

Integrating IT into Business Units: Pros and Cons

Vladimir Orovic, Managing Director
Insurance Technology Group Inc.

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About Insurance Technology Group

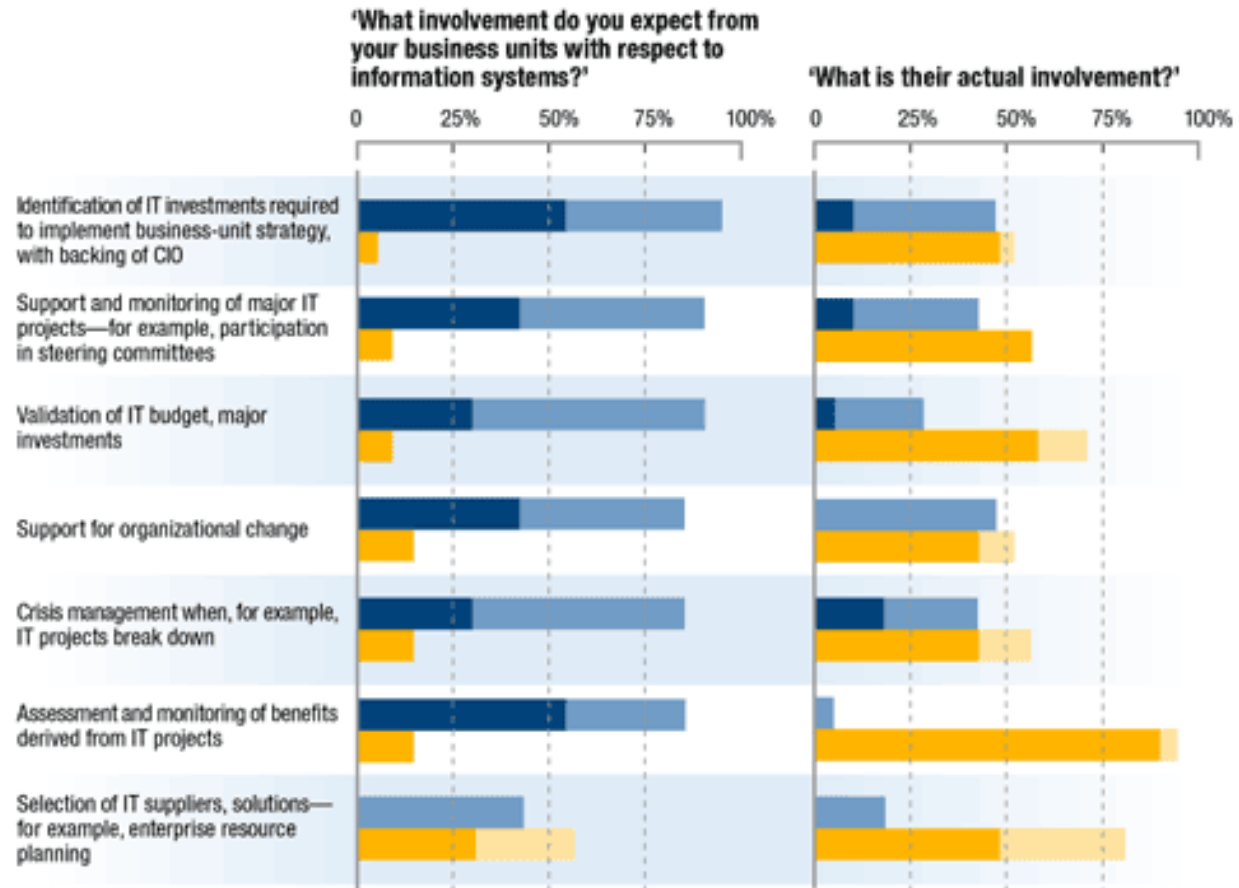
- Information technology intelligence firm dedicated to the property and casualty insurance industry
- Sole purpose is to improve the effectiveness and success of senior business and technology executives by providing factual intelligence that can help them maximize return on IT investments
- How we do this
 - *Expert Studies*
 - *Expert Briefs*
 - *Insurance Technology Board*

We've seen/heard this before...

