

Contents

Introduction	2
General requirements for software	2
Making the decision to procure new software.....	3
Part One: Deciding on the software	3
Step 1: Define your needs	4
Step 2: Establish a shortlist.....	5
Step 3: Ask for a demo or ‘test drive’	6
Step 4: And the winner is	7
Part Two: Deciding on the provider	8
Appendix One: Due diligence checklist for evaluating software providers	11
Appendix Two: Ranking providers	18
Appendix Three: Checklist for software agreements and contracts	21

Introduction

This document is designed to help businesses within the financial services industry decide on new software they intend to implement. The minimum factors that should be taken into account when choosing new software are explained, and checklists are included to assist in comparing options and to aid decision makers in making an informed and justifiable decision.

The process of selecting a software solution is broken into two parts:

1. Deciding on the requirements of the software and what type of software is needed;
2. Identifying the best provider of the software, taking into account the initial purchase, installation, training and ongoing support.

This requires decision makers to carry out two types of due diligence

1. Due diligence on the software in terms of functionality and IT specifications;
2. Due diligence on the software supplier as a provider.

In some circumstances, depending on the type of software under consideration, both types of due diligence will be undertaken simultaneously. New Zealand is small by global standards and it is entirely feasible that once a preferred software has been selected, there will be only one or two provider options.

General requirements for software

All software solutions must be compatible with the business' IT, Cybersecurity and Outsourcing policies (as applicable). In addition the solution must:

- Provide value for money to the business and, where applicable, its advisers/clients/members;
- Be subject to an appropriate level of due diligence;
- Be documented at an appropriate level for the value and nature of the software being procured, and
- Be able to have any ongoing licence obligations terminated by the business within a reasonable timeframe considering the nature of the software provided.

Software solutions must not:

- Adversely impact how the business operates, or
- Subject the business or its advisers/clients/members to reputational, financial, legal or regulatory risks that cannot be addressed or adequately mitigated.

Making the decision to procure new software

Before deciding to procure new software, an assessment should be conducted of:

- Whether an efficient and effective solution is available either internally or externally;
- The available options for procurement;
- The business case for procuring the software, including a financial analysis (appropriate for the proposed software procurement) detailing any underlying assumptions;
- Whether proceeding on this basis could detrimentally affect the business or its advisers/clients/members;
- Any operational risks involved in procuring the software which may, at a minimum, include the following:
 - Downtime during installation and while staff/advisers get up to speed with the new system,
 - Interruption of service due to financial or other difficulties experienced by the service provider;
- The legal and regulatory risks of the software are considered, including the precision and enforceability of the agreement between the business and the provider, especially where foreign jurisdictions are involved;
- The financial and reputational risks for the business and its advisers/customers;
- Risks, if any, associated with the adequacy of ongoing monitoring and management of the software provider, and
- Whether all identified risks can be satisfactorily managed and/or mitigated in accordance with the business risk management and compliance programme.

Part One: Deciding on the software

Decision makers need to initially identify what the problem is that they are facing. Is it that the existing software does not provide adequate performance? Does it lack the functionality required by the business or does the business not have any software solution implemented at all?

Depending on the problem, in some cases it may be possible to add on to existing software via bolt-on modules and/or interfaces (called APIs) with other products. Depending on the age and state of your existing software, sometimes adding on is either not possible, or not cost effective – so it is better to start again.

Assuming you have decided you will purchase a new software solution, Strategi recommends following a structured process similar to the steps outlined below, to ensure you get the outcome you want and can identify the most appropriate software solution.

Step 1: Define your needs

If you don't know where you are going, then any road will get you there. What problem is it you would like the new software to solve – what is it you are trying to achieve?

