

fs viewpoint

www.pwc.com/fsi

May 2013

02

Point of view

17

Competitive
intelligence

20

A framework
for response

28

How PwC can help

30

Appendix



The price isn't right:
How to better understand your
IT investment and get more out of it.

pwc

Point of view



Insurers have spent heavily to improve their technology capabilities but are still left questioning the value they are getting from IT.



Businesses still don't know if they are getting the most out of their investments.

It is time to know.

Efforts to realize additional IT value have hit their limits.

Advancements in running "the business of IT" have been limited.

The quest for IT value requires new tools and a new mindset (a new "ecosystem").

North American insurers are projected to spend \$56 billion in 2013 on IT.¹ The annual 3%-4% of revenue invested in IT has been growing in lockstep with premiums, under spending other financial services (see chart on next page). Only a very small fraction of that money is spent ensuring that organizations maximize their investment. Insurers should look at their culture, their decision-making apparatus, and their "business of IT ecosystem" in order to achieve full IT value.

Improving an organization's ability to plan, capture, and retain IT value may require slow improvements in the IT value ecosystem, as there may be no more highly leveraged way to increase IT value.



We hear CEOs and business leaders struggle to answer:

What are we getting for our IT investment?
Are we spending the right amount to get the results we need?



We hear the CFO asking:

How do we understand whether we are getting the value we expected?
How can we get actionable information about our spend?



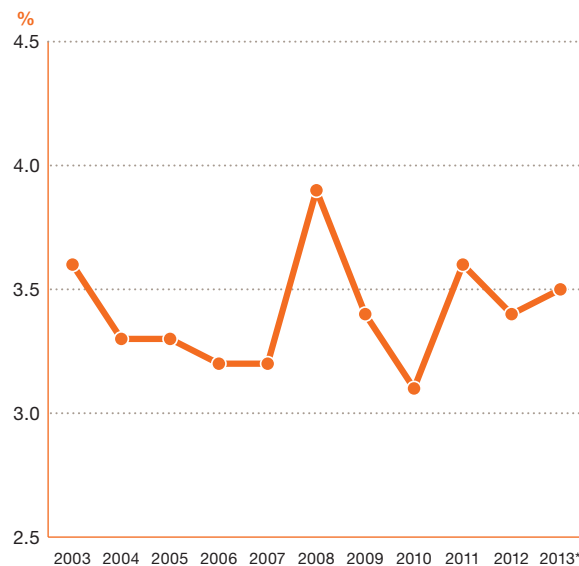
We hear the CIO repeatedly asking:

How do I better explain to the business what it takes to run IT?
How do I get the business to understand how they affect the IT budget?

1 Celent, "IT Spending in Insurance: A Global Perspective," March 2012.

Companies spend a fortune on IT but have trouble measuring the value they get from their investment. Isn't it time to know?

Figure 1: Insurance carriers have consistently spent an average of 3%-4% of revenue on IT, which tracks closely with revenue growth.



*Projected by Gartner

Source: PwC compiled data from the following reports:

1. Gartner, "IT Key Metrics Data 2009: Key Industry Measures: Insurance Analysis: Multi Year," December 2008.
2. Gartner, "IT Key Metrics Data 2012: Key Industry Measures: Insurance Analysis: Multiyear," December 2011.
3. Gartner, "IT Key metrics Data 2013: Key Industry Measures: Insurance Analysis: Multiyear," December 2012.

The question of realizing IT value continues to be critical.

Sooner or later, in our discussions with the CEOs, CFOs, and CIOs of our insurance clients, the conversation focuses on whether they are getting the expected return on their IT investments.

For most insurers, their annual investment in IT seems to be buying less.

Insurers have typically spent an average of 3%-4% of annual revenue on IT (see Figure 1). Traditionally, these investments have been made in building and maintaining large systems. Today's increasingly dynamic and competitive marketplace, where product speed to market and corporate agility are increasingly important, requires IT to be nimble. Making changes to large legacy systems, and the systems built on top of them, is too complex and takes too long. In a world where companies expect to get what they want quickly and inexpensively, the IT response to requests is perceived as being of lower value.

Most companies have already collected the "low-hanging fruit."

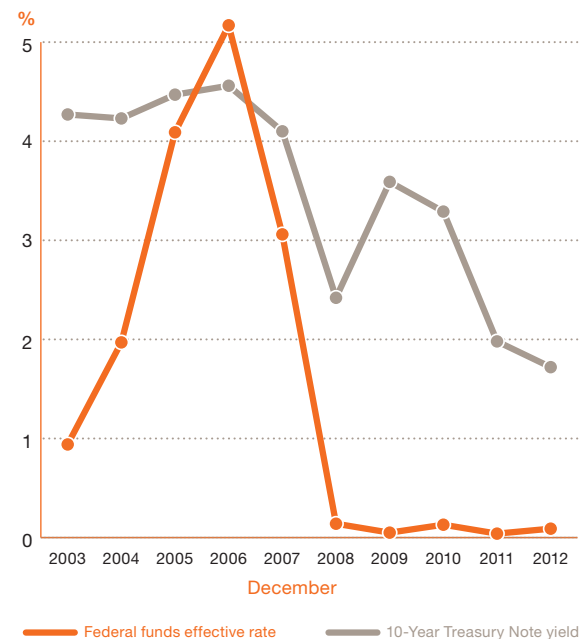
Over the years, IT organizations have made significant strides in driving down costs. They have consolidated data centers, "virtualized" servers, and off-shored labor, but these actions, which do not require deep discussions with the business, have only managed to keep budgets flat. To compete in the marketplace, IT can no longer rely on the "low-hanging fruit." IT organizations will need to partner with the business to reduce the overall complexity of the technology landscape and to better communicate the long-term impact of business decisions.

