



# Loosening the Grip On IT Spending

Four insurance technology experts reveal how close IT-business collaboration works to facilitate IT budgets that foster long-term growth.

By  
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As has been the case for the past few years, insurers' 2012 IT budgets are projected to be here, there and everywhere. Some predict a flat budget, some a decreased budget, and a few predict increased IT spend. The one aspect of IT budget development that insurers appear to have in common is that CIOs and IT execs are experiencing a closer budget collaboration process with the business. While IT has for years relied on the mandates of the business, the need to work together has become more apparent, as a rocky economic environment, a fresh focus on business growth, and rapidly changing technology place growing demands on the insurance IT department.

Conducted from October 2010 to January 2011, an IBM-backed study of 3,000 global information leaders—223 of which were CIOs representing the insurance industry—revealed that CIOs are focused on employing technology that will help their businesses grow, versus simply gaining efficiencies or cutting costs.

Gone are the days of employing technology just to maintain “what is.” Joanne Correia, managing VP at Gartner, says

organizations, including insurance, will invest in technology, but “to keep their jobs, IT must work to make the technology work for business. The biggest hole is between line of business and IT. [Line of business] won't invest unless it gets them new customers and markets or the ability to increase their valuation. Throwing IT at IT for IT's sake is just not there anymore.”

While Gartner projects continued growth in 2012 for the enterprise software market—forecasted revenue to reach \$288 billion—Correia says the bottom line message for IT is to better manage cost controls, customers and efficiencies in supply chains help to meet changing business needs.

Front-office technology is what's expected to meet those needs. The majority (71%) of the IBM insurance survey respondents cite self-service portals as a top visionary plan in the next three to five years. This is a higher percentage than other industries represented in the survey. Also, insurance CIOs place greater emphasis on risk management than do the rest of the industries. However, all CIOs agree on two top priorities: insight and intelligence, and client intimacy.

Being able to leverage analytics and intelligence has risen to the top of CIOs

priority lists over the past few years and will continue to do so. The global business intelligence tools market is on track for consistent solid growth over the next five years, according to research from IDC. For the full year 2010, the BI tools market grew 12.7% year over year, adding \$893 million in global revenues over the previous year.

Results from the IBM study echo the BI/analytics focus. More than 80% of respondents listed BI and analytics as top priorities, particularly as a way to utilize big data, and 95% of all CIOs pointed to those fields as an area of growing competitiveness.

Mobile devices will thrive as a means to cope with those business analytics projects and implementations, the survey suggested. About three-fourths of CIOs reported to be turning their attention to mobile computing and mobility solutions to keep up with data and daily demands.

**To test the many theories offered above, *INN* queried a panel of four experts who successfully function in the insurance IT budget trenches to find out how their IT plans factor into their business unit areas' and organizations' futures. On the following pages, these four experts describe their unique challenges and best practices.**



**Andy Edwardson, VP of IT**

**COMPANY:** Farmers Alliance Mutual Insurance Co.  
**HEADQUARTERS:** McPherson, Kan.  
**BUSINESS:** farm, personal, commercial  
**DIRECT WRITTEN PREMIUMS:** \$124 million  
**NUMBER OF EMPLOYEES:** 240  
**DISTRIBUTION:** independent agents  
**NUMBER OF EMPLOYEES IN IT DEPARTMENT:** 41  
**TOTAL 2010 REVENUE:** See DWP



**Michael Foerst**

VP of Information Services/CIO

**COMPANY:** Missouri Employers Mutual Insurance  
**HEADQUARTERS:** Columbia, Mo.  
**BUSINESS:** workers' comp  
**DIRECT WRITTEN PREMIUMS:** \$109.7 million  
**NUMBER OF EMPLOYEES:** 201  
**DISTRIBUTION:** independent agents  
**NUMBER OF EMPLOYEES IN IT DEPARTMENT:** 25  
**TOTAL 2010 REVENUE:** \$124.7 million



