ugly (cue the Clint Eastwood movie theme song J). This forum is perfect for a healthy debate.

Day 2 is technically over but you can continue replying to messages posted on Day 1 and Day 2 while we shift gears to Day 3's topic on the enabling environment for outsourcing. We've already raised one of the enabling environment issues – connectivity - so I look forward to more discussion on this tomorrow. I will post the Day 3 Welcome message shortly to officially open the third day of the Speaker's Corner.

DAY 3: ENABLING ENVIRONMENT

WELCOME TO DAY 3

Post by: Alice Liu

Welcome to the third and last day of the Speaker's Corner on Outsourcing Options for MFIs. Today's focus is on the enabling environment required for the outsourcing model to survive and thrive. In the U.S., there are many vendors, high customer demand, and outsourcing is gaining in popularity as previously noted. However, the situation is different in many developing countries. The environment may not exist to support outsourcing, regardless of the benefit to MFIs. These issues deserve more attention so now is our opportunity to collect some first-hand knowledge and ideas on potential solutions.

I would like to introduce our guest panelists for today, Karuna Krishnaswamy, project advisor in the CGAP Technology Program, Steve Sellers, CEO of SourceTrace, and Sandeep Chatterjee, Chief Technology Officer of SourceTrace. SourceTrace offers on-demand, hosted and web-based application services, as well as remote data capture middleware and hardware for the financial services, agriculture and clean water sectors.

The Business Case for Outsourcing briefly explores six enabling environment factors:

- Rule of Law, Enforceability of Contracts and SLAs, Effective Court Systems
- Regulatory Oversight and Compliance
- Infrastructure
- Number and Capacity of Vendors
- Customer Service Orientation
- MFI experience with vendor procurement

Let us explore these issues further:

Do the court systems enforce contracts and service level agreements?

How many vendors of MFI core banking solutions offer an outsourced service? Are they offering the full suite of managed services?

Does the current regulatory environment in your country favor or inhibit the development of outsourced IT services?

Is the state of IT infrastructure – reliable and stable network connectivity and power – improving and less of a barrier to use of technology?

What is the most critical barrier to the success of the outsourcing model?

I'll post the questions above in their own thread so the answers can be posted directly against each question. Feel free to post other enabling environment issues in their own thread.

This is our last day of the Outsourcing Speaker's Corner, with access to some very knowledgeable panelists, so feel free to ask lots of questions. There are no dumb questions!

DO THE COURT SYSTEMS ENFORCE CONTRACTS AND SERVICE LEVEL AGREEMENTS?

Post by: Alice Liu

My personal feeling on this is that this is a critical issue for outsourcing to succeed as business model, and this is a problem in many countries, yet on the other hand I know people are outsourcing. How are you able to do it in spite of a weak legal system? It is hard to establish trust between customer and vendor, and especially with outsourcing when some are leery of paying a recurring cost "forever". The courts should be a last resort, but if the legal system is weak, does that render contracts essentially useless? Let's hear from you about rule of law in your country or country that you are familiar with.

Post by: Karuna Krishnaswamy

Yes definitely a serious issue. All the branches of the MFI will be using the outsourced platform, so if it is not available many of the daily operations of the MFI could come to a halt.

The outsourced service provider could be different from the software vendor, systems integrator, data center provider, hardware provider and internet service provider, and errors are possible in each actor's domain, so contracts could become more complex. So clearly drawn, precisely articulated, and clearly understood lines of responsibility, escalation and communication processes are key.

But having said that, the contract is with the outsourced service provider, so this single-window could be better for the MFI rather than to have contracts with different parties as would happen in a conventional proprietary deployment.

Contracts and SLAs will cover the following: Continuity of the service for a specified number of years, system uptime and response time, back-ups and disaster recovery, defect resolution turnaround times, future functionality prioritization and upgrades schedules, future changes to pricing, billing disputes, data privacy, non-repudiation of transactions by end-user and penalty clauses for missing the SLA for any of the above.

While it would be very interesting to hear from the audience about country specific experiences, penalty compensation (if agreed to be the opportunity cost to the MFI or some pre-agreed amount) even if enforced later might not help with short term business continuity. So preventing predictable sources of problems and contingency and business continuity planning for any exigencies is a must.

Look forward to hearing experiences.

DOES THE CURRENT REGULATORY ENVIRONMENT IN YOUR COUNTRY FAVOR OR INHIBIT THE DEVELOPMENT OF OUTSOURCED IT SERVICES?