Improvements to the IT value ecosystem should improve transparency and increase the organization's confidence in the value of IT.

To truly maximize the value of IT, insurers must invest time and money to better understand the drivers of IT cost, create planning processes that align accountability and decision making, segment and collect IT instrumentation data at a deeper level, and build systems that can enable people to make better day-to-day decisions. Organizations can provide the necessary transparency and competency to make the question of value disappear only by investing in this IT value ecosystem and by acquiring the ability to measure and improve in tandem with the business.

It's critically important to align spending with strategy because the markets are ruthless.

Figure 2: Low interest rates are likely to continue for the next 3–5 years, depressing returns and squeezing margins.¹



Competitive factors are fueling the pressure to drive down expenses and improve returns.

Customer and agent experience

Improving the customer and agent experience to enable self-service, cross-selling, and multi-channel distribution capabilities is critical to current and future success.

Product speed to market

Many insurers with an overly complicated product set have an infrastructure that's too complex to achieve economies of scale. New product development and deployment are still taking too long to suit the needs of the business.

Commoditization and price competition

Economic pressures, declining interest rates, and the ease of shopping and switching have shifted the landscape increasingly toward a price-sensitive market. Lower margins will continue to force an exhaustive review of expenses.

Reliance on data

Firms' thirst for data is at an all-time high and increasing each day, and IT is struggling to meet the demand. Whether it is data detailing customer behavior, catastrophic risk, financial risk, or the proliferation of third-party data, better data is essential for enabling the business. In addition to systems and projects, the increasing demand has caused new positions to be created, such as the chief data officer (CDO).

¹ Paul J. Lim, "Still at a Trot, This Bull May Have Farther to Go," *The New York Times*, March 31, 2013, www.nytimes.com, accessed April 05, 2013.

Accountability matters. However, many IT decision-makers either perceive a lack of accountability for IT investment outcomes in their organizations or they are not sure how accountability is managed. Given today's business imperatives, every IT dollar has to deliver value.

From our perspective, IT value is being compromised due to an inability to make fact-based decisions.

Market pressures magnify the pressures on IT for lower costs, realizable benefits, and improved transparency.

IT costs remain a large percentage of expenses

As pressure on margins increases, there will always need to be ways to reduce expenses. Given that IT spend is such a large portion of the overall expense, it will remain a target for CFOs.

Increasing difficulty meeting the needs of the business

The technical complexity resulting from years of “waxy build up” on legacy systems makes it very difficult to enact change quickly. What seem to be simple changes to the business often require changing code deep in legacy systems. This delay is very difficult for the business to understand.

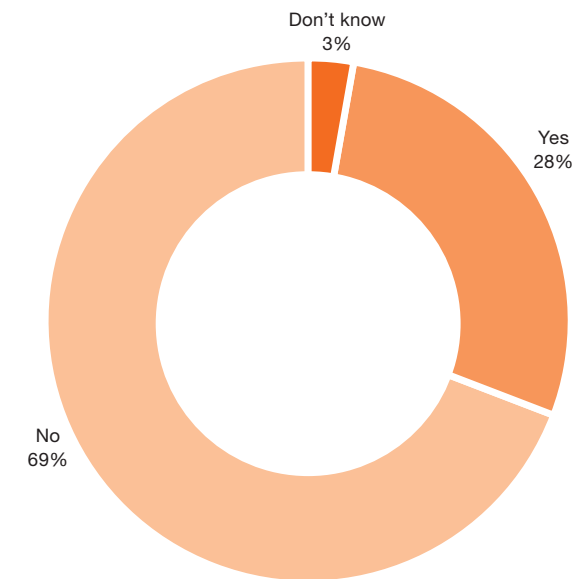
Next steps require business partnership

Many of the cost reduction efforts to date have required very little business participation (for example, data center and server consolidation, and network contracts). The next round of efforts will include application rationalization and product complexity and will need to be done in partnership with the business—an often difficult task when the trust between IT and the business is diminished.

Lack of transparency

The IT-business relationship is strained. IT reports spend and other metrics in terms that are foreign to the business and that do not enable trust. They are realizing that the “right” transparency is needed to build/restore trust.

Figure 3: In a 2012 survey performed by Forrester Research, 69% of respondents—all of them IT decision makers—indicated there was not a consistent process for conducting post-implementation reviews to measure actual value obtained from IT investments in their organizations.



Source: Forrester Research, Inc., “Measuring BT Governance Outcomes Through Balanced Scorecards,” February 8, 2013.

Some of our clients are struggling to solve real-world problems.

Detailed observations of market leaders and laggards are on pages 18 and 19.