**Shelley McIntyre**

VP and CIO, Retirement Solutions – Technology Services

**COMPANY:** The Guardian Life Insurance Company of America  
**HEADQUARTERS:** New York  
**BUSINESS:** individual life and disability, employee group benefits, retirement  
**DIRECT WRITTEN PREMIUMS:** \$6.3 million  
**NUMBER OF EMPLOYEES:** 5,000  
**DISTRIBUTION:** career agents, group sales reps, brokers, wholesalers  
**NUMBER OF EMPLOYEES IN IT DEPARTMENT:** 600  
**TOTAL 2010 REVENUE:** \$7.8 billion



**Rick Roy, SVP and CIO**

**COMPANY:** CUNA Mutual Group  
**HEADQUARTERS:** Madison, Wis.  
**BUSINESS:** commercial and individual insurance for credit unions and members; investments and retirement plan services  
**NUMBER OF EMPLOYEES:** 4,000  
**DISTRIBUTION:** credit unions and their members  
**NUMBER OF EMPLOYEES IN IT DEPARTMENT:** 748  
**TOTAL 2010 REVENUE:** \$2.78 billion

**What are you expecting in terms of your 2012 IT budget? Up, down, flat?**

**EDWARDSON:** We anticipate a slight increase but have no hard numbers [at press time]. The increase is due to plans that include the implementation of a business intelligence (BI)/business analytics solution and various other projects.

**FOERST:** We're projecting that 2012 IT spending levels will be down. However, that's not because we're tightening our belts further. Rather, we've used the last couple of years to invest in our technology platform, particularly large capital projects to upgrade our core systems. We saw this as a chance to position ourselves for opportunities that will present themselves as the economy improves.

**MCINTYRE:** I am expecting a flat budget for 2012, although there is certainly a chance, once the process is completed, that we will see an increase. This was the case in 2011.

**ROY:** We are planning for a flat budget spend for IT, primarily because we currently factor in new project innovations and technology projects each year. Said another way, we are self-funding many IT internal initiatives targeted at making IT a stronger shared-services function.

**What's at the top of your priority list?**

**EDWARDSON:** It's tough to identify one or two items. Overall security continues to be a priority. We work with external sources as well as our own staff to manage security policies. Certainly, this be an area of focus for the remainder of this year and beyond.

We continue to work on our technology modernization initiative (a multi-year replacement/upgrade of core processing systems). This effort will continue to be priority as we look to these initiatives for additional business value. Improving processing efficiency, reducing cost of ownership and allowing us to keep pace with the market are all important drivers within the context of the initiative.

As mentioned above, implementing a BI/analytics solution is also priority in the near term.

Most important is the effort to advance our staff to support, develop and grow company operations. While we recognize the value our sourcing partners bring to the table, our desire is to foster continued self-reliance.

**FOERST:** Our business strategy is focused on enhancing our service offerings to existing customers and expanding services that help us reach customers that we can't effectively service today. We see these as key to improving retention and profitable growth. To

enable these strategies, our attention is on upgrading our core system capabilities and refreshing our Web presence.

**MCINTYRE:** Launching new products is always on top of the priority list and that won't be different in 2012. I suspect the regulatory environment will continue to also drive priorities along with analytic priorities driven from actuarial and finance.

**ROY:** One of our top projects is the Workforce Technology Optimization (WTO) initiative. This project addresses how mobility alternatives fit into a broader productivity and cost-savings strategy for the company. We are specifically addressing how to leverage tablets, laptops and mobile tools in terms that make both business sense and have employee support, to fit into this strategy.

**The economic challenges over the past few years have led experts to claim that insurers have been "just keeping up." What, in the 2012 budget, will be allocated to new projects focused on growth? How difficult was it to obtain budget dollars for these projects?**

**EDWARDSON:** We do have a couple of projects planned that we hope will assist with growth, but time will tell. We're cautiously optimistic. We continue to look for ease of doing business wins so our targets include mid-size projects, which will help employees, agents, policyholders and consumer prospects. As an example, we are targeting mobile app development in 2012.