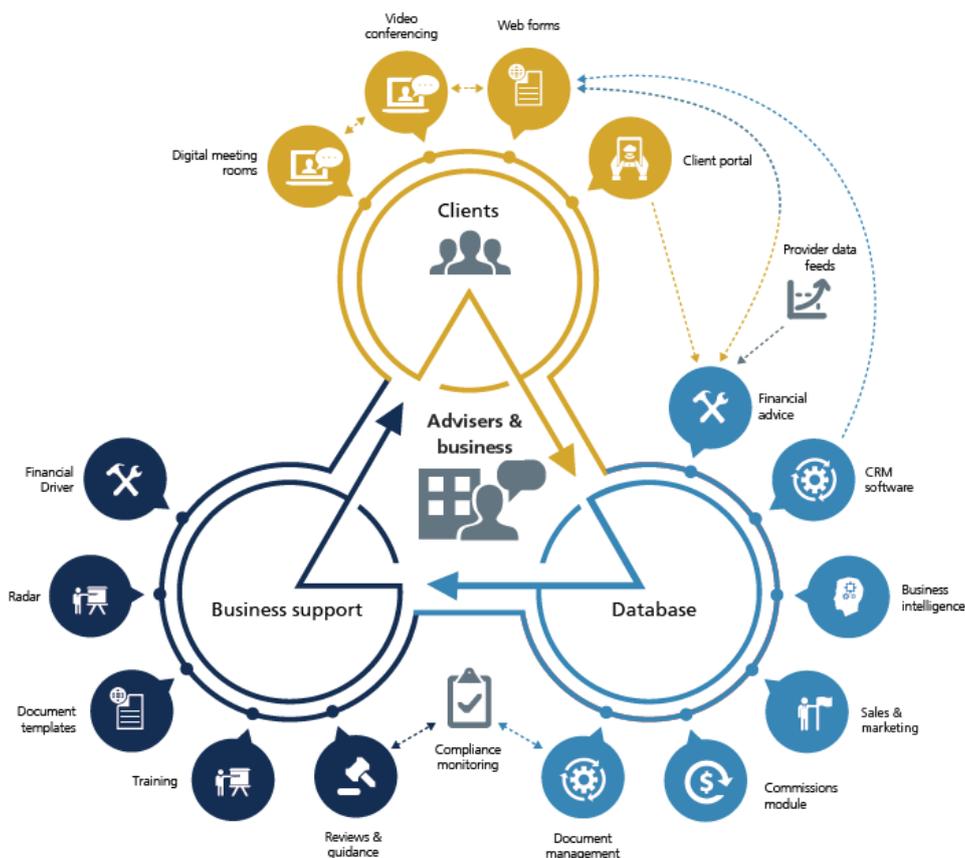
It is essential to determine and define the requirements of your business before you start looking at software options and providers.

For example, you could be a financial advice provider (FAP) looking for a CRM solution for the advisers under your licence. You might be in the market for a holistic solution that helps you manage the degree of control and oversight you have over your advisers. Alternatively you could be an adviser practice and be more concerned with a CRM that focuses on sales and marketing.

Consider first documenting your business processes

Diagrams can make it easier to work out your business processes and the functionality you need the software to provide. For example using boxes for processes and arrows to show documents, invoices etc. can identify areas where the new software will fit with your business, and help to explain your business and its requirements to potential software vendors.

The Strategi Group website contains a downloadable diagram titled [Business Systems Overview](#) that may be a useful starting point.



Purchasing and implementing new software is an opportunity to maximise the performance and efficiency of your business, so spend some time looking at where the issues in your business currently are.

Consider your business' growth plans and add your anticipated requirements into the mix of features. Your new software should be able to scale up, or down, with your business' needs.

Make two lists

One way to clarify your business needs and priorities is to have two lists, one for the 'must haves' and one for the 'nice to haves'. Ideally, try to list each entry within the list in order of priority.

If you are going to replace a software program that you currently have, then think about its good and bad features – what do you like about it and what does it lack?

Identify who will be relying on the software and the team/people who will use the software on a day-to-day basis. Discuss the lists with those people/teams and ensure the 'must haves', 'nice to haves' and relative priorities match. If these things are not the same for all the team/people, then the lists should be reconsidered.