Culture and business context

Carriers have built cultures based on consensus decision making, which has the effect of slowing decision making because it is unclear who can make the decisions.

Escalation is seen as risky. Companies continue to find it difficult to abort large, unsuccessful projects before it's "too late."

Companies feel constrained by internal planning, allocation, and reporting structures, and do not drive needed change.

Decentralized organizations are looking at more centralized and hybrid models.

Segmentation and transparency

Carriers tend to be lax in their implementation of IT portfolio management. They tend to focus only on bigger projects and cost-benefit hurdles, resulting in underperforming portfolios.

Both the business and IT struggle with understanding the implications of demand, consumption, service levels, and risk levels on cost.

Carriers adopted the categorizations of "build" and "run," but these are too simple to provide insight or be actionable, and they are not deep enough to support business decisions around service and risk.

In tight times, carriers too quickly make "across the board" cuts instead of aligning reductions to business changes.

Decision rights

Business and IT stakeholders struggle to understand who has decision rights (e.g., "everyone shares the problem, but no one owns it" and "we just keep on voting").

Carriers have focused on the large-project spend from both a decision-making and implementation oversight perspective.

Carriers inadequately analyze and manage the large spend on smaller project areas and the risk, service-level, consumption, and policy-driven areas of IT spend.

Carriers tend to be driven by annual planning cycles, which are out of sync with multi-year time horizons for both spend and benefits realization.

Instrumentation

Excessive energy is spent compiling reports that are based on poor granular data and impenetrable allocations. Time keeping and project tracking are often made overly complex but miss key elements.

Carriers tend to drive for more detailed data rather than correct and align underlying data.

Business partners have a fundamental disconnect between investments in projects and the ongoing expenses that those investments generate in production.

The maturity and adoption of standard infrastructure have enabled infrastructure platform rationalization. Less progress has been made on meaningful comparisons around competing development methodologies.

Service levels have been put in place at many carriers; however, many service levels remain unstated, which puts pressure on the shared service organizations to offer "luxury" service to all customers, since they do not have the ability to differentiate between customers.

Given the pressure to reduce costs and deliver immediate value, it is not hard to understand why companies do not invest in the tools, processes, and behaviors needed to maximize IT value.

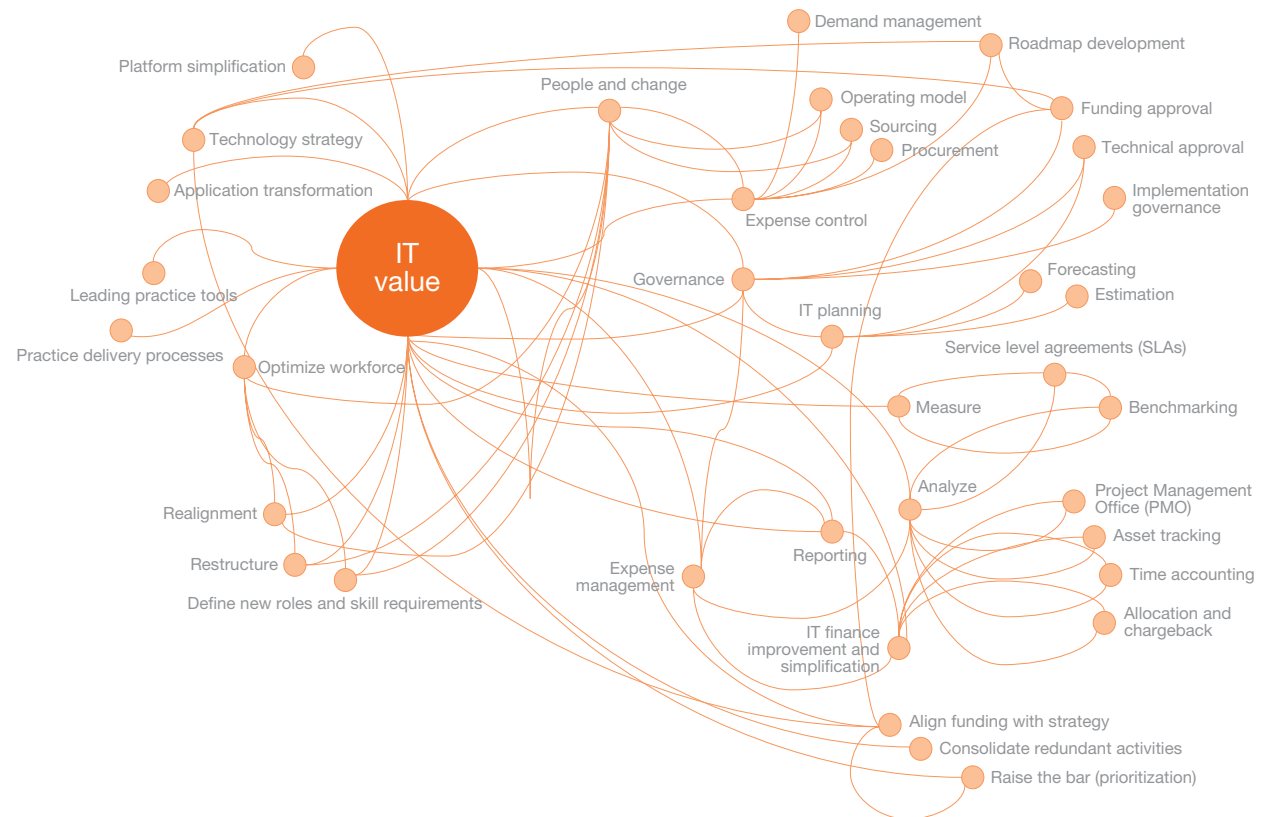
Why is managing IT value so hard?

