

## Information Technology Annual Checkup

### Questions to Ask Your CIO

For general managers inside insurance companies, the annual information technology (IT) progress review is too often the coal in the Christmas stocking sure to darken holiday celebrations. A better understanding on the part of business leaders of how IT operates and what drives its performance can be the key to a more productive partnership between business and IT, one that enhances the value provided both by the company's IT organization and by information technology in general.

In this abbreviated holiday View from the Bridge, we offer up questions for the savvy manager to ask IT leaders, questions designed to provide insight into how IT operates beyond that typically available in IT financial and operational reports.

#### **What role does IT play, and what role *should* it play, in making the company successful?**

For some insurance companies, IT is an essential element of the product and indispensable to competitive advantage. In others, IT's greatest value is to provide basic policy and claims administration support at the lowest possible cost. Without knowing for what purpose an organization is being built, it is impossible to build and operate it correctly. IT's defined role will influence organization structure, investment priorities, staff recruitment and development, and virtually every other IT-related decision of significance.

Surprisingly few companies are explicit about IT's role, and fewer still take the time to reinforce it. Asking IT leaders their view on what the function's role is and what it ought to be serves two purposes. The first is to confirm that IT is being built and operated in accordance with business goals and objectives. The second is to involve IT's leadership in ongoing discussions about business strategy and where IT can make a difference.

#### **How are development and maintenance priorities set?**

IT organizations have a finite budget and, directly or indirectly, are responsible for satisfying the needs of many different types of "customers," including insureds, agents, brokers, regulators, executives, and rank and file employees. Demand for what IT produces always exceeds the resources available to it, and so decisions must be made as to whose needs will be satisfied and whose will not. All or nearly all acceptable ways of setting priorities involve panels of customers and semi-formal to highly formal decision-making processes. Common but invariably flawed ways of setting priorities include allowing IT to decide among competing parties with little or no customer input and those heavily driven by organizational politics.

#### **What are we doing to manage down complexity?**

Complexity is the enemy of all IT organizations. IT is an inherently complex function, and underperformance is assured in the absence of well thought-out efforts to control complexity. Some of the most exciting developments in information technology in recent years have been as much about reducing complexity as deploying new capabilities, with service oriented architecture only the most obvious example. Some good ideas: migrating applications and architectures toward formal or de facto industry standards; reducing the number of vendor relationships that must be managed, and employing component-based methods of development.

#### **Which systems will need replacement in the near future, and how do we know?**

Replacement of enterprise systems for such things as policy administration, claims administration, or agency management is the pig in the python of IT spending. The incremental enhancements and software reengineering necessary to add years of life to legacy systems may not have the glamour for IT professionals of implementing a new enterprise system, but they do make a major contribution to controlling IT costs. Extending the life of a legacy system also increases user satisfaction; few users relish the prospect of having to master the idiosyncrasies of a new application. Since legacy systems rarely become inadequate overnight, the decision as to when one should be replaced requires judgment. Important considerations in determining when and whether to replace a legacy system include:



- Whether the availability or performance of the existing system does not and cannot for a reasonable price be made to satisfy business needs;
- For how long key vendors will continue to provide support for the system;
- The extent to which the time and cost necessary to introduce essential new functionality is increased by the growing fragility of the incumbent system;
- Maintenance costs and maintenance cost trends;
- The tenure and plans of professional staff critical to maintaining the existing system;
- Whether a credible alternative exists;
- The too often baseless optimism that surrounds the capabilities and implementation costs associated with new enterprise systems.

### **How do the results of recently completed projects compare to original business cases?**

Business cases - and project scope - have a way of being adjusted throughout the life of a project. The ability of an IT organization to deliver a defined scope of work on time and on budget is an important measure of its capability and should be an important input into the approval process for new projects. The same is true for the ability of business users to work with an IT organization to manage scope and agree on tradeoffs as a project proceeds. Businesses and IT organizations should make a practice of retaining *original* business cases, tracking each and every material change to scope during the course of a project, and assessing results against initial projections once a project is over.

We wish all our readers a happy, healthy, and prosperous new year.

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