



**A CASE STUDY IN IT
TRANSFORMATION
FROM THE LIFE
INSURANCE
INDUSTRY**

“Adapt or Die!” heralded the headlines in a challenge to the Life insurance industry. “The Life industry is experiencing profound change” reflected the programme sponsor. “We’re seeing increased consolidation. New entrants are coming in and new business models, such as direct offerings, are being developed. Our clients are becoming increasingly sophisticated and are demanding increased value for money; the press have been vocal about our industry and the pensions fund adjudicator’s rulings on the commission structure will have a significant impact on our distribution model. The increased competition and consumer activism is putting pressure on costs and margin and the regulatory and compliance environment in financial services is becoming increasingly complex.”

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The client company was determined to turn these challenges into opportunities and was proactive in its response to this dynamic environment. Fat had already been taken out of the business and, from their client’s perspective, value for money significantly improved, “our risk cover is now 40% cheaper than a decade ago”. The business strategy had been refreshed with a vision of becoming the market leader in client centric wealth creation and protection, and organisational structures and business models were being adapted to enable this strategy. “The focus is shifting now towards growing the business”

THE CASE FOR TRANSFORMATIONAL CHANGE

This had serious implications for IT. “As our business becomes more dynamic, so IT needs to be more proactive in anticipating business demand” says the sponsor. In the Life business, IT is traditionally seen as a ‘defensive’ function, by which I mean that it is largely reactive, with a strong focus on operational efficiency. We saw an opportunity to go on the offensive; to generate value from IT well beyond the realm of efficiency and core productivity; to partner with the business to better enable client centricity and innovation and to gain competitive advantage to grow the business.

We were previously spending too much time, effort and money on maintaining and enhancing legacy systems, which merely maintained the status quo, but we couldn’t stand still because the industry was restructuring and our company was transforming. We figured that IT must change too, to be more ready and capable of enabling new strategies and business models and so that it wouldn’t be an inhibitor to growth.



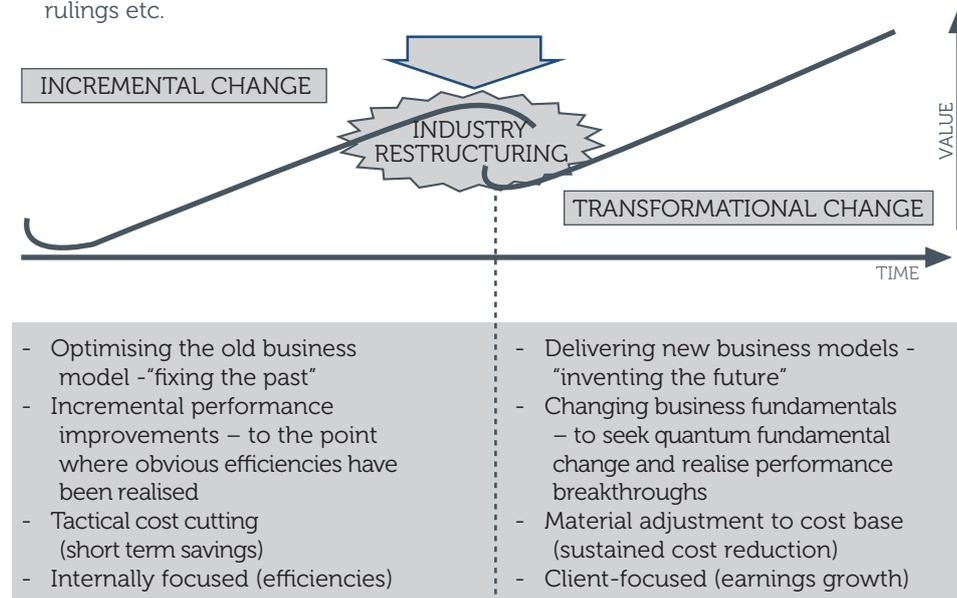
Innovating The It Business Model

For these reasons, the business sponsor and the IT management team decided to initiate an IT Transformation programme to reduce the cost of IT whilst enhancing and building new capabilities to deliver a step change in performance.

