Software Vendor Appraisal Process in the Context of Urban Cooperative Banks in India: A Critical Study

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Abstract: **This article is related to give overview of problems faced by Urban Cooperative Banks in India while selecting the software vendors at the time of adopting any new software solution.**
Further it also gives suggestions for selecting the software vendor and legal reforms that are necessary in this regard. The basic objective is to protect the large stakeholder's money that has been involved in this software vendor selection process by the Urban Cooperative Banks.

Keywords: **Software vendor appraisal process in Urban Cooperative Banks in India.**

I. INTRODUCTION

Last few years Indian banking has seen many landscapes. Technology has evolved rapidly over a few years. Historically customer used to deposit to cheque in his home branch which he has received from a party with a different city. This cheque is used to clear fifteen to twenty days. And today a person sitting in London or Dubai having internet banking account can transfer his funds within a fraction of second to any person sitting in INDIA. Best thing is a transaction happens in a single day in a couple of hours.

Many players are acting as an enabler to facilitate this transaction. One of the key players is a software platform provider or software vendor. Software vendors in India are largely unorganized, scattered and they are offering wide range of software products on a small scale to a large scale basis. For a banking industry, software vendors are selected mainly through tendering process and by giving RFP. This article will try to through light upon the criteria that should establish for selecting software vendor to the urban co-operative banks in India.

The management of urban cooperative banks is vested in the hands of board of directors who are selected from among the shareholders. The decision related with software vendor selection is currently taken by the Board of Directors. It is observed in many cases that there is no IT director position in the board of directors. Many UCBs do not have fully functioned IT department. In many cases banks do not specify clearly their requirements for a selection of particular software.

Issues generally faced by UCB's while selecting software vendor:

1. Lack of proper technical knowledge among Board of Directors and CEO (Chief Executive Officers) for selecting software vendors.

2. Unable to clarify the software requirement clearly in the first stage.

3. Issues related with drafting legal agreement with software vendor.

4. How to judge whether a particular vendor will suit our banking requirement.

5. How to finalize the price of the software contract / how to set a budget for software vendor cost.

6. How to set a time frame for implementation of software Banking Solution.

7. How to monitor progress related with software banking solution implementation.

8. If the bank is changing the software vendor to what extent earlier vendor support should be taken and new vendor support should be taken. Who is to take responsibility for migrating database from previous vendor to current vendor.

9. Should local vendor be selected or outsider vendor should be selected.

10. How to evaluate whether software vendor will provide better support after implementation

11. How to evaluate the performance of software vendor every year

12. How to short list the best suited cases of software vendors among the applications received

The careful analysis of all above questions should be made and answer should be found out for all above questions.

2. LEGAL ANALYSIS OF THE ISSUE

Role of RBI:

Currently the country's apex bank, RBI has not yet issued fully functional guidelines to be adopted by the Urban Cooperative Banks while selecting their software vendors. This leads to a very tricky situation . UCB s are given targets for implementation of Core Banking solution on the one hand but are not guided how to implement the solution in which the main critical success factor is the 'software service provider or vendor ' .

Role of State Cooperative Department:

These Cooperative Banks are controlled and governed by the Cooperative Department of respective states . These Cooperative Department has also not yet come up with guidelines or standard operating procedures on how to select software vendors.

In cooperative sector , auditors are appointed to ensure the accuracy and authenticity of financial outcome of the business and Balance sheet . There is a complete and independent procedure right from auditor selection to audit report format and from audit fees to compliance of audit reports by the cooperative banks.

However when it comes to selection of Software vendor and again when the stakes can be as high as even Rs. 1 crore , it is high time now to look in to this matter by the Cooperative Department of State Governments and RBI and issue standard guidelines in this regard.

If this issue is kept open and untouched, it may lead ultimately to poor vendor selection practice and a huge technology failure. It will also have negative impact in the minds of stakeholders of these banks

Data Migration issue:

Disaster can occur when bank tries to change the vendor and both the vendors do not accept the responsibility for migrating data. Further, many   banks does not conduct data migration audit in time. No framework for Data Migration Audit is fixed so far for UCBs in India.

