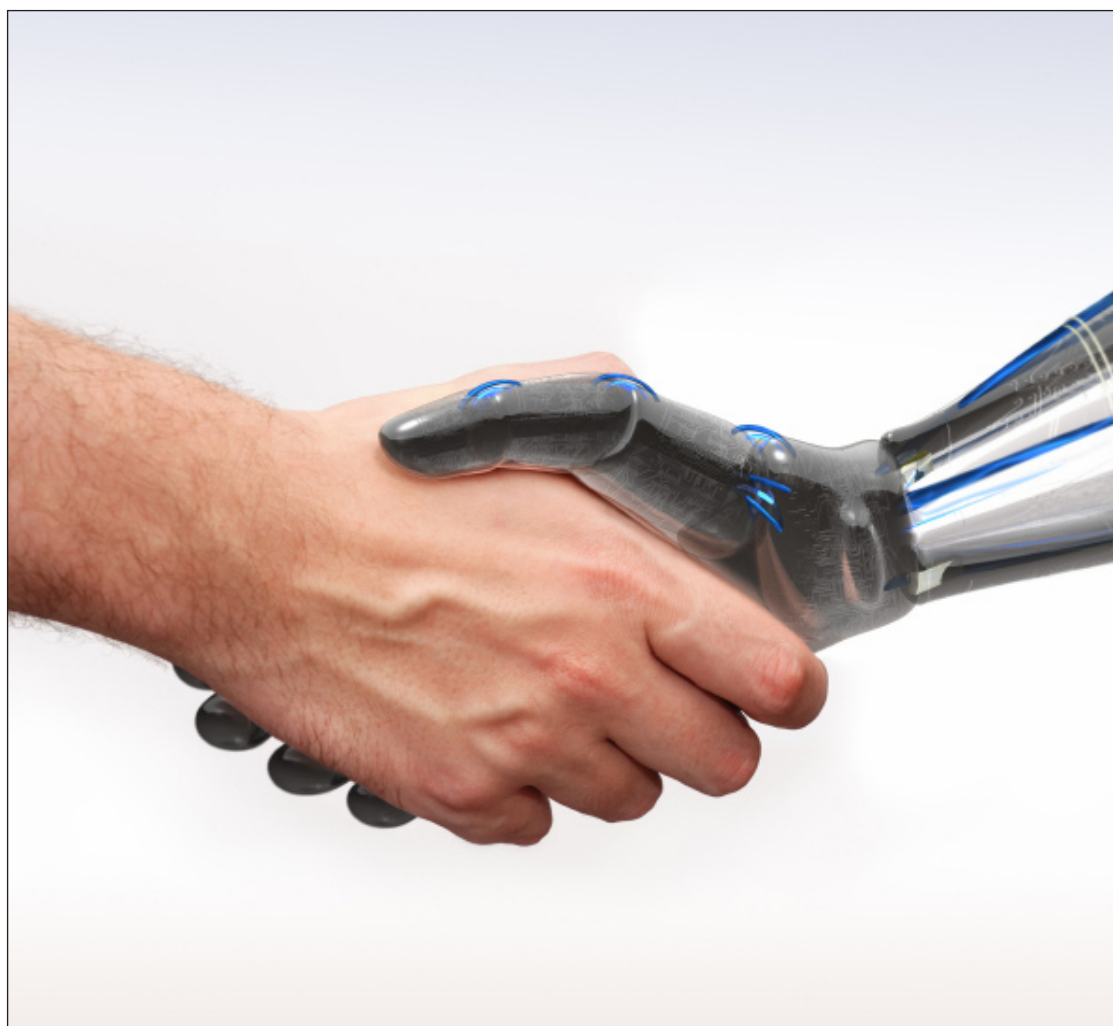


Managing new technology realities

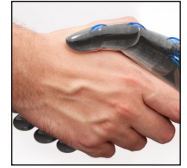


An Economist Intelligence Unit report sponsored by SAP

Preface

Managing new technology realities is an Economist Intelligence Unit report sponsored by SAP. The Economist Intelligence Unit's editorial team conducted the interviews and wrote the report. The findings and views expressed in this report do not necessarily reflect the views of the sponsor. Dan Armstrong was the editor of the report. Our thanks are due to the interviewees for their time and insights.