The client selected Vsolution to assist them with the IT Transformation programme. “We saw this as a transformation, rather than just a technology programme. We were seeking business model innovations and yes, we wanted some savings, to reinvest into building IT capability. We were looking for consultants with the experience of managing large-scale transformation programmes who could challenge our assumptions and help us to think outside the box, who were strategic in their thinking but strong on execution. Vsolution fitted the bill.” “Our challenge was to switch the focus of management attention from how to manage IT to how to generate value through IT” says Steve Burke, the Vsolution programme manager.

Changes in the Life Industry:

- Increased consolidation & competition - including new entrants and disruption of current broker orientated business models; predicted re-entry of foreign insurers
- Increased consumerism – client expectations of better value for money and decreased costs; expectation of faster processing (real time quotations; faster claims processing); transparency, product simplification etc.
- Regulatory and compliance issues - e.g. FAIS, FSC, FICA, pension fund adjudicator rulings etc.



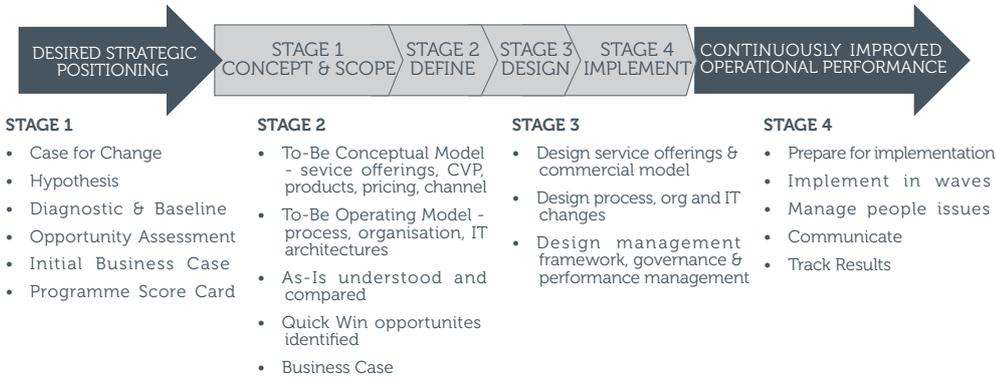
The “Business Change Lifecycle” approach was used by the programme. It provides a useful framework that ensures you always know where you are in the change lifecycle, from strategy through to operations, and it keeps you focused on delivery for the next ‘gated review’ where management exercise their accountabilities at the end of each stage.”

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THE BUSINESS CHANGE LIFECYCLE



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Stage One - The Concept and Scope Stage

A thorough diagnostic was conducted to understand problems and identify opportunities.

The key findings confirmed that:

- The business strategy demanded technology enablement through systems that support changes to business models, process architectures, services and products. Legacy systems lacked the required agility and, whilst the adoption of Service Oriented Architecture (SOA) and web technologies were aligned with best practice, their implementation was opportunist, usually on the back of small business originated projects rather than through a funded programme to realise a longterm SOA. The client organisation was quite typical in that SOA was being implemented in the absence of a business architecture including a 'business services layer' of reusable business components. A further complication was that the SOA architecture was for the Life business only, rather than being optimised across the whole financial services group.
- An obvious hypothesis was that there'd be a legacy of 'applications spaghetti', difficult and expensive to maintain, drawing funds away from growth initiatives, increasing operational risk and lacking the agility required to support competitive advantage. This hypothesis was only partially proven. In practice, at a level of detail, there wasn't the degree of overlapping functionality that was expected. Further, the adoption of standard applications doesn't typically lead to short-term savings because the old systems, already written-off, are relatively cost efficient. Unsurprisingly, this doesn't encourage consolidation or sharing across business areas and, without strong business imperatives - such as product rationalisation, business process reengineering or a group-wide synergies programme - there was not a strong IT driven business case for applications consolidation. There was, however, a case that could be made for consolidation and re-platforming in order to increase business agility and growth strategies.
- In addition to technology enablement, the findings suggested that business agility required closer alignment of business and technology management. The diagnostic identified opportunities to improve business and IT alignment by:
 - **Improving the overall strategy and execution process.** Proposed measures included the adoption of a project portfolio management approach to increase the value of IT investment and set clear priorities for project execution - with business accountability for business cases and benefits realisation.

