BEST'S REVIEW

By Faisal Hoque

To help insurers mitigate risks that IT investments pose, they can employ business technology management to better calculate the return on investment.

Justifying the Cost

The insurance industry's information technology spending is expected to reach $38 billion by 2005, according to the International Data Corp. This means insurers will have to not only understand how to apply new technology to bring value to their businesses, but they also will have to mitigate the risk involved in making those investments.

A growing number of new technologies are promising to aid insurers in the challenges brought on by industry developments. Technology is designed to increase data access and integration, protect security and privacy, and deliver products and services across multiple channels. These products enable convergence of insurance and other financial services and compliance with regulations such as the Health Insurance Portability and Accountability Act and the Gramm-Leach-Bliley Act.

While insurers address these developments with technology, they need to justify IT expenditures in a business environment that has increased its scrutiny of corporate spending. Executives who approve IT initiatives are doing so on the heels of accounting scandals that have aimed a harsh light on corporate accountability. The market demand for transparency is driving the need for improving how return on investment for technology is calculated. This is especially challenging since IT returns are often not realized for months or years after implementation or when benefits are intangible, i.e. building consumer trust.

To help insurers mitigate risks that IT investments pose, they can employ business technology management to better calculate the return on investment. business technology management is a set of principles, activities and governance that provides companies with a way to think through the design implications of a project before seeking funding for implementation. It also allows them to capture that decision-making process in models to provide the visibility necessary to both calculate and justify IT investments.

Because business technology management dictates that companies "aim" in the design stage before they "fire" in the implementation stage, an insurer's ROI calculation will be more in sync with what actually occurs during rollout.

Countless studies have shown that information about a project's true cost is discovered during the design phase. But companies traditionally calculate ROI as a precursor to project approval —incorporating their figures into the business case that will be used to ultimately justify the project. At this early stage, analyzing ROI can mean, in effect, pulling numbers out of thin air. More often than not, these figures are based on a set of educated assumptions, or in a worst-case scenario, vendor assertions.

There is now much uncertainty about ROI because companies are calculating their numbers without working through the end-to-end design decisions—from business to process to technology—that actually provide insight on the project's true benefits, expenses, risks and resources. But during design, critical questions are answered that can help refine ROI calculations.

For example, we can arrive at the information we need to understand the ROI for a customer-satisfaction initiative by considering a range of implications, such as:

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- How does this IT investment meet our business objective to reduce the number of billing inquiries per month?
- How will the proposed technology affect our current process environment?
- Will we need to modify our processes or customize the vendor's package to make it work?
- What is the benefit or risk of using nonstandard components?
- What are the costs of migrating to the new system in terms of time, integration complexity and end-user training?

By applying the principles and activities of business technology management to answer questions like these, insurers can develop a realistic figure for ROI early on, at minimum cost. business technology management helps accomplish this feat by compelling business and IT professionals to use predictive modeling. Teams can perform integrated impact analyses, creating various scenarios to test and evaluate potential project approaches. These results then can be used to formulate ROI calculations. This alleviates the struggle between uncertainty and cost, since models can be produced easily and inexpensively, especially when compared with actual IT implementation costs. At the same time, modeling provides an accurate upfront picture of what the project will require and deliver.

The decisions that project teams capture in business technology management's models will provide the basis for calculating tangible measures and serve as reference points for communicating intangible benefits.

Calculating ROI with business technology management will increase the confidence of executives who approve IT projects as it helps them fulfill their fiduciary duty. BR

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