Defining your needs may require some knowledge of what is currently available in the market and the overall 'universe' of functionality. You also need to understand how that functionality will fit with the goals of your business. For example if it is your intention to move to a paperless office, you will need software designed to run in a paperless environment. Also consider if you need the software to be a fully mobile solution? This could be a great selling point if you intend to be a FAP in the future.

Step 2: Establish a shortlist

Now you know what you want, it is time to 'go shopping'. The goal is to create a shortlist of no more than three software solutions, all of which on the surface appear to meet all or most of the requirements on your two lists ('must haves' and 'nice to haves').

If you are not sure where to start, the internet can be a good place to get an idea of what is available and to help you compare the features of different products. There is no escaping the research process. Visit websites, review software forums, look at brochures, attend webinars etc. Don't just rely on the internet though - talk to other business owners/people in your industry to see what they use and what their experience is.

You might also want to look at websites such as [alternativeTo](#) and [G2 Crowd](#), where you can find software reviews and compare business software and services based on user ratings and social data.

Consider as many software solutions as you like but evaluate each solution against your 'must have' and 'nice to have' lists. Discard any software solution that does not offer your 'must have' features. Then look at your 'nice to have' list – which of the remaining solutions offer the most 'nice to have'

features. Take into account your budget – not just the initial cost of the software but also the ongoing/future costs.

Aim to reduce the number of software solutions to no more than three.

Note on pricing

The lowest cost software option may not be your best option – look for the best value for money solution, not the cheapest. Check software provider pricing very carefully. Often, the pricing assessment overlooks fees relating to face-to-face training, document management services, setup fees, annual maintenance fees, data migration, etc.

Also take into account whether you will need to invest in new hardware for your software solution – this will be an additional cost in itself.

Step 3: Ask for a demo or ‘test drive’

The majority of software companies offer a free trial where you can test the software’s features, benefits and usability to see whether it meets your needs and offers what you expect. Be aware however that sometimes not all features will be available for testing.

Schedule a demo as this can be a great way to have a chat with a real person (rather than a chat bot), get more information on the specifics of the software, and raise questions that will help you figure out the pros and cons of the software. Consider asking some of the people who you consulted with when constructing your two lists, to participate in the demo.

It is also an opportunity to talk about customisation – if the software can meet 90% of your requirements, can it be customised to lift that to 100%? If modifications are possible, at what cost?

Questions to ask the demonstrator might include:

- Whether the software will integrate smoothly with your existing systems
- Will it be easy to implement through your company? What training and training materials do they offer?
- What after sales support is there and at what cost? What is the turn-around time for support requests?
- How does the provider manage software updates and upgrades?

Make notes you can refer to later to help you make your final decision. Discuss your notes and findings with the people you consulted in *Step One*. If there is no solution that covers off everything on your feature list, then ensure everyone is happy with the tradeoff.

Step 4: And the winner is

Analyse your findings on each solution, consider all the feedback you have received, your features lists, and the pricing.

If you are having trouble deciding, you may want to use a matrix to compare the different solutions against each other. For example:

Step	Action				
1	Rate the key factors of your final decision making on a scale of 1-7 according to their importance (the number being driven by the number of features you are comparing and in this case, '7' being the most important)				
2	For each software solution under consideration, put a check against the factors it rates highly on				
3	Add up the corresponding factor weights to get a total score for each option.				
4	Compare scores and choose				
	Category	Weight	Solution A	Solution B	Solution C
	Features	7	✓	✓	✓
	Cost	4	✓		
	Security	6		✓	
	Support	5	✓		✓
	Familiarity	2	✓	✓	
	Usability	3		✓	✓
	Look	1		✓	
Total		18	19	15	

On the basis of your analysis you can now select your winner. In the example above, Solution B is marginally ahead of Solution A.

Congratulations. You have now identified the software solution that will meet your business' needs.