Projects that are specifically designed for growth often involve other areas of the company. Obtaining budget dollars for such projects is typically not difficult if outcomes are clearly understood and achievable.

**FOERST:** We haven't restricted ourselves to "just keeping up" over the last few years. In 2008 we replaced our claims system; in 2009 we enhanced straight-through processing; in 2010 we refreshed our website and in 2011 we deployed a new policy management and billing system. With these core components in place, our priority in 2012 will be on leveraging the new platform to expand our reach.

This level of investment wasn't a result of a great sales job by IT. The IT initiatives were identified as key components of the strategic business plan. That said, [in our company] IT projects don't simply happen because they are in the plan. A business case is completed for each initiative looking at the long-term cash flow. That model may dictate changes to the project. Ultimately, that model is used to justify allocation of funds.

**MCINTYRE:** Honestly, we have been doing more than just keeping up for the past few years. My business partners understand the positive impact that technology can have on business growth. Whether it is new products, new features, making it easier to do business with us or creating efficiencies, we have been focused on freeing up funds that in the past were focused on running the business and been able to refocus those funds on investing in the business growth.

**ROY:** We have a very close working relationship with our internal business unit customers. I, along with my IT leadership team, have continuous dialogue with the business teams to stay in sync with our businesses' growth strategies, customer needs, and competitive dynamics. Since we have these regular discussions throughout the year, securing funding for new projects is not a difficult exercise. It becomes a joint decision between IT and the business because we can clearly draw a line from the project to financial impact for the company.

For example, we just launched our Smartphone Loan technology, which enables loan applicants who are credit union members to begin the loan application process from their smartphones. The technology is a mobile version of CUNA Mutual's loanliner.com product, which is used by more than 500 credit unions nationwide. This is a clear example of technology and business remaining aligned to drive new market and customer growth long before this product was developed.

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### How has the process of setting an IT budget changed over the past five years?

**EDWARDSON:** Historically, much of the process seems to have been focused on long-standing maintenance or service agreements. In recent years, our process has shifted to reevaluation of such agreements to determine need and value. Demonstrating this practice to the CFO and other key stakeholders, has helped facilitate a more flexible budgeting process. Now the discussion can truly focus on what will provide value versus justifying a need.

**FOERST:** Changes to the process have varied by IT budget category. Establishing our target for non-discretionary line items hasn't changed much. The expectation that we'll pursue alternatives that make this spend as cost effective as possible may be heightened to a degree, but it has always been our role.

Where we've seen the most change is in the area of discretionary investments. The discipline around the selection and justification of projects has increased. Projects must fit into the strategic plan and prove themselves through a business case model that looks at the cash flow over the projected lifetime

# The CIO and CFO: A Long Way to Go?

CFOS TEND TO HAVE A LOW OPINION of the CIO and the entire IT group. Such is the sobering finding of a 2011 Gartner survey of 344 CFOs at North American companies, including insurance, financial services, health care, manufacturing and other fields.

The survey, conducted by Gartner and Financial Executives International, an association for CFOs and other financial executives, sought to discover how CFOs feel about the use of information technology in their companies, as well as how they view the group that provides it. The results point to IT being held in less than high regard.

According to the 2011 Gartner/FEI study, only about a quarter of the CFOs surveyed reported having confidence that their IT group "has the organizational and technical flexibility to respond to changing business priorities," or "is able to deliver against the enterprise/business unit strategy."

In addition, less than a quarter of

the CFOs felt the IT department "delivers the technology innovation needed by the business," or that it "has the right mix of skilled people to meet business needs." Finally, only 18% of the CFOs said they thought their IT service levels "meet or exceed business expectations."