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- **Improving business governance of IT.** It was recommended that IT should report to a business governance committee that focused on the big picture, with oversight responsibilities for IT strategy, architecture, service delivery and IT performance management.
- **Improving the integration of business and IT decision taking.** Measures included having IT representation in business Exco's thus limiting the potential for "us vs. them" behaviours.
- The diagnostic also identified potential opportunities to achieve IT efficiencies and significant cost savings. These opportunities lay principally in:
- **Organisational restructuring.** The diagnostic showed the IT organisation to be oversized when compared to benchmark averages, showed up some duplicated roles and dual accountabilities and highlighted deficiencies in key skills and capabilities.
- **IT procurement (outsourcing) efficiencies.** The diagnostic identified opportunities for further improvement, especially as major contracts came up for renewal.
- **Infrastructure optimisation.** The diagnostic identified potential opportunities to optimise the current IT infrastructure.
- **Project rationalisation.** A key finding was the recommendation to refocus the project portfolio on 'grow the business' projects to generate additional value, whilst rationalising some 'run the business' projects to capture once-off savings.

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Stage Two - The Defining Stage

This was arguably the most important stage because it was about getting the big idea right and conceptualising the changes that would lead to a step change in performance.

"Time invested up front in tackling the big issues and conceiving the future is well spent and limits delays later when people become more aware of the implications of the transformation. We recognised, however, that it's difficult to think outside the box when you're in it" says Steve, "so we generated a creative, dynamic tension with the IT management team that met the contrary needs of stretching the conceptual thinking with a desire for detail and understanding of practical implications." The IT management team committed one morning each week to discuss the core issues raised during the diagnostic, to develop key design principles and to develop the 'to-be' or conceptual IT business model.





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The discussion of core issues led to distinctions being created that ultimately made for a paradigm shift in the thinking of the team. "We discussed a myriad of issues' says one of the IT executives, "such as the distinction between business demand and IT supply; the need for business accountability for change; the implications of how to support end-to-end business processes rather than siloed organisations; the implications of client centricity versus product push; the distinction between defensive and offensive IT and how to partner with business to enable competitive advantage; the need to commercialise the provision of IT services; what IT capabilities should be regarded as strategic in the new model, and kept in, and what might be outsourced. It was profound stuff and we realised it was going to lead us to a very different kind of IT model."

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At the heart of the new model was the IT value chain which described a high-level process for how to deliver end-to-end IT services, against which the organisational capabilities and structure could be mapped. The value chain model highlighted the importance of engaging with the business at the front-end, and a new role of IT Executive was conceived, each representing IT on the Exco's of their respective business areas and representing those business areas back in IT Exco, thus reducing 'us versus them' behaviours. Their role was conceived as a combination of relationship and service management, with teeth, their job being to build a profound understanding of business needs, to advocate technology innovations and to ensure excellent service provision against formal SLA's.

Next in the value chain was 'Strategy and Plan' which included IT strategy, architecture and 'client advocacy', responsible for commercialising IT by developing value propositions to meet the business needs, developing the product and service offerings and cataloguing and pricing them. Strategy and Plan is the point where business demand gets translated into IT supply. All 'build' activities were centralised into a single "IT Development' area which was overlaid against the SDLC process and all IT operations functions were grouped into a single 'IT Operations' area. Clear interfaces and accountabilities were defined between the development and operations areas.





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Stage Three - The Design of The IT Business Model

Although simple, the conceptual model caused heated debate. However, Steve makes the point that “there isn’t a perfect IT structure. Getting IT and business management and IT and business strategies aligned, developing sound commercial practices with service catalogues, clear pricing and agreed SLAs, introducing businessled governance of IT, designing end-to-end processes, establishing sound working practices, with performance management linked to strategic objectives; these are the sort of things that make the most difference. You can go with many structures but the key to making them work is to be clear on role, responsibility and function.” Once the conceptual model was agreed, the IT management team ‘took the leap of faith’ and committed to taking the conceptual into detailed design.