Now you are ready to take the next step – selecting the software provider that will help implement the software solution in your business.

Note: In some cases, the preferred provider may be restricted by the software solution you choose.

Part Two: Deciding on the provider

Now that you have identified the features of the preferred software solution, the next consideration is who will provide, install and support that software (assuming the software selection process has not already made that decision by default).

Undertake due diligence on all possible providers of your preferred software solution – not just on the software (as described in *Part One*). Review your business' policies for outsourcing, procurement, IT and cybersecurity (as applicable) – are all the possible providers consistent with those policies?

Note that some software solutions may have recommended 'partners' for the installation, customisation and support of the software. In that situation the provider you choose would be a 'partner'.

The process for selecting the software provider

Before deciding on a provider, consider:

- Cost and the ability of the provider to deliver what is required;
- Identifying any conflicts of interest between a provider and your business, and if conflicts are identified, satisfactorily resolving the conflicts (if possible);
- The reputation of the potential provider within the market;
- The required service levels;
- Measurement metrics for assessment of software performance;
- Whether there are audit requirements for the arrangement;
- Having the necessary expertise available to effectively supervise and manage any risks associated with the software;
- Making sure any risks are identified, managed and mitigated in accordance with the risk management system and that any audit function, the risk management system and compliance programme are updated (if necessary) to take account of the new software procurement, and
- Developing a plan for steps to be taken in the event of non-performance or sub-standard performance.

Strategi has produced some simple checklists that will help guide the business through the due diligence process of evaluating and selecting a provider.

Appendix One: Provides a due diligence checklist that the business can use to gather some basic information for evaluating and comparing providers.

Appendix Two: Provides a systematic way for the business to rank the different providers based on the due diligence information collected by the business using the checklist in Appendix One

Note: These appendices should be used as a guideline only and should be edited to suit business requirements.

Requirements for a procurement agreement

At a minimum the software procurement agreement must satisfactorily address:

- The nature of the software that is being procured and the functions it is required to perform.
- Clearly defined the roles, responsibilities and obligations of the business and the provider.
- The provider's ability, capacity and authorisation to meet its obligations reliably and professionally, including service level and performance requirements.
- Reporting and monitoring arrangements to enable performance to be effectively monitored on a timely basis, including reporting and monitoring requirements necessary or desirable for any regulatory and/or legal reporting requirements to be fulfilled. At a minimum, the reporting and monitoring programme recorded in the agreement (or in a supplementary side agreement) must include:
 - Checks that the software/software provider's performance meets required standards.
 - Triggers for identifying non-performance or sub-standard performance.
- Appropriate actions available to the business for non-performance or substandard performance by the software/software provider.
- Appropriate indemnities and termination rights for the nature of the procurement arrangement.
- Management of the risks associated with the arrangement (if any).
- Retaining all data, records and information relating to the arrangement for at least seven years and making that material available for inspection by the business, regulators, auditors, compliance providers, and supervisors (where relevant) at any time and not longer than two working days after a request is made.
- The provider shall keep any confidential information, relating to the business or its advisers/clients/members confidential and in a safe and secure manner (this requirement must continue following termination of the agreement).
- An agreed dispute resolution procedure.

Agreements for procurement of software must be sufficiently flexible to accommodate changes that may be required such as those arising from changes to the business' strategic plan and from legal or regulatory requirements/guidance.

Strategi has produced a checklist (refer Appendix Three) that can be used internally to ensure all aspects of a procurement agreement, as listed above, are covered off by a provider's proposal. Note that this checklist should be used as a guideline only and should be edited to suit the business' requirements.

The procurement agreement should be assigned an appropriate contract owner. The agreement should be reviewed at least annually by the contract owner to ensure the software continues to meet the specified requirements.