Interestingly, the survey revealed that 42% of IT organizations now report directly to CFOs, "and that is expected to increase," says Gartner analyst John Van Decker.

Analysis of the Gartner/FEI survey points to the rising influence of the CFO over the IT department. For example, 29% of the respondents said a steering committee of IT and business executives work together to authorize IT spend. But 26% said it's the CFO alone who makes the decisions, up from 18% last year. A quarter of respondents said the CIO and CFO work together on this task. In only 11% of organizations, notes Gartner, the CIO alone determines IT spend.

Insurance CIOs have other challenges: Those charged with creating enterprise-wide efficiencies will be more likely to find favor with the CFO if they are able to communicate the long-term benefits of initiatives that have yet to prove solid, long-term returns, such as cloud computing or virtualization. Further complicating matters is the CIO's pitch for core systems replacement (versus modernization), in which several cost-benefit analyses are offered with few short-term results.

Van Drecker says that the study's findings point to the need for the CIO and others in the IT department to engage the CFO as often as possible, and communicate clearly why certain IT investments are being advocated by the IT department. Further, having the CIO engage on matters of business strategy can only help fuel further discussion on why investment in certain technologies will enable that strategy's success. —Pat Speer

of the asset. Justifying projects isn't new for us, but the rigor exercised around this effort has increased. There are many competing forces for investment dollars, and we need to maximize our long-term return.

**MCINTYRE:** There is more focus and transparency during the process at senior executive levels. There is a process in which the business strategy is aligned to the projects and reviewed closely. It isn't automatically "flat;" it might end up being flat, but there are many discussions before that final IT budget is determined.

**ROY:** We have changed the budget process for IT from a reactive state to a more proactive planning process with our business lines. We set a target for IT infrastructure and security and vet this with our executive team for top-down decision making.

For projects, we partner with our internal customers and have regular discussions about business strategy, product development and new market planning. These discussions focus on the business

need that we, in turn, can translate into how IT can support these plans. These proposals are then presented to a new committee we formed several years ago called the Business Investment Council (BIC). BIC oversees funding for all large projects in the company and includes myself, our CFO, our chief product officer, head of operations and head of marketing.

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### What are some of the keys to business and IT working together to set the IT budget?

**EDWARDSON:** Many areas of the business provide direction in terms of their long-term expectations. This has helped tremendously from a staffing perspective. An example of this includes pricing and rate implementation; we have a good feel for what might be normal volume, so we can staff accordingly. If there are planned increases, the responsible group will provide advance guidance so we can adjust.

# The CIO's Changing Role = Opportunities

**NOWHERE IN THE INSURANCE**

organization is change felt more deeply than in the IT area. Rather than responding to anticipated change, the CIO is now often responsible for driving it, while continuously delivering business value.

At its core, this change is reflective of the evolution going on in many insurance IT organizations. In fact, IT is now considered more than just a service center that maintains day-to-day technology requirements (infrastructure, hardware, software, tools, or devices), and considered more than an enabler of business processes. This is evident when examining the advent of cloud computing. Considered by many as just another form of outsourcing, cloud is now considered an operational vs. a capital expenditure, opening doors for the insurance CIO, who now asks the CFO to view IT costs and related

decisions in a very different light. It also creates one of many opportunities for the CIO to be viewed as having a wider reach within the organization, and a seat at the table.

"The insurance CIO role has been evolving over the last decade to focus less on maintaining infrastructure and more on delivering strategic business capabilities," says Matt Josefowicz, who, as principle with New York-based Novarica, heads up Novarica's Technology Research Council for senior IT insurance executives. "As part of this evolution, the CIO is being brought into business planning and strategic discussions earlier so that the technology-enabled capability requirements can be understood early in the planning process."