Post by: Alice Liu

In the U.S. regulators review the risk and risk management practices of these service providers. These providers must pass regulatory exams to ensure compliance with regulations and to show that they are following best IT practices, controls, and activities. The SAS 70 security audit is another means to assure to customers that their systems and data will be secure.

I think one difficulty vendors may face is that regulations vary widely in emerging markets, and vendors need to serve multiple markets to access enough customers to make outsourcing affordable for them.

What are the regulations in your country regarding where data can reside and transaction processing must execute? Are there regulations governing IT risk management, best practices, and procedures? Do these regulations need harmonization across your region? Is there enough regulation, too much, or too little?

Thanks,

Alice T. Liu
Emerging ICT Group

Post by: Karuna Krishnaswamy

Some of the aspects of the service that might be subject to regulations:

Banking software: Compliance and Certification by the central bank.

Legal status of the MFI and the service provider: Approval for provisioning by the regulator. Are the two regulated or not? If the MFI is a banking correspondent, what are the governing laws?

Client data confidentiality: Storing client information and financial records with a service provider or even in a foreign country's data center as in the case of processing hubs. What security processes, audits and certifications are needed to ensure privacy and prevent theft?

Clearance and Settlement, connection to payment systems: If the provider does that.

Taxation: On transactions and particularly if a foreign entity is involved in billing.

Domestic and international e-commerce laws might apply. Other services that the provider may offer such as international remittances, mobile transactions, e-money cards.

Would be interesting to know more about regulatory climate and experiences from the field.

Post by: Patrick Gobin

Some countries in Africa have a very high tax on software and services provided by foreign companies. We find this to be a significant burden to the MFI's we support. It is difficult to find tax efficient ways of handling this.

We have seen nothing on the regulation part, except that the central bank wants to know that you have the proper MIS in place.

IS THE STATE OF IT INFRASTRUCTURE – RELIABLE AND STABLE NETWORK CONNECTIVITY AND POWER – IMPROVING AND LESS OF A BARRIER TO USE OF TECHNOLOGY?

Post by: Alice Liu

This issue has already come up during this forum. Local ISP service is highly variable - they sell you high bandwidth but at peak hours the network grinds to a halt. VSAT is too expensive for many. Are mobile/cellular networks a viable option yet? How secure is the mobile network? USAID's Last Mile project has been implementing a combination of technologies: WiFi mesh networks, WiMAX, and voice-over-ip (VOIP) to create community telecoms operators in rural areas.

My guess is that MFIs don't have access to the IT and telecom staff who can help them design an affordable network solution for them. Let's hear your thoughts on this issue.

Post by: Sandeep Chatterjee

Network connectivity is certainly improving, but in many places it is still far from "stable" or "reliable". Cellular networks continue their growth, primarily due to the market demand for voice communications. So, this presents a good vehicle for the transmission of data. At the same time, since the market growth is driven primarily by voice-traffic, many telco providers prioritize voice over data. As an example, about a year ago, in one of our deployments in Latin America, the telco provider -- completely unannounced --

switched-off GPRS (the higher speed data layer which sits on top of GSM). This did not affect voice traffic at all, but anyone using the cellular system for data traffic was affected. Luckily, our system had multiple redundancies so our client was unaffected by the GPRS outage. So, in my opinion, although network connectivity is improving, it is still not stable. Accordingly, it is important to utilize IT systems to build contingencies so that even if the underlying network is unreliable, the data communications can still proceed reliably and consistently.

Post by: Patrick Gobin

Dear all,

Indeed as indicated by other contributors, the design, setup and maintenance of a WAN is a major challenge. In general the situation is improving with the advent of mobile phone operators that setup a strong infrastructure that spread out in all corners of the country. Core Banking Systems have data requirements that are different, so these operators that understand voice or Internet access might struggle with that. So the general picture is improving, with a lot of variance per country, but the question remains is when will this become ubiquitous and affordable for an MFI? In 2012 or 2020?

For instance, the fiber optic cable linking Cameroon was cut this year by a boat leaving the whole country with a diminished link to the outside world for a week. Luckily our Core Banking System is installed locally and therefore was not relying on that link, so it was a minor inconvenience.

Post by: Sandeep Chatterjee

As a follow-on to my previous response, power is also important to consider. In many areas, there may be power, but the power is not stable, fluctuates, does not provide sufficient current for computers, and so on. And, if there is power, the power may go out -- even for a few seconds -- causing loss of data or damage to computer equipment.