For more information contact:

David Greenslade

BA, MBA, Dip Mgt, Dip Bus Studies (PFP), AFNZIM, MInstD, AFA

Managing Director

Tel: + 64 9 414 1302

Mob: +64 21 400 600

Fax: + 64 9 442 5098

david.greenslade@strategi.co.nz

www.strategi.co.nz

Disclaimer: The authors, consultants, editors plus the directors and staff of Strategi Limited and the Strategi Institute expressly disclaim all and any liability and responsibility to any person, whether a purchaser or reader of this publication or not, in respect of anything, and of the consequences of anything, done or omitted to be done by any such person in reliance, whether wholly or partially, upon the whole or any part of the contents of this publication. Any examples that may be provided in the guidance note are only to explain our approach and these are not exhaustive. This guidance note is not and does not constitute legal advice. The reader is recommended to seek independent legal advice if required.

Appendix One: Due diligence checklist for evaluating software providers

This form should be used by the business when undertaking due diligence on a potential software provider, with a separate form completed for each potential provider. It is important the business undertakes its own due diligence checks and doesn't just rely on what the provider tells it. This form is a guide only and may need to be adjusted to suit the business.

Type of software to be procured

- Accounting: _____ Compliance: _____
- CRM: _____ Research: _____
- Commission: _____ Reporting: _____
- Other: _____

Appropriateness of purchase

1. Potential impact on the business if the software provider fails to perform:

- | | | | | |
|--|-------------------------------|---------------------------------|------------------------------|------------------------------|
| Financial impact: | <input type="checkbox"/> High | <input type="checkbox"/> Medium | <input type="checkbox"/> Low | <input type="checkbox"/> N/A |
| Reputational impact: | <input type="checkbox"/> High | <input type="checkbox"/> Medium | <input type="checkbox"/> Low | <input type="checkbox"/> N/A |
| Operational impact: | <input type="checkbox"/> High | <input type="checkbox"/> Medium | <input type="checkbox"/> Low | <input type="checkbox"/> N/A |
| Customer service impact: | <input type="checkbox"/> High | <input type="checkbox"/> Medium | <input type="checkbox"/> Low | <input type="checkbox"/> N/A |
| Potential losses to members: | <input type="checkbox"/> High | <input type="checkbox"/> Medium | <input type="checkbox"/> Low | <input type="checkbox"/> N/A |
| Regulatory requirements: | <input type="checkbox"/> High | <input type="checkbox"/> Medium | <input type="checkbox"/> Low | <input type="checkbox"/> N/A |
| Costs to the business: | <input type="checkbox"/> High | <input type="checkbox"/> Medium | <input type="checkbox"/> Low | <input type="checkbox"/> N/A |
| Degree of difficulty replacing software/software provider: | <input type="checkbox"/> High | <input type="checkbox"/> Medium | <input type="checkbox"/> Low | <input type="checkbox"/> N/A |

Comments:

--

2. Is there an affiliation or other relationship between the business and the software provider?

Yes No

If yes, please describe the relationship and any potential conflicts of interest:

3. Is the software provider a regulated entity subject to independent supervision?

Yes No

If yes, name of regulator:

Service provider information

1. General information

Name: _____

Address: _____

Contact name(s): _____

Phone: _____ Fax: _____ Website: _____

2. Is the software provider owned/controlled by a parent company?

Yes Name: _____

No

3. Personnel

Approximate # of employees: _____

Does the software provider hire independent contractors?: Yes No

4. Background Information

How many years has the provider been in business? _____

How many years has the provider provided/supported the software (or similar)? _____

Is the provider known to the business or employees? Yes No

If yes, please name the individual(s) and describe any prior experience each had with the provider:

Due diligence

1. What methods were used to verify the software provider's information? (Choose all that apply)

- | | | |
|--|--|---|
| <input type="checkbox"/> Internet research | <input type="checkbox"/> Website content | <input type="checkbox"/> Companies Office documents |
| <input type="checkbox"/> Marketing literature | <input type="checkbox"/> Credit/background check | <input type="checkbox"/> Independent research |
| <input type="checkbox"/> Business plan | <input type="checkbox"/> Media/news reports | <input type="checkbox"/> Personal referral |
| <input type="checkbox"/> Policies and procedures manual(s) | <input type="checkbox"/> RFI | <input type="checkbox"/> RFP |
| <input type="checkbox"/> Financials | <input type="checkbox"/> Personal interviews | <input type="checkbox"/> Marketing materials |
| <input type="checkbox"/> Sales materials | <input type="checkbox"/> Onsite inspection | <input type="checkbox"/> Other: |

