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The LATAM Financial Software Market

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In the past 10 years, several financial institutions (FIs) in Latin America (LATAM) have been facing intensive software platform renewals as well as new installations from scratch to support new lines of business. CIOs have coped with sophisticated selection processes, many of them driven by world-class consulting companies, including vendor selections, requests for information (RFIs) and requests for proposal (RFPs), proofs of concept, and workshops. Ultimately, "decision makers" for FIs will tip the scale for a local, regional, or world-class vendor.

But are financial companies licensing a product or a project? What does the vendor have to say about it? How much is it really going to cost (time and money) to be up-to-market on top of the selected product in a long-term strategy?

Throughout the entire selection process, the IT and business departments must understand clearly how the vendor works internally when it comes to product evolution. Is the FI going to benefit from other clients' requests, innovations, and regulatory requests, or will it just need to pay an army of consultants for any new need that arises? That is, are you hiring a project-oriented or a product-oriented vendor? Here, I highlight several considerations FIs must consider when evaluating vendors (those software companies providing the industry with software platforms for running their business) and deciding on an internal long-term strategy.

Evaluation Process (RFI/RFP)

FIs identify a set of criterion when qualifying a vendor according to their needs, concerns, and internal processes. The following can be viewed as a list of well-known issues to consider:

- coefficient of functional support;
- costs (A), including the structure and cost of licenses (upfront payments plus annual maintenance versus monthly renting fee), implementation services fees, and maintenance fees under the service-level agreement (SLA);
- technology platform (open architecture, database, service-oriented architecture, modular components, cloud, warehouse, customization and parameterization, and so on) (B);
- ability to execute—time to deliver and implement;
- local or regional offices;
- number of local installations;
- presence in similar clients;
- regulatory support;
- help desk and post-production service support (C);
- vendor's client references, reputation, and financial strength;
- standard processes (for example, Capability Maturity Model Integration [CMMI] or ISO);
- and release scheme for both major releases and minor patches.

FIs weight all these issues per their requirements, qualifying vendors depending on the FI's particular concerns.

Local, Regional, or International Concerns

Vendors with local presence, as either native or foreign companies, could have a comparative and competitive advantage not only as regards potential local clients and reachable offices, but also

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because they're aware of the local regulatory and tax requirements. This knowledge is already considered as part of the software solution and know-how. Many times, however, local vendors are simply project- and client-oriented and don't take into account software architecture and functionality that's flexible enough to deal with globalized processes such as those occurring in banks and brokerage houses lately, which run businesses in several LATAM countries, all under the same processes.

Regional vendors are usually better positioned in terms of functional perspective and globalization. Their software often benefits from a centralized and unique way of driving their business in which they reuse processes and components for several countries in the region. This doesn't necessarily mean that they aren't client-oriented, but the regional vision more likely sponsors a reusable approach for economies of scale.

International vendors, sometimes called world-class vendors, don't hesitate to show how their consolidated and multicontinent software serves hundreds of clients worldwide. But even with local installations, these vendors lack critical functionality for LATAM financial markets, mainly in connection with regulation, reports, and taxes. "Tropicalization"—that is, adapting world-class financial systems to regional (LATAM) characteristics—then occurs, costing large amounts of money and, especially, consuming considerable time. Consulting services are also "world-class," and the project budget and timing ends up being drastically affected and, on occasion, is run by people with a completely different culture or even by consulting companies (also from abroad) as part of the vendor's outsourcing strategy.

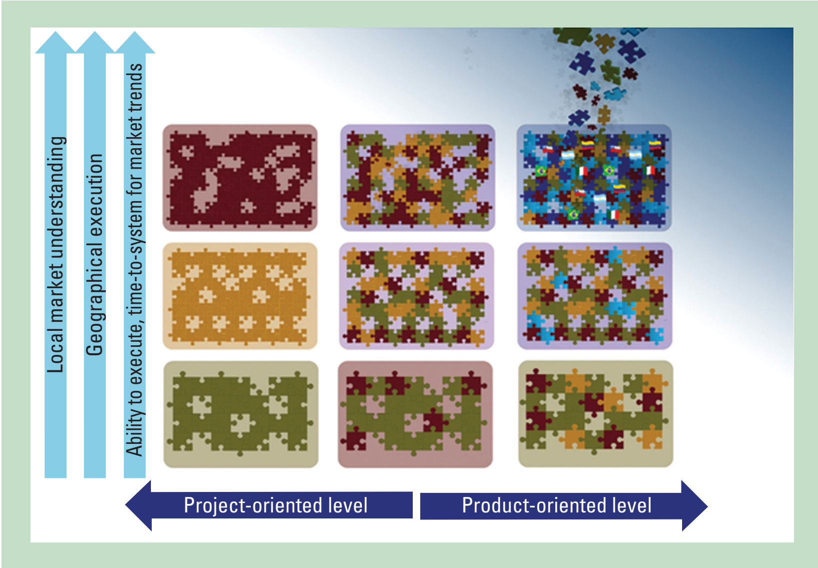

Figure 1. Vendors' evaluation matrix: product maturity, regionalization, and strategy. Product-oriented vendors are in a better position to execute local or regional implementations in response to geographical regulations and LATAM practices.