Some people believe that batteries will solve the problem. However, improvement in battery technology and/or storage over the last 10-20 years has been relatively flat. Even solar technologies provide a fixed amount of energy. At the same time, the demand for power from computer equipment has been growing -- sometimes exponentially. And, the amount of energy used for transmitting data over a wireless network is relatively flat (i.e., it will not decrease very much over the years).

After many years of research in this area, the conclusions are that to *intelligently* utilize power, innovations in software is required. For example, with intelligent software, a system I had made earlier that ran for 9 hours on a battery can run now for over 17 hours (on the same battery).

Batteries together with intelligent software can mitigate - to a large degree - the power issue. This results in cost savings (e.g., reduced power utilization, less down time for computer equipment, fewer computer equipment failures, improved customer satisfaction, etc.) for the institutions utilizing such intelligent software systems.

Post by: Sandeep Chatterjee

Patrick,

Most telcos are not focused on data traffic (vs. voice traffic). There are some telcos that are trying to help MFIs, but those are few and far between....

At the same time, I do not believe that MFIs can afford to wait for the telcos to provide them with "ubiquitous and affordable" systems, which may or may not ever come.... MFIs need to view telcos as "pipes" and use IT on top of these "pipes" to build reliable communication networks based on that MFI's needs. The technologies already exist.

Post by: Alice Liu

Hi Sandeep - thanks for your time on this so far, I know you are traveling right now. I wonder if you saw Daryl Skoog's post describing the system and network that Opportunity International is using - a hybrid of locally hosted systems and end-of-day processing outsourced to a third party back in Colorado - , and a clarification in response to a question from me. You may have to scroll down to find his posts. Gautam Ivatury of CGAP asked about the cost of such a network. I think this is difficult to answer but perhaps you have some thoughts on this?

Post by: Sandeep Chatterjee

Hi Alice,

I just read Daryll's post, and I fully agree with his approach. In fact, we have a similar option for our customers, which goes one step further. Our eServices Everywhere (ESE) Box (pronounced "easy box") has software built into it, and an MFI customer simply has to connect the box into a power supply and one or more networks. We manage everything from our global network operations centers in India, USA, Costa Rica, etc. The MFIs are able to access reports, etc. through their usual PCs, PDAs, etc. But, all IT management (software upgrades, troubleshooting, maintenance, etc.) are managed remotely by skilled experts and professionals.

Similar to Daryll's experiences, there are many benefits to this model, including:

1. Not requiring a strong local IT team (the MFI can focus on their business and not on IT; they can ****use**** IT to run their business more efficiently without having to worry about IT)
2. A lot of work can be done "after hours", so even "hiccups" in the system is transparent to the MFIs staff and customers (very little downtime)
3. We have found that this type of a model is very cost effective for MFIs. In fact, in many cases, this type of a model can be cheaper than other business models. In terms of cost, the ongoing cost can be very low -- sometimes in the range of a few dollars per day.

OUTSOURCE FOR MICROFINANCE SOFTWARE APPLICATION**Post by: Patrick Gobin**

Here is a less "optimistic" opinion on the outsourcing potential. In my understanding of what is required for outsourcing to work is that the MFI understands exactly what is at stake and can discuss with the provider of services on what it requires. Our experience on this subject of MIS is that MFIs have not the right level of understanding of this complex field. Some improvements are noticeable, thanks to efforts like these or from CGAP, but most MFI still need to be helped and educated. So they will be cautious to outsource something they not understand fully but sense that is strategic for them.

I am not sure who does and takes responsibility for the implementation and the continuing setup of the system. Is that the responsibility of the Service company or an other party (software vendor, systems integrator)? Who handles and drives the change management (impact and changes on the products, processes, organisation of the MFI) that is a key aspect of an MIS? I have spoken to quite a few vendors who are looking for a local company that can take that responsibility and deliver, but cannot find them.

Post by: Rajeev Natarajan

Yes - educating the client is part of the challenge that companies like us face. But the good side of the story is that once we also offer our services in taking the responsibility of actually maintaining the IS and working with them as a long term partner rather than implement-and-leave strategy, we have found a warmer response. This has helped us in the small, mid-sized enterprise space in financial services and are on a pilot with a couple of MFIs also.

Post by: Alice Liu

Hello Patrick and Rajeev - thank you for your thoughts. I'd like to answer Patrick's comment:

I am not sure who does and takes responsibility for the implementation and the continuing setup of the system. Is that the responsibility of the Service company or another party (software vendor, systems integrator)? Who handles and drives the change management (impact and changes on the products, processes, organisation of the MFI) that is a key aspect of an MIS? I have spoken to quite a few vendors who are looking for a local company that can take that responsibility and deliver, but cannot find them.