With this enhanced role, however, comes a broader demand for leadership competency, as CIOs are tasked with having the aptitude necessary to help transform the

business. This transformation is expected in the face of external business drivers that continue to pummel the industry, such as regulatory reforms, new accounting regulations and security issues. As a result, CIOs are tasked with having a deep understanding of core business issues such as risk management and compliance. And, they are also in a position to suggest inherent data opportunities that can come from strategic compliance activities. The same is true for discussions around data cleansing and analytics that support organic growth, the No. 1 priority for most insurers today.

"For CIOs that spent the bulk of their career as either caretakers or order-takers, this can be a challenge," Josefowicz says. "But the opportunity has never been greater for CIOs to contribute to the success of insurer organizations." —Pat Speer

process has proven beneficial in delivering business value. The process allows IT an opportunity to present or demonstrate ideas, which often results in delivery of business value.

In addition to the internal planning process, we leverage a couple of agency groups that provide direct input regarding automation as well as product needs. The dialogue generated through these groups has proven beneficial in terms of identifying and delivering business value.

**FOERST:** One method is through the connection between the strategic planning processes referenced earlier that ties projects to specific business goals. Another way is through the work that goes into developing a business case by a team from the business and IT. This is more directly tied to the specific project identifying the expected source of business value. Each project has a scorecard that includes measures of key performance indicators. Finally, we address with an IS department scorecard how we're supporting the ongoing operation.

**MCINTYRE:** We work together to prove business value using tools and processes. We go through a significant amount of due diligence and in many cases execute 'pilots' before making final decisions. Right now we are about to launch a pilot for cloud computing—if it proves to add business value I am confident it will be approved. We are a Lean Six Sigma shop and in many cases our projects are spawned from a process improvement going through that methodology. On our major projects and, in fact, on all of our projects, there is a cost benefit analysis (CBA) completed. Even on our smaller projects we have a CBA completed and a process in which we ensure alignment and proper priority based on business value.

**ROY:** With the speed and acceleration of technology, there is a greater premium for strong collaboration and partnership with our businesses. I require strong business acumen with my technology leaders and with their teams. It is imperative that we understand the business we are involved in, including the industry and client challenges, competitive dynamics and new market growth opportunities.

This perspective helps us, as an IT organization, ensure our projects are delivering the right value to our internal customers, and ultimately, our external customers, the credit unions. If we understand how our businesses are run, we can communicate to our business leaders in a way that they understand. Specifically, we tie each project to financial results, like cost savings, revenue generation, or customer acquisition improvements. If our projects cannot clearly define real results to our business leaders, we shouldn't do the project. **INN**

Once the standard items are in place, it is a matter of identifying additional business needs. Again, through open discussion, the business areas do a great job of identifying needs that impact the budget, and assist in discussion with stakeholders such as the CFO. Not to portray that we have mastered this process, occasionally items come up after the budgeting process, but for the most part, this is much improved in contrast to past years.

**FOERST:** As with many undertakings, establishing a level of common understanding is one of the keys to success. Realistically, we can't expect professionals of every discipline to understand IT the way we do. However, we can translate technology investments into the business capabilities that they support, which gives us a common language. We try to categorize IT spending into business capabilities needed for ongoing operations, growth and innovation.

The collaboration starts at the business plan level. We define strategic goals and tactics that imply certain business capabilities to deliver the necessary

outcomes. We look at the required capabilities to evaluate where we have gaps and which need to be addressed through technology. Coming out of that process we've allocated resources to the various functional areas in order to deliver on that plan.

Finally, we report regularly on our actual spending relative to the budget in a portfolio report. This report provides a quick view of spending patterns for projects, support and infrastructure by functional area. It also shows the organization a snapshot of "your IT dollars at work."

**MCINTYRE:** Ensuring alignment to strategy is key, but also, it is important to not lose sight of the basics that need to be addressed. Collaboration is vital along with inclusion of all stakeholders.

**What are some of the successful ways you go about proving business value?**

**EDWARDSON:** We work with business leaders through our corporate planning process; this