- 88% of mid-size P&C CIOs report highly centralized IT management (source: ITG survey of 20 mid-size P&C CIOs)
- Only 10% of companies report as being “extremely successful” in IT and business alignment efforts (source: Deloitte Consulting and IDG Research survey of 200 IT executives)
- 65% say that “ineffective communication of business strategy and goals between business management and IT management represents a significant or moderate challenge” (source: same as above)
- Or the following...

Expectations not met

Percentage of respondents



Source: 2002 McKinsey and Le Club informatique des grandes entreprises françaises (Cigref) survey of CEOs and CIOs of >70 leading French corporations

Goal

- Achieving and maintaining a symbiotic relationship between business and IT – a relationship that benefits both parties
- IT executives recognized as being essential to the development of business strategy, and non-IT executives recognized as being essential in development of IT strategy

So where is the problem?

- A “gazillion” dollar question
 - *Path to a long-lasting CIO role*
- Unique for every organization and environmental conditions
 - *Makes it difficult to apply “best practice”*
- Certain parallels can be driven between different organizations and industries
 - *We are learning as we go*

What is unique to insurance industry (specifically P&C)?

- The good
 - *Comparatively stable product set*
 - *Highly regulated*
 - *Low(er) transactional volumes*
- The bad
 - *Mergers and acquisitions are underway*
 - *Non-traditional business drivers (now bottom line driven)*
 - *Legacy systems*
- The ugly
 - *High degree of internal “fracture” (disconnect)*
 - *With few exceptions, lower degree of IT sophistication compared to other industries*
 - *Business users are not IT savvy*

Major criteria in assessing how to integrate IT into business

- Many different parameters need to be assessed
 - *Organizational behavior*
 - *HR Strategy: education and experience*
 - *Innovation and renewal*
 - *IT/Business architecture*
 - *Operational excellence*
 - *ROI strategy development*

- But can be amalgamated into two key ones:
 - *Who pays the bills*
 - *Who dictates the requirements and work execution*

What are the “models” for distributing IT into business?

- From highly centralized to (almost) highly distributed...
 - *Variations of the degree of distribution*
 - *Mostly focused on specific line of business application ownership*
 - *Often with an undefined governance structure*
- IT has not yet totally grasped the fact that it is a service to an organization (although a major one)
 - *With very high cost*
 - *With potential for high “return”*
- Insurance industry is one of the last ones to have a predominantly monolithic IT model
- Bottom line: there is no “standard model”

What can actually be distributed into business?

- What comprises the IT function in your organization?
 - *Core technical infrastructure (hardware/OS, network)*
 - *Core infrastructure applications (e-mail, calendaring, knowledge management, etc...)*
 - *Industry specific line of business applications (claims, underwriting, pensions...)*
 - *Corporate applications – “shared services” (CRM, financials, HR...)*

- What about governance???
 - *IT governance is single most important point of distinction between highly regarded and IT departments “in-trouble”*
 - *It should encompass strategy development, planning, management and supervision*

What are we starting to recognize as “best practices”?

- Creating a business/IT architecture is essential
 - *Not as a physical deliverable but as set of business and technical standards*
 - policies
 - processes
 - about use of information technology to achieve specific business goals*
 - *Focus on decomposition of the business into areas that are individually manageable – application portfolios and associated services*
 - *Once the architecture is defined re-focus on deciding what, how and when can be managed by IT and business units*

What are we starting to recognize as “best practices”?

- Application portfolios (domains) are becoming the key element of joint IT/business integration
 - *Applications or/and databases that have business rationale for being managed as units*
- What do they enable?
 - *Shared strategy development*
 - *Shared management*
 - *Assigning specific areas of execution for business and IT*
 - *Joint procurement decisions*
- Governance processes are defined around application portfolios
 - *Overall strategy development*
 - *Monitoring*
 - *Specific success metrics*

Application Portfolios/Domains

“Old” IT Infrastructure



“New” IT Infrastructure