All three scenarios are subjective and depend on the FI's strategy—that is, what might be a sign of weakness for one FI could potentially be a strength for another.

According to Gartner's vision, all kinds of vendors must be evaluated in terms of two relevant concepts: local market understanding (LMU) and geographical execution (GE) (see https://www.gartner.com/doc/2560415/gartner-evaluates-vendors-markets-magic-). The LMU is the vendor's ability to respond to anticipated and unanticipated local financial market requirements. It shows how closely connected the vendor is to the local financial industry. The GE focuses on the vendor's ability to extend its own or external resources to deploy its software platform. Fundamentally, as many vendors drive to expand market presence, this criterion assesses how effectively they can leverage limited resources and then, via either partners or subsidiaries, provide implementation consistency across the target markets. All this analysis provides tools through which IT departments can address the decision-making process when the FI is selecting between local, regional, or international providers (see Figure 1).

Note that the FI must consider evaluating the vendor's functionality in the context of not only the FI's immediate needs but also its longer-term business plan (>5-year).

Death Match: Product- vs. Project-Oriented

Here, I assume the IT and business departments of FIs would be more interested in product-oriented vendors than project-oriented ones. If so, they must consider several aspects when evaluating a vendor's benefits. The IT department must develop a mechanism at early stages (RFI/RFP) for drilling down into what the vendor claims are its maintenance and major-release practices versus what it's actually doing.

Table 1. Considerations for choosing vendors.

Subject	Vendor in depth	Goal
Maintenance and release practices	What is the vendor's practice for releasing new versions? Is there a planned and established schedule for the whole year? Is there any distinction between major releases and minor patches? What is the vendor's standard annual frequency? How are new regulatory demands supported in terms of releases? Are resources from the vendor or consulting partners usually available to the financial institution (FI)?	Measure time-to-system
Product evolution	Are you getting other clients' functionality enhancements under the release practices? Are you charged for that? Is that part of the product-line evolution? Part of a major release? Does the vendor maintain branches per client for product evolution or just a major common version?	Measure level of product-oriented practice
Quality control in release practices	Are user acceptance test (UAT) vendor resources for new versions included in the SLA? How many releases will be delivered per year? Is the vendor under a CMMI or ISO quality-assurance program? Is your vendor running regression tests for maintenance and major releases? Are the vendor's test cases included in your main business use cases? Does your vendor provide consistent evidence of such testing? Do you need to budget for internal UAT processes? Is there any mandatory upgrade to be applied to every established frequency?	Measure quality process and FI costs when upgrading
R&D + innovation	Is your vendor running an R&D+I department? Is this focused on technology, financial business, or both? Is this part of the release-practices program? Do you need to pay for that? Can you participate in the program? Is there a plan for annual deliveries? Is there a "user's club"?	Measure the product's functional evolution
Pricing structure	Do you need to pay new license schemes when upgrading to a major release? Are you charged for any maintenance (minor) release? Is the SLA covering a number of hours for minor enhancements? What are the considerations for your budget when you wish to incorporate new product-line functionality available in recent versions?	Measure pricing scheme for new requirements and market needs

Table 1 summarizes a set of matters to bear in mind during RFI/RFP processes as open questions for vendors. The table doesn't indicate the appropriate answer, but rather aims to highlight what decision-makers and technical recommenders must evaluate from vendors, in line with the FI's strategy.

All the questions in the table center on how the product organization is equipped to provide infrastructure mechanisms, consulting services, resources, and—mainly—upgrade schemas to keep your version up-to-market at an appropriate (minimum) cost.

To consistently attain business goals related to any financial software, IT departments must pay special attention to how vendors carry out release practices. In the worst case, the FI ends up with an old-fashioned version of the product and spends considerable amounts of money on new licenses and consulting services just to catch up with new financial markets' needs and regulatory demands.

What CIOs and IT Managers Say

At Lumina Americas, I polled more than 30 CIOs from the LATAM markets to understand their concerns when evaluating a vendor. Cost (77 percent), technology (54 percent), and post-production support (38 percent) were the three most important selection criteria for them (see A, B, and C from my earlier list). Seventy percent distinguished the differences between product- and project-oriented vendors when running an evaluation process, and 60 percent of CIOs had a preference for product-oriented ones.

Several FIs in LATAM are still running into production old world-class and regional product licenses, which have turned out customized, stand-alone, and totally separate products from the vendor's typical production line. Moreover, in several cases, the FI ends up owning the source code for internal maintenance when discovering (late) that the vendor can't respond to current market needs with the appropriate extensions. This is particularly frequent with world-class and international vendors, which usually demand an army of external consulting services to tropicalize functionality.

Every FI must balance its strategy when evaluating a vendor's capabilities. RFI/RFP can't merely be a process in which vendors and consultant companies fill out a spreadsheet that's later contrasted only with demonstrations or workshops. It must incorporate the FI's long-term strategy—that is, is it looking for a product- or a project-oriented vendor?

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