With outsourcing, the system is already running at the data center. The outsourced solution vendor provides all of the software, hardware, and network system support. They may themselves outsource some of that - for instance, the hardware may actually be hosted by another party who provides the network, power, security, physical environment, etc. , and the outsourced solution vendor focuses on supporting the software. Usually they would have someone designated to be the liaison with the client - call

them "account manager", "client partner", "relationship manager", "project manager". It could be a title like one of these. This account manager would be responsible for understanding the client's needs, working with them to prioritize them and figure out how to accommodate them, whether it means a customization, integration with another product, or something that is approved as a new feature to be released in a future version of the product.

This is a scaling problem for vendors, absolutely. The vendors you refer to who can't find a local company - I wonder what they're offering to these local companies? There are probably different models for this, such as an "authorized partner" program, where a local company pays a fee to get trained to become an authorized partner, and in return gets a share of the revenue from the sale and ongoing revenues of the outsourced service. And the vendor commits to sending them leads for new clients, gives them marketing material to use, etc.

To Rajeev's point, outsourcing is more of a full service strategy, "full managed services", not a drop and leave strategy like typical software sales. In the U.S. some vendors are treated like trusted advisors.

To also put forth a less positive view, I think some of these vendors may not have high quality solutions, and MFIs would never know the difference unless they have the IT people who can grill the vendors on their software design, development, testing, and release practices. One experience I had in Ghana wasn't with banking software, but when I heard the vendor was coming every week to update the software, that sounded fishy to me. Updates don't come out that frequently, but bug fixes and patches do. Perhaps these were minor updates, but those would not merit a weekly trip so I could only guess that there was a need to fix a bug.

Post by: Rajeev Natarajan

The last point that you put forth with respect to the MFI having someone to grill the vendor on design, development and so on, do you think that the inability for someone within their organization to have sufficient understanding of software to ask those questions is where the problem lies for the MFI? At least, that's what we have seen with many of the smaller MFIs in India.

What do you think might be an interesting way to approach this? Can we look at a third-party certification or having an information audit team that does an independent verification? I feel that handling these particularly in the MFI space can be trickier with MFI CEOs already wary of IT and any related conversation :-)

Post by: Alice Liu

Hi Rajeev. There are probably multiple factors at play. I can empathize with the MFI. When an auto mechanic tells me I need xyz repairs and spend \$\$\$\$\$, it makes me nervous because I don't know anything about cars. Do I trust him and spend the money or drive away hoping my car doesn't fall apart on the trip home? Magnify that for IT, which is far more complex and has more impact on an MFI's operations. Even large MFIs may have problems - they might see a cool demo and make a decision without involving their IT staff who are not so easily dazzled.

It's probably safe to say that MFIs don't have a lot of experience evaluating and negotiating with vendors and they need to find someone they can trust to help them make the decision. That's where a consultant can help them out (Jim Godish, guest panelist on Tuesday, does this for US banking clients). The consultant already knows the top products in the marketplace, the reputation of the vendors, and how to negotiate with the vendors. I don't know if there are many consultants doing this for MFIs, so there's an opportunity for some of you out there. :-) I think there is a pretty fragmented market, with perhaps not even enough vendors to form a top ten list.

There is a cost to using a consultant, of course, which could be difficult for MFIs. Not just financial cost, but time as well. Many MFIs probably don't have time to do an in-depth evaluation, and they still have to spend time with the consultant if they don't do it on their own. In the Decision Guide, we provided a lot of tips on how to evaluate and select a vendor, based on Jim Godish's advice. We have to remember there is an opportunity cost also, that if you don't invest the time, resources, and money to do a proper evaluation, there is some risk of selecting the wrong solution with varying degrees of short and long-term impact.

I like the idea of an independent verification or third party audit of some sort. This is what happens in the U.S. with all the regulatory oversight of banking IT systems, the SAS 70 security audit, etc. Does anyone know who actually performs these audits in the U.S.? I'll ask Jim Godish (he's traveling but I'll try to get a response from him tonight). I don't think it's the regulator. The small

U.S. banks that we spoke to all commented on how much time they spend with the regulators, and several were too busy to speak with us because "I have the regulator in my office for the next two weeks". Banks may not be too happy with the regulator constantly looking over their shoulder, but on the other hand, they have confidence that the software works and the outsourcing vendor's IT management practices have passed the test.