January 2008



Managing new technology realities

As in other sectors of the financial services industry, insurers are feeling the need to move from a silo view of operations centered along business lines to a seamless enterprise processing environment. This shift begins with leveraging corporate functions (HR, finance, legal and audit) as shared services, followed by an enterprise-wide focus on customer servicing and product offerings.

Speaking from over 15 years of IT management experience in financial services, Oliver Bussmann, CIO of Allianz of America (AZOA, a business unit of Munich-based Allianz SE), sees this pattern transforming the insurance industry just as a similar trend drove the evolution of the banking, securities and asset management sectors over the last decade.

“There’s huge pressure for automation, and that means ultimately pressure to manage expenses,” Mr Bussmann comments. “Profitability is becoming a huge driver in the insurance business.”

At AZOA, the trend has manifested itself through intensive investment in IT, with special emphasis on application development: 50 percent of the firm’s IT budget is dedicated to applications, compared to an industry average of about 25 to 30 percent. AZOA’s budgetary priorities reflect an ongoing transformation effort, begun in 2005, that includes both outsourcing of infrastructure and network management and implementations of claims, underwriting, policy administration, workflow, document management and enterprise resource planning (ERP) systems.

Having begun at AZOA’s North American P&C subsidiary Fireman’s Fund Insurance Co., the effort has come to comprise AZOA’s Allianz Life Insurance

“There’s huge pressure for automation, and that ultimately means pressure to manage expenses. Profitability is becoming a huge driver in the insurance business.”

Oliver Bussmann, CIO, AZOA

Co. of North America life and annuities carrier, to which AZOA recently extended its infrastructure and network management engagements. Those enterprise support elements are part of a broader management and technological change joining the P&C and life insurance units within a single enterprise embrace, based on services-oriented architecture (SOA).

“We are establishing an enterprise architecture team for both P&C and life as a shared service because we see those businesses coming together more from a policyholder perspective over the next few years,” Mr Bussmann explains. “Right now the focus is more on things such as finance and HR through our ERP system, and things like document and workflow management.”

Success in such cross-enterprise transformational efforts have tended to elude the grasp of insurers with the more modest goal of uniting lines of business within a P&C or life insurance enterprise. Too often, insurers have attempted too much at once, according to Jonathan Bobalik, director of



Managing new technology realities

Americas business unit for insurance. “Trying to drastically change one’s entire technology footprint is a recipe that has not met with much success,” he remarks.

“The worst thing that can happen to an IT landscape is if one repeatedly resorts to ‘rip-and-replace.’”

Jonathan Bobalik, director, SAP America

“Big bang” transformation initiatives appeal to insurers aware of the need to move forward in response to business drivers, but they are unnecessarily risky and resource-consuming, owing to the need to convert data from legacy systems onto new platforms, implement new systems and retrain users, according to Mr Bobalik. “The worst thing that can happen to an IT landscape is if one repeatedly resorts to ‘rip-and-replace,’” he cautions.

Managing complexity

Even when insurers take a more measured approach to change, they often fail to adequately analyse the existing technology environment and end up implementing redundant systems, Mr Bobalik asserts. Furthermore, in the absence of tightly unified planning and governance, systems improvements may diverge architecturally. Both vices add complexity to the environment in which systems consolidation and standardisation should be the goal.

Mr Bobalik recommends a “crawl, walk, run” approach whereby an insurer incrementally adds new functionality justified by business needs, but built on

a unified architecture that allows insurers to exploit new technologies as they become viable.

Service-oriented architecture (SOA) initiatives for their own sake are subject to the same pitfalls as other large-scale projects. But when mated to long-term architectural planning and governance, SOA can provide a framework that will enable the exchange of new functional components without the same risks and downstream effects of ‘rip-and-replace,’ Mr Bobalik says. “One of the things that SOA should be able to provide is the abstraction of the user experience from core infrastructure.”