The responsibility for managing IT value is fragmented across the organization and often lies within competing organizations.

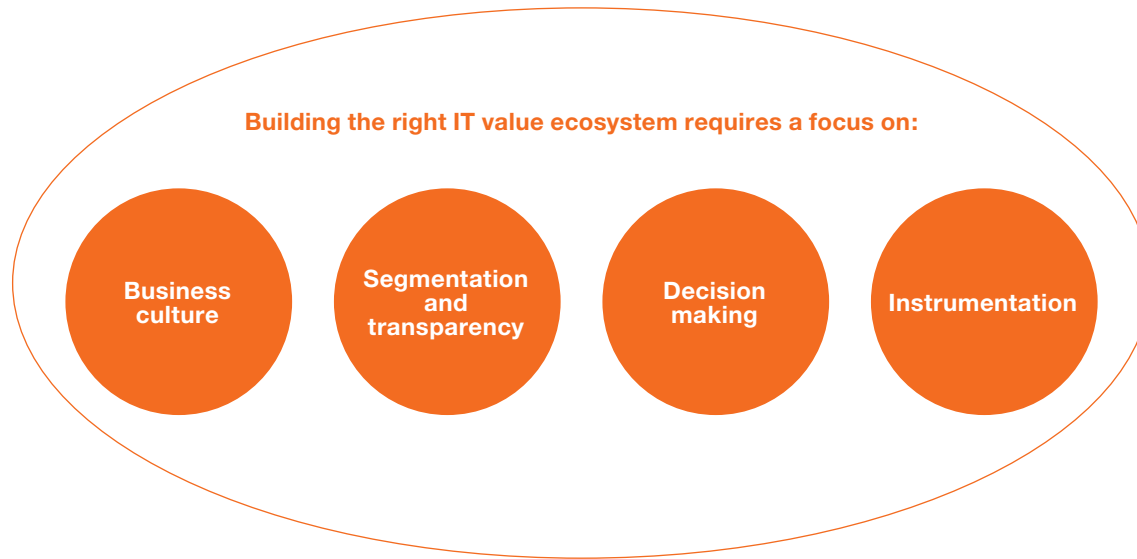
The processes and tools in place often are not designed to measure value at a deep enough level to inform decision making; instead, they report history.

Over the years, across many client interactions, we have mapped the ways that organizations try to manage IT value.

The picture is not pretty, but it can be fixed.



What's to be done?



Pursuing IT value is difficult because decisions “live” in a complex ecosystem.

Improving the IT value ecosystem requires an integrated framework designed to help organizations effectively manage investments in IT so as to achieve their expected return on investment. Working within the right framework, insurers can position themselves to create a solid foundation of data to support fact-based decision making.

We think insurers should view IT value not as a systems issue but as an ecosystem issue. Given the relatively small investments that have been made in the IT value ecosystem, the importance of getting it right is critical.

In our view, decision making and implementation go hand-in-hand and are most successful in a well-constructed ecosystem. Whether spending levels are appropriate or not, many insurers could improve their return on investment by focusing, at least in the short term, on the IT value ecosystem.

What is an ecosystem?