Has the business maintained evidence of the above methods used to verify the provider's information (i.e. copies of documents reviewed; notes from personal interviews and onsite inspections; printouts from public disclosure sites etc.)?

Yes No

If yes, please identify where this evidence is maintained:

2. Please list any other groups/companies that use this software (if contacted personally, identify the name of the contact and the result of the contact):

3. Please describe the background and experience of individuals who will be providing support for the software:

4. Based on your review of the information, has the software provider and/or its principals been subject to any regulatory, criminal or civil disciplinary issues?

Yes No

If yes, please describe:

5. Based on your review of the information, please describe the software provider's ability and capacity to supply the required software solution effectively, reliably, and to a high standard (include in your description relevant technical, financial, human resources, and/or other assets of the provider):

6. Does the software provider have a business continuity plan?

Yes No

If yes, review a copy of the plan and comment on its adequacy:

7. Is privacy and protection of non-public information a factor in ongoing provider support of the software?

Yes No

If yes, comment on the adequacy of the provider for safeguarding non-public information:

--

8. Are there any questionable issues or potential conflicts of interest?

Yes No

If yes, please describe:

Contracts and agreements

1. Has/will the business entered/enter into a written agreement with the service provider?

Yes No

If yes, please identify the relevant provisions and disclosures in the contract (choose all that apply):

- Provides for the business and regulator access to records
- Business and client confidentiality
- Limitations on software provider's ability to sub-contract
- Payment arrangements
- Defines responsibilities of all parties subject to contract
- Provide quality services measures
- Defines how responsibilities will be monitored
- Guarantees and indemnities
- Liability for unsatisfactory performance or other breach
- Information security provisions
- Requirement to maintain a disaster recovery plan
- Disclosure of breaches in security plan
- Time commitment (Termination Date): _____
- Other relevant provision(s): _____

2. Was the written agreement reviewed by the business' lawyer?

Yes No N/A

Date of review: _____

Oversight and periodic review

1. Who is responsible for the periodic oversight and review of software performance?

2. Please identify the tools that will be used to monitor software performance:

- | | |
|---|--|
| <input type="checkbox"/> Service delivery reports prepared internally | <input type="checkbox"/> Service delivery reports supplied by provider |
| <input type="checkbox"/> Publicly available resources | <input type="checkbox"/> Performance levels established in written agreement |
| <input type="checkbox"/> Internal auditor | <input type="checkbox"/> Onsite inspection |
| <input type="checkbox"/> External auditor | <input type="checkbox"/> Attestations by provider |
| <input type="checkbox"/> Other: _____ | |

3. Frequency of monitoring:

- Monthly Quarterly Annually Other _____

4. If deficiencies are found, are there procedures in place to respond to such deficiencies (i.e. communicate with the software provider; terminate the contract)?

- Yes No

Documentation review and approval

1. Individual(s) responsible for completing this due diligence review:

- a. _____
b. _____
c. _____

Senior manager responsible for software procurement contract:

I have reviewed the information contained in this outsourcing due diligence form and:

The business has elected to use the software provider above.

OR

The business will not use the software provider above.

Signature _____ Name _____

Date _____

Appendix Two: Ranking providers

This summary evaluation form can be used to rank potential providers and is intended to assist the business to complete due diligence when there is more than one provider of the software solution. Ideally this internal evaluation should be conducted by the individual(s) in the business who will use or rely most on the software to be provided, then reviewed by the business' compliance and IT staff, as needed.

This form should be completed for each provider being considered. It is a guide only and may need to be adjusted to suit the business.