Objective product reviews would be an easier place to start than pushing for more regulations, although reviews cannot go as deep as an actual audit or regulatory exam. CGAP did some product reviews a few years ago. Outsourcing was not on the radar screen back then, so I'd like to see a review of outsourced solutions. For the commercial banking sector, there are various market research groups that publish reports evaluating software vendors, such as the Aite Group and Tower Group, but they charge a few thousand dollars for their reports. CGAP may be the closest we have to these market research groups. Would something like this be in the scope of the MIX?

Post by: Karuna Krishnaswamy

That sounds like an interesting idea. Credibility of the outsourced service provider to the MF sector is key. Any concerted effort to have a certification process to approve the provider can only be good.

Post by: Patrick Gobin

This discussion is really getting interesting... so let me add a few comments / thoughts.

I think that a very important measure in this discussion is the size of the MFI that starts with a 2 branch setup with 6000 loans up to an institution with 200,000 customers with 50 branches. The scale of the MIS project is bound to be different: a budget of USD 30,000 and process measured in weeks (inception, selection to implementation) to a multi-millions project that will take more than 12 months. The latter will be entering into competition with retail banking institutions. I think outsourcing will start with the bigger projects where there is scale and maturity (or that scale can be reached by a network of MFI like O.I.), whereas the smaller projects you need one or two expert that can handle everything (hardware, telco, setup, training, support...). This is what we see with the smaller MIS solutions where it is the software vendors taking that role.

Once the project gets bigger, you can have an eco system with different players: consultants to help audit select (this is a role we play alongside other consultants, but it is a limited market), integrators to setup the system, value added resellers... We see bits and pieces of these ecosystems appear but there is variance per product and region. So outsourcing will hopefully enrich these ecosystems.

The quality of products varies a lot (I agree with your top ten remark), but the eco system is not fully functioning in the sense that the fittest should survive and the less capable should die. It is happening but at a very slow pace because it lacks maturity. The market is not helped by the fact that donors regularly make the mistake to fund the vendors (supply) instead of funding the MFI (demand). So when the funding dries up (as it always does), the chances are not good for that software to survive unless the MFIs have been used to pay the right price for that product.

Indeed objective product reviews are a good starting point and this is the role CGAP has played and should continue playing (I do not think it fits in the MIX mission). CGAP is preparing to launch a new set of reviews in a few months. In the banking world this role is played by IBS Sales League (but you have to pay for the information whereas CGAP website is for free).

Post by: Alice Liu

Hi Patrick. Thanks so much for your comments - I'm glad this has been worthwhile for you. Just had a few additional thoughts:

You are right about the size of the MFI being a determinant of their needs for an MIS. You can see some of the discussion on Day 2 about this. Size in terms of number of clients, assets or loan portfolio, branches, employees, etc. all will drive the requirements as well as other factors. As I've been doing this research, I've come to believe that eventually outsourcing will work for medium to large MFIs, but I'm concerned that small MFIs will continue to have limited choices because the private sector doesn't see the smaller end of the market as a profitable segment.

I also forgot to respond to your earlier post about change management. That is a big issue that people don't often realize. People focus so much on the technology - does it work, does it meet my needs, etc. - but it's the "people issues" that will doom an IT

project, not the technology issues. What can make or break any IT business application implementation is the change management and user/stakeholder buy-in. You could hire someone to help facilitate the process, but I believe that unless there is an internal champion for the system, who is an influential person who people respect, it's going to be a tough road and one you potentially wouldn't want to take at all because of the potential cost and schedule over-runs. This champion wouldn't be the one actually leading the day-to-day change management process, but they are usually at a senior enough level to have the authority to back the recommendations of the change management team, whether that means reorganization, salary increases, change in job responsibilities, timelines, etc.

You mentioned something about the donor funding. Coming from the private sector, I would like to see donor funding work more like the private sector when it comes to IT projects. Donors don't have the profit motive so it can't work in exactly the same way, but I would like to see elements of risk, reward, and incentives incorporated into the donor funding model. For example, the donor gives the money only to those who actually want the project and commits resources to it, and walks away from projects where the recipient is not bought in, is obstructing progress, etc. (and I mean "walk away" - as in mid-stream through an implementation). This would be controversial from a donor perspective, because this is about the social good and not just whether the funds are being invested wisely, but I think there's room to strike a better balance. There should be some "skin in the game" - the recipient has to put some money into the project as well so they have some incentive to make the project successful and not see the funding as a handout.

Lastly, sustainability has to be budgeted for. The funding will be a waste if the MFI cannot sustain the system after it is implemented and the funding ends. Donor funding could be put to good use here, on all kinds of training like IT and management skills.

I'll get off my soapbox now!