This stage produced detailed designs of the ‘to-be’ IT organisation and described how it would work. However, the approach to organisation design was much broader than mere re-structuring which, by itself, can disrupt important information flows and simply “move the deckchairs” to limited effect. In addition to designing new structures the programme addressed:

- The redevelopment of IT strategy to get it better aligned with business strategy.
- High-level process design – including end-to-end integration, governance and domain specific processes.
- People aspects - organisational capabilities and capacity planning, skills, training, culture etc.
- ‘Integrating mechanisms’ - management framework, governance framework, cross-functional working etc.
- Performance management framework.
- Applications development sourcing strategy.

Stage Four - The Implementation Stage.

“Whilst the Define Stage is important for envisioning the future, that future isn’t going to be realised if the changes aren’t effectively implemented, we put a huge effort into preparing induction packs, training materials and transition plans. We constantly asked the question of how this will work from a line perspective?” says Steve.

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We sought to put ourselves in their shoes, we built scenarios and asked 'what if's.' The handover from programme to line was also made much easier because the programme sponsor took great care in the selecting the right people to work on the programme and these same people then moved into many of the key management positions.

The implementation was conducted in three phases. In Phase 1 the new Chief Information Officer (CIO), was appointed, transition plans were prepared and management induction packs and on-boarding plans produced. During phase 2 the new management team was selected, vision workshops held, targets and measures agreed and designs and plans validated and taken to levels of detail. Phase 3 was initiated by a 'change of control' as the new management assumed operational control and implemented the organisation restructuring, governance and process designs. Time was taken to allow for the cascaded selection and onboarding of the new management team, but once ready, rapid implementation was essential to minimise disruption and alleviate the anxieties felt by some of the staff.

The new CIO said, "When I joined I was aware that some people believed the company to be conservative and slow to react, but I could see that the IT team really wanted to make a difference. I've been very impressed with their commitment to change and speed of execution and by the innovative practices that were being adopted through the transformation programme, which were closely aligned with my own vision for generating new business value through IT. That said, our proactive engagement with business will only be credible so long as it comes from having a sound operational base, which must be a given."

Looking forward, he says, "We've created a more efficient IT organisation that is much better aligned with the business to gain a greater understanding of business needs, so it's more effective. Next, we must take some of those savings and reinvest them into further building capability, such as our in-house SOA skills.

Once we have a better understanding of the evolving business strategy and model, then I think we're ready to take the next step and address the IT infrastructure to make our technology more flexible and agile. Asked about the lessons learned, the programme sponsor replied "There are many".

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I feel that large-scale transformation programmes are largely about the experience of stretching thinking and driving the execution hard against tight timelines, to achieve step changes. We all learnt a lot along the way and it was tough, but ultimately very rewarding.

With regards to specific lessons learned I'd include and they are probably quite obvious:

- The importance of having a simple, motivating idea so that people understand the reason for the shake up and what it means for them. Ours was that the Life industry is going through massive change and IT must be ready to support the business through that change.
- Getting the 'big idea' right was fundamental for dealing with the core issues and was essential in breaking from the past. Our big ideas included the adoption of the value chain approach, the shift from defensive to offensive IT and the commercialisation of IT services.
- Strong leadership was essential, with visible commitment to the programme in words and deeds. The IT management team was extremely hands-on and gave up a great deal of their time and commitment to this programme.
- Business buy-in and involvement throughout the transformation process is critical as the IT business model should not be changed in isolation. We ensured that the governance at gated reviews was led by business rather than IT management.
- We worked hard to ensure collaborative working with a joint IT management and Vsolution programme team, between the programme and line and between business and IT.
- The old adage that you must over, rather than under communicate, to inform, discuss, involve and motivate people is true. This helps to remove ambiguity and manage expectations. You'll always be criticised for lack of communication, and we were, and I'm sure we could have done better even though we had a dedicated change management and communications team.
- Be prepared for some intense discussions, but don't shy from confronting uncomfortable facts and challenging assumptions.

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Vsolution is a premier South African management consulting company, with international reach, that draws on deep experience in strategy, transformation and business improvement projects in Europe and Southern Africa. Our core capability is the ability to help our clients setup strategy, innovate and successfully execute breakthrough performance improvements.

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