So banks never realize the errors and irregularities in their existing and current data.

Problem can go worst if dispute arises between bank and the previous vendor.

Vendor may refuse to give the data base password to the bank. And bank may end up risk of using the entire data. Currently there is no regulatory body which is governing the software vendors in India.

Need to establish Separate Governing body for Software banking industry:

Considering the sensitivity of the issue at hand it is recommended that the RBI should look upon into this matter and establish quasi-judicial body to regulate vendor selection, appraisal, cost determination and handling the disputes.

Software Business case:

Let's take a case of Maharashtra in India, in Maharashtra there are around 600 cooperative banks each bank is setting a budget of 50 million rupees on an average for software implementation. That goes to a staggering business of 300 crores in only Maharashtra state.

And taking a case of India as per record there are 2100 UCB's approximately in India. Considering a business of 50 lacks per UCB, it goes to the business of Rs. 1050 crores approximately.

This is a banking software business and industry and that only for cooperative banks. Now time has arrived that there should be strict watchdog or regulator for software banking industry business.

RBI should initiate to establish a separate independent governing body along with the help of information technology department and they should jointly coordinate to establish guiding principles and also dispute settlement mechanism in this regard.

In the light of above problems following are

The suggestions to the urban cooperative banks for selection of their software vendor:

1 Bank should have full time IT department which is manned by highly qualified and experienced staff who is well versed with technicalities of this issue

2. Software Vendor should be at least 5 year in business with at least minimum turnover and profitability above stated prescribed limit. This limit should be set by the IT committee or the steering committee in charge of the project

3. Vendor should be having specified minimum technical skilled staff that should be capable for handling bank operations. Again this requirement can be enforced by the IT committee or IT Department guidelines

4. Bank should gather the lists of software implementations given by the vendor in the nearby locations of the bank.

5. Bank should obtain confidential report from other banks related to quality & performance of software vendor.

6. IT department and CEO of the bank should personally visit to the banks who have implemented the software of the vendor in the same district or the same geographical area

7. Bank should consult the legal advice before finalization of software agreement with the vendor

8. Bank should fix a budget for implementing the software solution. IT team should continually ensure that the budget is not exceeded beyond the limit

9. Bank should Call for all request for proposals from different vendors.

Vendors should be asked for making pilot presentation in front of IT department, Representatives from users, CEO and Board of Directors. After going through Presentation bank should ask the vendor to submit two bids:

A) Technical bid –

It will mention all the technical aspects about the proposed software solution.

B) Financial Bid:

It will mention all the financial aspects both the proposed software solution.

Both these two bids should be independently negotiated with the software vendor and three best cases should be shortlisted.

Final decision will be taken by Board of directors in consultation with IT department.

13. Warrantee clauses and performance measurement clauses should be clearly defined in the vendor agreement

14. Before Obtaining Request for proposal from vendor, public notice should be given in the newspaper.

15. IT should be ensured that the vendor is providing adequate functional as well as technical training to the users of the bank. In many cases it is observed that the training aspect is ignored or not taken seriously by the banks as well as

vendors. In such a case, however good software may be , its quality will not be proved unless it is taught to the users how to use the software from the very basic.

3.   CONCLUSION

Banking software industry has huge business proposition from software vendors point view. One wrong decision can lead to major financial as well as reputational loss to the bank. As such utmost care should be taken while selecting the software vendor.

The Regulators have also a key role to play in this regard. The RBI and the respective Cooperative Departments in States should come up and issue guidelines in this regard.

The time has come up to establish a new governing body to govern , monitor and regulate the banking software vendor selection considering the staggering volume of business it generates (Around approx. Rs.1050 crore. 2100 Urban Cooperative Banks * Approx. Rs. 50, 00,000/- per bank)

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