DAY 3: YOUR FORUM

Post by: Alice Liu

This is our last day of the Speaker's Corner and it is pretty silent out there I hope it means you're all very busy with your microfinance initiatives. I see a lot of people viewing the forum but not too many posts.

This is your forum, so I just want to be sure we're discussing the topics you're interested in and you're gaining some benefit from this. What do you want to hear more about? What are you hoping to get out of this forum? Is outsourcing just too far out of the realm of possibility for you? Are you considering implementing an in-house solution? This will help me generate more discussion on what you're interested in and I think it will also give the donor and development professionals in the audience ideas for future research and projects.

Feel free to start a new thread if you want to pose a question or reply to one of the other threads, and write us if you're not sure how. With just one day left, let's make the most of it.

Post by: Venkataraman Machiraju

Dear Alice Liu,

Yes Alice, it's the forum we need to contribute and seek for guidance and information. I am really happy to post my observations on this.

As mentioned in my earlier posts, We are really serious to work with forums who can experiment directly this model of Outsourcing keeping in view these response / Observations and at least develop a viable model for the benefit of MFIs, After all the members may want a proof of Concept and also try to know the real cost of such initiative.

Even we should try to provide a ballpark figure for the MFIs how much it may cost if they opt for this option. We have in fact developed a pricing model basing on per member cost /per month, dividing the cost factor into Registration & Servicing the member for each month. In some cases we can also go for per transaction cost also if the volume is high.

May I know from the forum members: What could be best pricing strategy in the Outsourcing of MF operations Model?

I look forward to good response from the members.

Post by: Alice Liu

Hi Raman. I'm not sure if you'll get a lot of responses to this, at least not from competing vendors who are on this forum. I can't give you a definitive answer either, but I would say in general though that you'd want to also think about how not to "penalize" the MFIs for their success or unusual spikes in activity. Meaning for instance, if they have a sudden spurt in transactions one month (holidays for instance), their fee would double or triple. I think one of the benefits of outsourcing is that there is a predictable monthly cost that MFIs can budget for, so when the cost suddenly changes, that will create difficulties for them. Maybe there would be a cap on the amount the fee could increase in any one month but if the transaction volume is sustained in the second month, then a new fee needs to be negotiated? The vendor and the MFI probably have to meet each year and based on the MFI's growth projections, establish the next year's rates. I haven't thought this through, just throwing out some ideas.

And as Patrick Gobin emphasized, it depends on what size MFI you're targeting. If you figure out an MFI's total cost of ownership of maintaining an in-house system, and show how your outsourced service will be less expensive over at least three to five years, that would be pretty compelling. That reminds me that I was going to post a couple of articles that calculated the TCO for CRM systems - I'll take care of that now.

Post by: Karuna Krishnaswamy

Hello,

One of the things to consider is to have a component based pricing -- so the MFI pays for those products that it uses. And I think Alice makes a great point of predictability of per transaction fees. For example an MFI going from weekly to monthly repayments, might see a sudden spike in costs?

Post by: Rajeev Natarajan

Pricing: We feel that there might be 'innovative' ways of looking at pricing. The per-customer pricing model has been working for a while now for a mid-sized financial services company. The success of the model - in this case - depended on the fact that we were able to relate the cost per customer to the average revenue per customer using public domain information. To go even further, if we are able to show what percentage of operating costs of servicing the client, the cost on IS amounts to, we might have a winner!

Return on Investment: I'd be happy to share some numbers too - we feel that the RoI can be easily shown in either pure software outsourcing / outsourced services. In many cases where the client already has a decent IS but is not happy with the solution, we are able to go and understand how much they are

spending on each of the bits and commit to a cost-reduction strategy. This may not work in all cases, but there are enough companies in the target segment to make this a 'viable' model.

Post by: Karuna Krishnaswamy

Hi Rajeev,

Yes, IT and total cost per client, and fraction of revenue spent on IT should slowly become part of the language used and indicators annually collected by MFIs.

Would be interested in knowing more about your ROI pitch.

Post by: Alice Liu

In the first phase of this research about two years ago, one of the banking IT experts at DAI said that in the U.S. commercial banking sector, the recommended average annual investment in IT is 7 percent of operating expenses. I'm not sure what his source is for this - there is probably a market research report on this.

Post by: Rajeev Natarajan

That's an interesting number.

May I attempt a back of the envelope calculation here:

<http://www.microfinancegateway.org/content/article/detail/49567>

indicates that cost per borrower in India is \$11

Operating Cost Ratio is 14%

If the recommended annual investment is 7% of Operating cost, it gives us around 1% of cost per borrower to play with ~ \$1 per annum

Does \$1 per borrower per annum sound reasonable? We seem ok with that number in terms of our ability to provide full-fledged service to the MFI (we are actually able to price it lower than \$1)

Does the above make sense or did I get my math all wrong?

