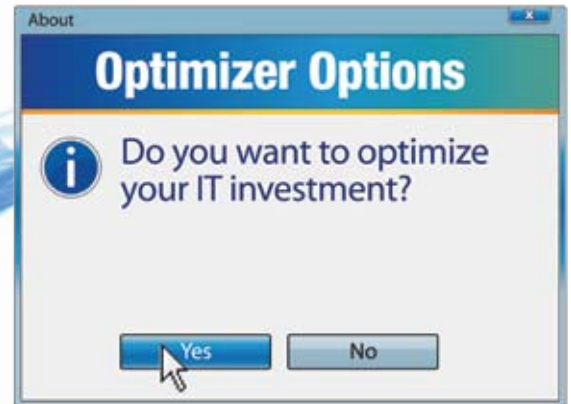


Follow The Money

IT expenditures should be treated like any other investment portfolio.



by Sanjay Mohan and Siva Nandiwada

With uncertain returns from the financial markets and the need to fuel growth in a rapidly changing business environment, it will be imperative for insurance organizations to ensure that returns on information technology investments, just like other corporate investments, are realized.

Historically, IT investments have lacked adequate governance resulting in suboptimal realization of business benefits. Organizations today either lack a framework to prioritize IT investments or have failed to demonstrate IT's benefits, resulting in diminished confidence in IT in the

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► **The Issue:** Some insurers haven't gotten their money's worth from IT investments.

► **The News:** Carriers can restructure their IT budgets for maximum gain.

► **The Outcome:** IT departments will improve company efficiency and help grow market share.

eyes of the chief executive officer or chief financial officer.

However, IT investments can be managed as a portfolio of financial investments to optimize risk and return. Such a structured approach can help to allocate assets as well as to realize returns on IT investments.

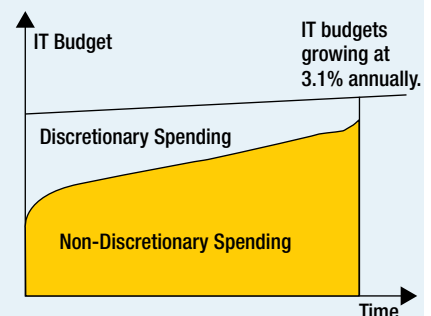
This IT management technique addresses key questions, such as where and how much to invest and how much value should be derived from these investments. A framework that enables organizations to easily answer these questions helps CIOs build stakeholders' confidence in the value of IT.

Insurance carriers today are facing some fundamental challenges, including:

- Changing customer demographics, requiring new product designs.
- Changes in traditional channels, with increasing broadband penetration and the affinity of the new customer base to buying online.
- The need to optimize integration

Budget Squeeze

As operational costs grow over time, IT budgets have fewer dollars available for discretionary spending.



Source: Infosys

with partners and others in the industry value chain to improve time- and cost-to-market of products and services.

These challenges, coupled with uncertain returns from the financial markets, mean that carriers must manage expenses meticulously. One major expense for any carrier—representing from 3% to 5% of premium revenue—is IT. Carriers' systems are often aging and inflexible; they defy architectural guidelines and are very inefficient in meeting changing business needs.

Today, carriers spend a significant portion of their IT budgets—most spend more than 70%—on IT infrastructure, application maintenance and support.

This leaves a not-so-significant outlay for developing new IT systems for future growth. In addition, as new applications move to the support phase, overall costs of maintenance and support increase over time if older systems are not retired.

These costs start consuming the discretionary budget over time and do not give insurers enough levers for innovation and transformation.

To meet and overcome these market challenges, carriers will need to invest more in technology programs across the organizational value chain. They will have to ensure, though, that their investments are in line with strategic objectives; will help them effectively meet the challenges of the marketplace; and will help them realize the benefits expected from such programs.

The three key items to consider in making IT investment decisions are:

- How to select the right program or project to invest in.
- How to determine the right level of investment.
- How to optimize business benefits.

To properly address these items, insurers need to develop a structured program of IT portfolio management that enables executives to make the right decisions and ensures optimal returns on IT investments.

The Right Investments

Choosing the right program or project for IT investment is critical to

Goaltending

Investment Objectives	Corporate Objectives		
	Cater to New Segments-Products	Grow Nontraditional Distribution Channels	Improve X-Carrier/ Partner Collaboration
Keep the lights on	10%	10%	10%
Invest in growth	20%	20%	10%
Innovation & Transformation	5%	10%	5%

Source: Infosys

ensuring alignment between the IT portfolio and an organization's strategic priorities—and imperative for optimizing benefits.

A multidimensional investment model can help in better budget allocations as well as more effective and objective prioritization of initiatives. The result is the elimination of programs and projects that add little or no value to the corporation. Most carriers today fail to address these dimensions and end up resorting to ad hoc prioritization processes that are prone to "lobbying" and result in suboptimal, high risk/low reward IT investment portfolios.

This analysis can be used to not only ensure alignment of the portfo-

lio with corporate objectives; it can also help balance the portfolio with financial objectives. Carriers can, for instance, have guidelines on percentages of allocation in various spending categories as well as corporate objectives. This creates a multidimensional matrix of fund allocations to create a balanced portfolio.