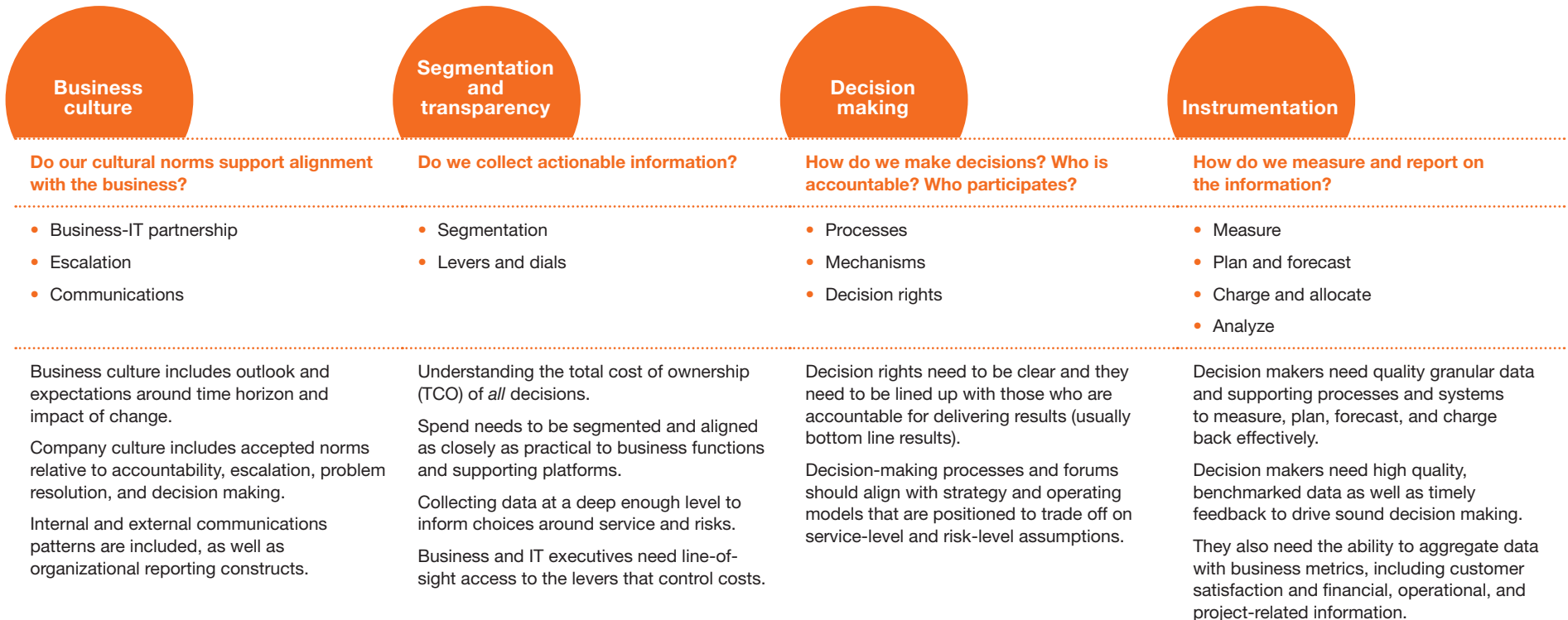
Any system of interconnecting and interacting parts.

How do we define the IT value ecosystem?

People, processes, and tools that impact a company's investment decisions and how it measures and acts to improve on the value of those investments.

What elements make up the IT value ecosystem?

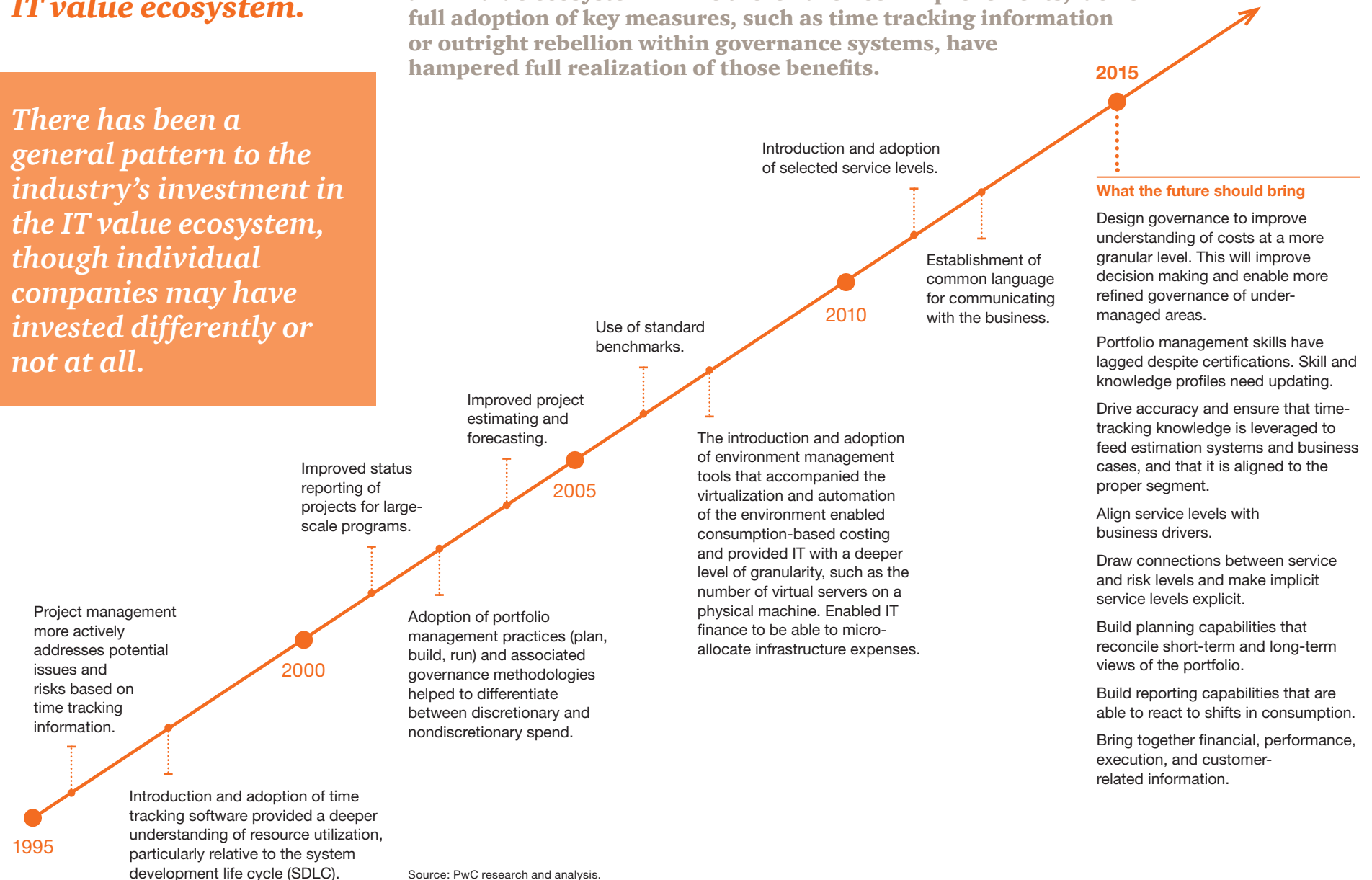
Improving the IT value ecosystem is critical to increasing transparency and restoring trust with the business. This improved trust can then be parlayed into improved planning and decision making.