Provider contact information	
Provider name:	
Contact person:	
Phone/e-mail:	
Description of software to be provided:	

Provider checklist		
Use the following table to rate satisfaction with each item listed. List each score in the right-hand column and calculate total score below. List relevant comments/observations below each item and discuss with the provider under consideration, as necessary.		SCORE 4 = very satisfied 3 = satisfied 2= dissatisfied 1= very satisfied
1.	Review due diligence questionnaire: ensure responses and documentation provided is appropriate and complete.	
Comments:		
2.	Service agreement: ensure that the provider can adhere to all terms of the written agreement and the software that will be provided will perform the functions described under the agreement.	
Comments:		

3.	Competitiveness of terms and conditions: review proposed service agreement and ensure all functions outlined in the agreement are actually necessary and will be used by the business.	
Comments:		
4.	Competitiveness of price: compare the price of the software along with the development costs plus ongoing support costs for the software product(s) to be provided. Try to obtain three quotes so as to be able to compare costs.	
Comments:		
5.	Expertise and responsiveness of sales/technical support staff: Consider interaction with provider and their ability to respond to requests.	
Comments:		
6.	Ability to meet deadlines/deliver product or service on time: consider provider's ability to deliver software solution when promised.	
Comments:		
7.	Data protection/security breaches: consider the manner in which client information is handled and protected. Review proposed safeguards and determine if they are effective.	
Comments:		
8.	Financial stability: consider the provider's 1) Business model 2) Number of clients compared to number of staff 3) Staff turnover. Significant changes in these areas could be indicators of an unstable provider.	
Comments:		
9.	Reputation of company: conduct internet searches such as a Google search to determine what rumours might be circulating	

	regarding the provider. If something turns up, research the finding. Ask other professionals in the industry about their knowledge or experience with vendor.	
Comments:		
Total score:		
Analysis:	<p>Provider performance expected to meet expectations; no further research necessary</p> <p>Possibility that performance may not meet expectations; consider discussing areas of concern with provider</p> <p>Unlikely to meet expectations; recommend no engagement</p>	<p><input type="checkbox"/> 27 – 36</p> <p><input type="checkbox"/> 18 – 26</p> <p><input type="checkbox"/> 17 or below</p>

Document checklist

- Due diligence questionnaire
- Internal controls report
- Disaster recovery
- Privacy / security policy
- Proof of liability insurance
- Financial records
- Other

General comments:

Completed by:

Signature: _____

Name: _____

Date: _____

Appendix Three: Checklist for software agreements and contracts

This form is a guide only and may need to be adjusted to suit the business.

Contracts and agreements

Consider the following provisions and disclosures when reviewing a proposed provider's service contract/agreement:

- Ownership and access to records and data
- Defines responsibilities of all parties subject to contract
- Liability for unsatisfactory performance or other breach
- Time commitment (termination date)
- Payment structure
- Guarantees and indemnities
- Provisions for breaches in security of non-public information
- Provisions on provider ability to sub-contract
- Defines how responsibilities will be monitored
- Confidentiality disclosure
- Defines specifics of deliverable and scope of service
- Information security provisions to safeguard non-public information
- Requirement to maintain a disaster recovery plan or business continuity plan
- Other relevant provisions/disclosures

Document checklist

For each provider under consideration:

- | | | | |
|--|--|---|--|
| <input type="checkbox"/> Provider due diligence questionnaire | <input type="checkbox"/> Proposal or <input type="checkbox"/> provider agreement | <input type="checkbox"/> Software due diligence questionnaire | |
| <input type="checkbox"/> Provider's disaster recovery Plan/BCP | <input type="checkbox"/> Privacy / security policy | <input type="checkbox"/> Proof of liability insurance | <input type="checkbox"/> Financial records if required |
| <input type="checkbox"/> Other: _____ | | | |

General comments:

Review completed by:

Signature: _____

Name: _____

Date: _____