LINK TO BANKING IT HANDBOOKS ON OUTSOURCING AND OTHER IT TOPICS

Post by: Alice Liu

In the U.S., the Federal Financial Institutions Examinations Council (FFIEC) "is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS), and to make recommendations to promote uniformity in the supervision of financial institutions."

"The FFIEC IT Examination Handbook is a collaborative effort of the FFIEC's Information Technology Subcommittee of the Task Force on Supervision. The Information Technology Subcommittee promotes uniform and effective information technology policies and supervisory programs for financial institutions and their service providers."

In short, the FFIEC is relevant to this discussion as the body that regulates the IT systems in financial institutions. I was looking for a nice, neat statement of their mission, but essentially I believe their goal is to ensure that financial institutions manage risk properly, in part because the government insures depositors' funds and their role to manage overall systemic risk, and conform with regulations.

What looks most helpful is that their website provides several IT examination handbooks covering a wide range of issues, including selecting a service provider and outsourcing. You can download the PDF. I've looked at a few of the documents and they look extremely useful to both MFIs and vendors so I encourage you to check them out. Your situation of course will be different from the U.S. environment, but I think much of this will still be relevant as a source of ideas and actions you could take.

The handbooks cover the following topics:

Audit

Business Continuity Planning

Development and Acquisition

E-Banking

FedLine

Information Security

Management

Operations

Outsourcing Technology Services

Includes advice on selecting a service provider and discusses pricing models

Retail Payment Systems

Supervision of Technology Service Providers

Includes guidelines for "shared application software reviews" and a "multi-regional data processing servicer program"

Wholesale Payment Systems

I'm attaching the Outsourcing Handbook to this message.

Alice T. Liu

Emerging ICT Group

DAY 3 SUMMARY

Post by: Alice Liu

Thanks to everyone who participated on Day 3. We had quite a lot of discussion, also partly because Day 3 has really extended into a fourth day before we close the forum.

Implementation Experiences

We heard more details from one vendor, Elitser IT solutions in India, about their experience creating and selling an outsourced service to a large bank entering the microfinance segment. Their service includes outsourcing the entire “back office”, which includes the data entry and reports generation. Rajeev Natarajan also described providing this “information management” service during Day 2.

Both Rajeev and Raman V Machiraju of Elitser mentioned that MFI staff are not willing to use laptops and PDAs, which is why paper forms are still used in the field and therefore necessitates the data entry service that both of these vendors are providing. We did not hear from other vendors or MFIs on this issue – I wonder how receptive MFI staff is in other countries to these technologies? It may also skew along gender lines. I would speculate that mobile phones are seen as more friendly by MFI staff, since they may have their own phone for personal use, but there are other challenges with mobile phones.

Kendall Mau also provided more details about his experience quickly launching an MFI in Honduras and Nicaragua by outsourcing to a cooperative, which required a much lower initial capital investment, and later bringing the systems back in-house and becoming independent.

I think both of these cases are very illuminating and illustrative some of the different approaches one can take to implementing a core banking solution.

Enabling Environment - Infrastructure

It is still not as reliable and stable as it needs to be. Some are looking to the cellular or mobile networks as the answer, or at least as an alternative, given the explosion in mobile phone usage and the investment that telecommunications companies (telcos) and mobile network operators (MNOs) have already made in their infrastructure. Sandeep Chatterjee, one of our guest panelists, said that telecoms operators still prioritize voice over data traffic, so you must build in contingencies or redundancies into your network (into your overall system architecture, I might add, such as redundant power supplies, servers, etc.).

Enabling Environment – Vendor Choices and Capabilities, MFI market

This topic seemed to ignite the most discussion on Day 3. The market for MFIs and solution eco-system is not fully mature yet. The vendor market is still fragmented market with a lot of small vendors dispersed over different countries and regions. We believe that there aren't many vendors able to offer the full range of outsourced services, but there are also not many MFIs willing to outsource. It is a bit of the chicken-and-the-egg scenario. If there were better vendor choices, more MFIs might use their solutions. If there was more MFI demand, vendors might improve their solutions.