Improvements in the IT value ecosystem.

There has been a general pattern to the industry's investment in the IT value ecosystem, though individual companies may have invested differently or not at all.

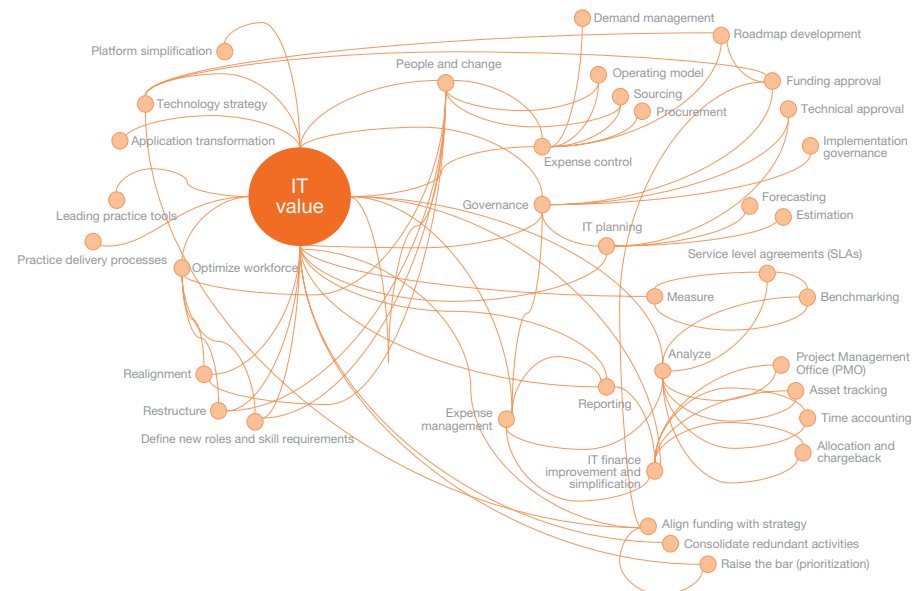
For the last 15 years, insurers have been investing in the building blocks of an IT value ecosystem. While there have been improvements, lack of full adoption of key measures, such as time tracking information or outright rebellion within governance systems, have hampered full realization of those benefits.



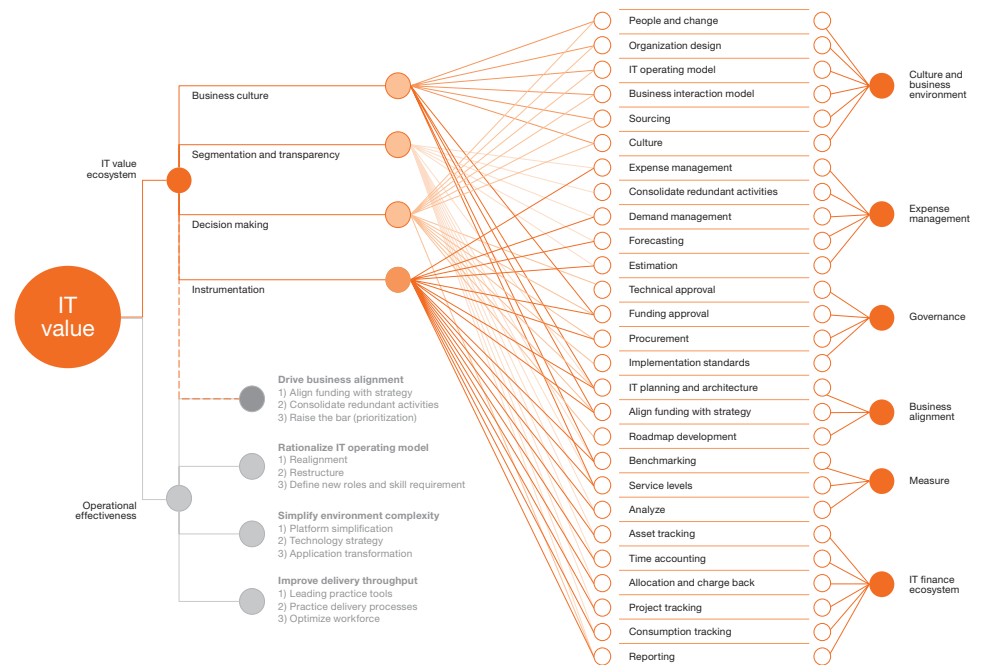
In relation to the size of the IT portfolio, an investment in the IT value ecosystem is going to be small. We believe it may be one of your highest-returning investments because it will position an improvement in the returns of the whole portfolio.