On a higher architectural plane, SOA also provides a rationale for the implementation of more standardised and less redundant systems. It encourages thinking in terms of standard insurance processes, understood taxonomically and organised into a battery of fundamental reusable services that prevent multiple, redundant functionality from spreading. Insurers are notorious for believing their enterprises are radically different, even from their close competitors—a tendency that is only aided by the American state-by-state regulatory regime, Mr Bobalik remarks. However, today’s business pressures require a more industrial attitude toward insurance functionality, he insists.

“If you’re truly going to get the last bit of efficiency out of a process, you have to standardise it,” Mr Bobalik comments. “This is what other industries have learned and implemented.”

Extending that ethos across AZOA requires architectural planning from a holistic viewpoint, says Mr Bussman. To manage an evolutionary change to a future technological state, “you need an enterprise architecture team that has an overview of the architecture and application landscape and is part of project initiation and execution.”

That enterprise view must also inform governance, enforcing alignment with enterprise architecture, especially as changing business demands add new



projects, according to Mr Bussmann. “It is important that you have teams that understand the different business domains, and also the applications, from an enterprise perspective,” he explains. “Then, if a new project arises, you won’t run into redundant development.”

This enterprise-architecture approach to building a new technology reality operates within a larger IT strategy, in Mr Bussmann’s vision. The foundation of success is the selection of a leadership team whose expertise includes insight drawn from other industries, particularly as it pertains to sourcing. “It’s not always important that you have 100 percent domain expertise,” Mr Bussmann states.

Ongoing communication

From that foundation, success is driven by intensive interaction with the business to identify the company’s operating model, which in turn determines core competencies and right-sourcing options. “It is also critical to set up the right relationship with other cross functions, such as legal, finance, compliance and information security,” Mr Bussmann advises. These relationships not only ensure coordinated effort from the start, but perhaps even more importantly, they enable ongoing communication, including vital feedback as to whether initiatives are delivering projected benefits and whether change is driving toward an end-state described in advance.

In order for large change initiatives to succeed, that kind of communication must permeate the entire culture, in Mr Bussman’s view. Having achieved buy-in initially from company leadership, IT must drive further communication to keep top management informed about ongoing developments and to brief all other stakeholders on the impact of changes.

“I have spent a great deal of time over the last two years setting up relationships with the business

leaders, updating them on a regular basis,” Mr Bussmann recounts. To reach the AZOA culture more broadly, his organisation has employed a variety of communication vehicles, including meetings, newsletters, workshops and advisory councils. These, Mr Bussman relates, “increase the level of communication and generate feedback, with which we can react to by readjusting the program.”

Now it’s your turn

Margins are becoming increasingly important in the insurance industry. That means reducing costs by running a more efficient operation. Working with business units, CIOs are working to wring more efficiency out of every process that the organisation undertakes. When moving forward on an initiative like this, it may be wise to remember the following:

- Insurance companies aren’t as unique as you might think. Other industries have already been down this path. Learn from them.
- Don’t overextend yourself. A big job doesn’t require a big bang. Instead, use a “crawl, walk, run” approach, incrementally adding new functionality when justified by business needs,
- To get the last bit of efficiency out of a process, you’ve got to standardise it.
- Think about outsourcing what you can—infrastructure and network management, for instance—so you can focus on refining claims, underwriting, policy administration, workflow and document management processes.
- Buy-in from top management isn’t enough. During and after your initiative, you must drive further communication with all stakeholders on the impact of changes.

While every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in the report.

LONDON
26 Red Lion Square
London
WC1R 4HQ
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8476
E-mail: london@eiu.com

NEW YORK
111 West 57th Street
New York
NY 10019
United States
Tel: (1.212) 554 0600
Fax: (1.212) 586 1181/2
E-mail: newyork@eiu.com

HONG KONG
60/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com