MFIs need a lot of support with the actual implementation and ongoing support, but vendors are not well-equipped to do this and can't find the local teams or partners to take on this work. Vendors probably cannot approach an MFI like a conventional commercial packaged software sale. Outsourcing, on the other hand, is a long term partnership and a lot of this "hand-holding" is included. The outsourced solution provider supports the customer in all aspects of the implementation – configuration, setup, data conversion, training, etc. – and supports the system long-term. There are probably ways to develop partnerships with local companies to create a win-win partnership, where interests and incentives are aligned through revenue sharing as well as consequences of failure.

MFIs are at varying degrees of development around the world. Some are more resistant or less convinced of the need for a centralized core banking system, and some are now embracing it as they engage in more business relationships and emulate commercial banks. Some still want a lot of customizations, which is a double-edged sword. A vendor can earn consulting revenue for delivering these customizations, but it could make the upgrade path harder for the MFI. Outsourcing is a very new concept for MFIs, and may only make sense for medium to large MFIs. These are also the MFIs who are likely to already appreciate the need for an integrated, computerized core banking solution, so the educational hurdle is also lower for vendors working with these MFIs. That still leaves small MFIs struggling on their own.

One vendor in India reports that there is more willingness for MFIs to consider outsourcing than there was just two years ago. Commercial banks in India are not outsourcing either, except with possibly one or two exceptions.

We discussed the possibility that independent certification or IT audits might help MFIs trust the vendor and accept the IT systems. We introduced an example from the U.S., which has a council made up of the main financial institution regulatory bodies, called the FFIEC, that defines the examinations of financial institutions, including the IT examinations. There may be similar examples in other parts of the world covering commercial banks that can be used as a model for MFIs. CGAP's objective product reviews are valued by everyone and we encourage more of these reviews.

Vendors are also still experimenting with the right pricing model – based on accounts, asset size, transaction volume, etc. They need the ROI but also should consider the impact on MFIs if a sudden spike in volume led to a sudden spike in fees, which an MFI can ill-afford.

CLOSING MESSAGE FOR THE OUTSOURCING FORUM

Post by: Alice Liu

Many thanks for all of your valuable contributions. The quality of the posts was deep and substantive and I hope you enjoyed the discussions. I think the forum was a great platform to hear directly from the people who are using or providing outsourced core banking systems, from both the MFI and vendor perspective. What better way to discuss technology than to use the technology we have? People from all over the world exchanged ideas and learned from one another, identified some best practices, and analyzed key issues and challenges that the implementers (MFIs) and providers (product vendors) face.

We could not have done this without the participation of the panel of specialists in outsourcing, ICT for microfinance and banking IT-- James Godish, Gautam Ivatury, Karuna Krishnaswamy, Paul Meyer, Judy Payne, Lauren Reese, Sandeep Chatterjee, Steve Sellers, and Daryl Skoog. They each set aside a day out of their busy schedules to be a part of this forum, and to have been able to engage these leaders was fortunate for all of us.

I would like to thank Anna Van der Heijden, Ashely Kiehnau and their team who were incredibly organized, provided many hints and tips on running the forum, and assured that the forum was working smoothly around the clock. The USAID team, namely Nhu-An Tran who recently departed for a new life in China, Carissa Page who stepped in and took over for Nhu-An with barely any time to come up to speed, and Thomas Debass, were the key supporters of the research that was the springboard for this Speaker's Forum and I especially thank them for their assistance with editing the study.

Last but definitely not least, I am grateful for DAI who gave me the opportunity to work on the AMAP project and follow my passion for ICT for development. Thanks go to Lauren Mitten, Colleen Green, Catherine Johnston, Donata Kane, John Cann, and

Mary Miller for their support and guidance. Thanks to Tim Sparkman for his crucial assistance in conducting the case studies for the outsourcing research.

While the forum officially closes today, I believe the actual discussion space will remain open through the weekend and close on Monday, to allow everyone to post their final messages. The postings and resource documents on outsourcing will continue to be available in the discussion page. A compilation of the emails will be made available by MicroLINKS on the same page shortly.

Please do also visit the microLINKS technology page for more papers, briefing notes and presentations on technology innovations for financial inclusion.

Thanks again to everyone. Please stay in touch if you like and I wish you all the best in your endeavors.

Post by: Venkataraman Machiraju

Dear Alice and all the team Members,

Thank you very much for organising such a wonderful discussion on the subject. I appreciate the efforts put from all of you. And all the forum members for sharing their ideas. Look forward to some more discussions like these from your platform.

With Best Regards,

Raman Machiraju

Post by: Inalegwu Uji

Thanks for the forum. We have been having network problem here in my region but can see that a lot have been discussed to help create a change.

I would like to suggest that the discussion be on for some of us to still share.

Thanks for all your contributions.

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