Leading companies are treating their IT value ecosystem problem holistically by simultaneously improving their governance models and the instrumentation provided by their underlying support systems, and then providing transparency into their spending habits to support planning and decision making. The results are a new working relationship with the business where the quest for IT value is undertaken in partnership.

This illustration of how our clients view IT value shows a complicated web of interlocking issues. This chaos causes many clients, especially those without clear accountability, to give up because they find the complexity daunting.



While it can be a complicated web, it is one that we have helped companies untangle. By methodically sorting out the dependencies and interrelationships in a mind map like the one here, our clients have found that this web may still be complicated, but is not insurmountable.



Leading insurers are realizing their inability to measure true value and are making holistic investments in the ecosystem.

Untangling the puzzle

- *Decentralized structures boost speed under conditions where markets are growing and changing quickly, but they often don't perform well under difficult market conditions.*
- *Centralized structures tend to reduce cost and redundancy, but they are purposefully less responsive to the business.*
- *Matrixed governance structures are required to give flexibility in changing conditions, but they are cumbersome and can become bureaucratic and difficult to control.*

Leading companies are improving their IT value ecosystem purposefully and systematically, and they are getting results. We have observed that, having recognized the need to improve their IT decision making, proactive insurers are investing in the right systems and processes to deliver the right results. For example:

- **Modern time tracking, consumption metering, planning and reporting systems, and procedures** enable a disciplined and methodical approach to gain a better understanding of an organization's IT spend, consumption, efficiency issues, and practices.
- **Advanced reporting and benchmarking technologies** are used as a means of balancing financial and architectural decision rights so that both current, urgent business needs and long-term strategic goals can be championed.
- **Supporting a planning process** that fully engages business and IT partners in understanding the business needs and prioritization decisions made both inside and outside of the annual planning process.
- **Building an organization and sourcing model** that helps to reduce costs while enhancing flexibility and increasing institutional knowledge.

Insurers that invested in the IT value ecosystem have created a business-IT partnership where there is no question of value. The question is: “How can we jointly get more value out of IT?”

**The biggest benefit:
restored trust**

While there are many benefits that result from investing in the IT value ecosystem, the greatest is the trust established between IT and the business. Only by having a renewed partnership can insurers face their most difficult problems.

Key benefits to investing in the IT value ecosystem include:

- An expectation that IT investment will be actively managed under a jointly agreed-to set of guiding principles.
- The ability to measure and benchmark IT spend in segments and categories that are aligned with the business goals, and not merely for IT's convenience.
- Joint construction of the annual budget with an understanding of the service and risk trade-offs facing the business.
- A deeper understanding of the total cost of ownership (TCO) of discretionary projects.

Clearly, improving the culture, transparency, decision making, and measurement for IT investments can lead to increased value. However, as we have seen, it isn't a simple pursuit, and even leading insurers will likely encounter cultural, technical, and operational obstacles.

The barriers to success may include the existing business-IT partnership as well as the organization's culture and governance structure.

Leading insurers overcome these obstacles by relying on the following tools:

Buying and reading the “self-help” book on good governance. Leading insurers understand that even the most competent executives can't make the right decisions without the right facts and context. Leading companies are reevaluating, redesigning, and retooling the decision-making apparatus that encompasses portfolio management short- and long-term strategic planning, joint business-IT annual budgeting, and project funding to enable better decisions.

Improving the effectiveness of IT finance methodologies. It is important to count and measure almost everything, but we also believe in the concept of “meaningful digits.” Typically, to enable effective management of products and appropriate accounting for profitability, allocations are used to properly allocate costs associated with revenues. Although information must be meaningful, it need not be precise. Leading companies keep a close watch on the usability of information they produce and the level of precision required, especially relative to allocations, activity-based costing, and tracking.

- Where detailed information is used infrequently, such as annually, leading insurers support reasonable approximations and interpolation.
- Where information truly needs to be precise and in real time, leading insurers have determined that building the underlying mechanism is warranted.

Enabling useful IT benchmarking. When it comes to making corporate improvements, even inadequate benchmarks can be used to set and drive toward targets. That said, if carriers cannot gather the necessary internal data to compare it against the benchmarks, those benchmarks will not be meaningful. To make IT benchmarking more meaningful, carriers should take a sophisticated approach, going beyond just becoming knowledgeable about the use of available benchmarks to gaining an understanding of their own internal business and IT metrics and appropriate spend.

Successfully rationalizing IT applications with the business. What's needed is a trust-based three-way collaborative effort comprising IT and business leaders, plus subject matter specialists. These specialists, with their breadth and depth of business knowledge and vision, are an essential part of the mix. If IT can't rely on the business to supply these specialists, then, at the very least, management should understand the extent of the business knowledge and vision that IT managers will have to acquire before they can effectively help the business partners make the trade-offs and hard decisions needed to change the environment.

Insurers who ignore what's broken or invest piecemeal in the ecosystem will continue to be plagued by the question of IT value.

Insurers who take a wait-and-see approach face significant risks:

- Continued business leader and staff frustration with IT.
- Competitive disadvantage as the underserved business customers turn to “shadow IT” or elect to contract directly with providers.
- Impractical strategies that waste time, money, and resources.
- Pricing disadvantage that comes with higher cost of goods sold.
- Potential risk of becoming a take over target for companies looking to build scale.