It is important to define the resulting portfolios with clear examples of projects from the organization's perspective. Insurers need to identify the funding guidelines for each of the portfolios and ensure that governance mechanisms for their prioritization are clearly articulated. There are three key considerations for the governance of such an approach:

Getting a Bigger Bang for the Buck

Effective and efficient management of an IT investment portfolio requires a carrier to go through stages of maturity. However, following some basic principles can help manage the portfolio to optimize the return on spending:

- Ensure identification of the right projects, programs and initiatives. Using a structured, two-dimensional analysis can easily help to balance the portfolio and ensure alignment with corporate financial and non-financial objectives.
- Identify and articulate financial hurdles for the organization to overcome when discussing business cases.
- Define and adhere to a structured approach, such as a value realization framework, to identify and track business benefits.
- Establish clear accountability on delivery of benefits within the organization.
- Leverage variable cost models to enable quick, optimal funding and decommissioning decisions.
- Shift organizational key performance indicators from on-time and on-budget delivery of projects and programs to realization of benefits and success of the business case.

Technology

• **Executive sponsorship:** One of the executive officers needs to set up and oversee the governance council for portfolio management.

• **Portfolio rebalancing:** The governance council must attempt to change the investment mix over time to the ideal goals. For example, if the cost of “keeping the lights on” is around 85% of the IT budget today, the council needs to explore how and by when these costs can be reduced to 60%.

• **Portfolio monitoring:** The governance council needs to have periodic review mechanisms to ensure the implementation of guidelines.

The Right Funding

There are two key dimensions in managing a program’s expenses.

First is the initial allocation of funding. Most carriers today do not have a structured method to identify value drivers, identify impact on key operational metrics and articulate business cases that justify spending on the portfolio of initiatives.

Insurers that do have an approach often don’t set clear financial hurdles—such as net present value, internal rate of return, return on investment or break even—leading to politically influenced decisions on funding of initiatives. A value realization framework can assist in both identification of levers and metrics as well as articulation of the business case that eventually helps in taking funding

Growing a Mature Portfolio Process

IT Portfolio management implementation evolves through four phases of maturity.

	CHARACTERISTICS	BENEFITS
Portfolio focused Leaders* 25%	<ul style="list-style-type: none"> • Uses standard process for project approval • Formally manages and trades 85% of IT projects • Uses some additional portfolio management software • Has both PMO and IT governance committee • IT governance committee owns IT portfolio management 	<ul style="list-style-type: none"> • Align IT projects to corporate strategy, assess risk of investments, move from tactical to strategic decision-making
Project focused Typical* 50%	<ul style="list-style-type: none"> • Uses standard process for project approval • Formally manages and trades 75% of IT projects • Uses some additional project management software • Has PMO or IT governance committee 	<ul style="list-style-type: none"> • Improved project management, project forecasting and IT productivity, increased IT efficiency
Asset focused Laggards* 25%	<ul style="list-style-type: none"> • No standard process for project approval and prioritization • Formally manages and trades 50% of IT projects • Dependent on productivity tools • Does not have a PMO and IT governance committee 	<ul style="list-style-type: none"> • Uses list of existing assets, improved IT efficiency and increased visibility into IT projects and resources
IT black hole 0%	<ul style="list-style-type: none"> • No standardized or defined processes • No governance 	<ul style="list-style-type: none"> • No real benefits

*Current IT management maturity of companies using IT portfolio management approach – survey data
 Source: AMR Research, Infosys analysis

and decommissioning decisions.

While most carriers are able to deal with the funding aspects (however effective the process might be), they are not set up to make tougher decisions around decommissioning of projects, programs, applications or systems—all sources of IT spending. There are two key reasons:

- The inability to effectively leverage variable cost models provided by the outsourcing industry.
- Not appreciating that decommissioning a project should be a business decision, not a reflection of individual or team performance.

Using financial models to justify and monitor spending, coupled with a periodic evaluation of projects to determine whether they merit continued spending, is key for carriers to optimize the return on the 3% to 5% of revenue that is spent on IT.

The Right Benefits

Ensuring that the “right” investments have been identified and aligned to corporate objectives, and that the “right” funding levels have been achieved, still doesn’t necessarily provide enough confidence to CEOs to green-light the investments. Committed benefits need to be realized and delivered to the business to ensure that confidence.

Organizationally, having clear sponsorship and accountability on the delivery of benefits is perhaps the most important ingredient for ensuring the eventual realization of benefits. In the absence of such accountability, goals such as an x% increase in active policies or a y% reduction in time-to-market will remain unattainable. Such developments typically lead to postmortem analyses of where things went wrong between IT and the rest of the business.

Apart from helping to establish clear accountability, the value realization framework assists in making sure that the operational metrics that get impacted by any program are identified and clearly understood.

Carriers can structure projects so that benefits are validated and accrued early in the life cycle. Similar to the way investments are reviewed at the portfolio level, benefits also could be reviewed so that ROI on overall IT investment can be tracked at the portfolio level. Continuous monitoring of metrics such as application-to-bind ratios or underwriting rejection ratios, as well as periodic review and recalibration of the business case, will ensure that the program is indeed delivering on the commitments that were made to the corporation.

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