The insurance industry is setting a fast pace in the race for the future. It's time for today's organizations to take action, identifying and investing in the right systems and procedures to enable fact-based decision making, inform strategic planning, unlock IT value, and sustain that value over the long term.

Competitive intelligence















*Our observations of
industry practices.*

The following table illustrates current market practices among insurance groups.

Our observations of market practices among insurance groups			
Area of focus	Insurance group A Major multi-line insurer	Insurance group B Major US personal and small commercial lines carrier	Insurance group C Major personal lines direct writer
Business culture	 Numerous reorganizations and strategy revisions have led to chronic underfunding of projects, significant project failures, duplicative systems, and lack of clear accountability. The CFO raises the question of IT value persistently but doesn't know how to "get at it."	 As US\$1 billion-plus IT spend continued to increase, the carrier's sophistication in its allocation and chargeback approach obscured direct costs and accountability. The carrier lacked a framework for understanding, planning, and governing IT spend.	 In an effort to better classify, understand, and align the \$1 billion-plus IT spend, the carrier tried to analyze its expenditures across domains to determine where dollars had been incorrectly classified (e.g., as nondiscretionary), were not aligned to internal benchmarks, or were redundant, to free up dollars to be saved or used elsewhere.
Segmentation and transparency	 Portfolio is roughly aligned with "build and run" activities, but underlying IT finance architecture does not provide an understanding of IT spend.	 A segmentation model allows IT leadership to understand how dollars are being applied (or misapplied) to efforts in support of the strategic direction of the company.	 A segmentation model was created that disaggregated nondiscretionary spend into refined categories so as to identify those dollars that could be redirected to discretionary capabilities.
Decision rights	 Decision making is fragmented, with conflicting forces focused on frequent business unit and functional realignment.	 Decision making is ad hoc, with decision rights undocumented. While major projects are reviewed, many budgetary decisions are not.	 The approach to centralized and federated decision making is inconsistent, with some decision rights known and documented. Major projects are reviewed, but not with a consistent methodology or rigor.
Instrumentation	 The carrier expends significant energy explaining financial variances, yet without good platform-level understanding of costs and consumption. The carrier is hampered by an over-engineered, time-accounting approach, and bad data undermines good decision support information.	 The carrier has an understanding of the drivers of spend which was created via a segmentation taxonomy that could be reapplied and which helped to support a governance and controls structure that empowered both business and IT leadership.	 Ongoing discipline regarding the categorization spend across the new segmentation model allowed for fact-based discussions regarding "semi-discretionary" expenditures, allowing leadership to ramp-up and ramp-down IT spend more efficiently to align to market conditions.

 Leading
  On par
  Lagging

The following table illustrates current market practices among insurance groups (continued).

Our observations of market practice among insurance groups			
Area of focus	Insurance group D Multi-line global carrier	Insurance group E Major US health insurer	Insurance group F Major global life and annuity insurer
Business culture	 The carrier has created a rich and complex matrix organization aligned to geography, market segments, and functions. The organization is highly collaborative after years of cultural change management and the establishment of a common lexicon and set of approaches.	 The carrier's federated IT model did not allow for enterprise-level controls and decisions to be made. As the company looked to grow significantly, IT leadership realized that a common taxonomy regarding spend classifications would be needed to better inform enterprise decisions.	 The carrier is highly decentralized. In the face of strong market headwinds, it is confronting the lack of governance that could, when in place, boost efficiency and effectiveness across business units and geographies and rationalize duplicative systems and infrastructure.
Segmentation and transparency	 The carrier has a high degree of budgetary discipline, particularly in the build portfolio, but also in understanding conceptually the levers that drive costs over time in the run portfolio.	 A segmentation model was created that allowed leadership to review like-for-like data across domains and that also challenged expenditures that were previously thought to be part of the core.	 Business partners, struggling to understand their choices in the face of allocated numbers, are looking for transparency and understanding.
Decision rights	 Decision rights are highly centralized. There is good institutional memory for how and why decisions have been made, and a purposeful, multi-year approach to planning and portfolio management is in place.	 The carrier's federated model sometimes requires multiple iterations as it gains maturity and increases the use of central review.	 Decision rights have been affected by business-unit centricity and the realization that duplicate cost structures require some transition of decision rights to more centralized control.
Instrumentation	 The carrier maintains a relatively simple service catalog and chargeback approach, focusing more on making the right decisions than on granular data. Data availability is moderately good.	 As reporting of IT spend became more uniform, IT leadership was empowered to make more informed decisions at an enterprise level.	 Good controls and investments in reporting systems have enabled sophisticated chargeback approaches, but simplification is needed to support business partner understanding.

 Leading  On par  Lagging

A framework for response



*Our recommended approach
to the issue.*

Organizations should make the same investment in the management of IT spend that they invest in the instrumentation of large, transformational programs for risk management.

PwC has experience in IT strategy and governance, IT financial management, and organizational change. As a result, we are well positioned to provide the full suite of support needed to help organizations enable the IT value ecosystem. Typical support to clients includes:

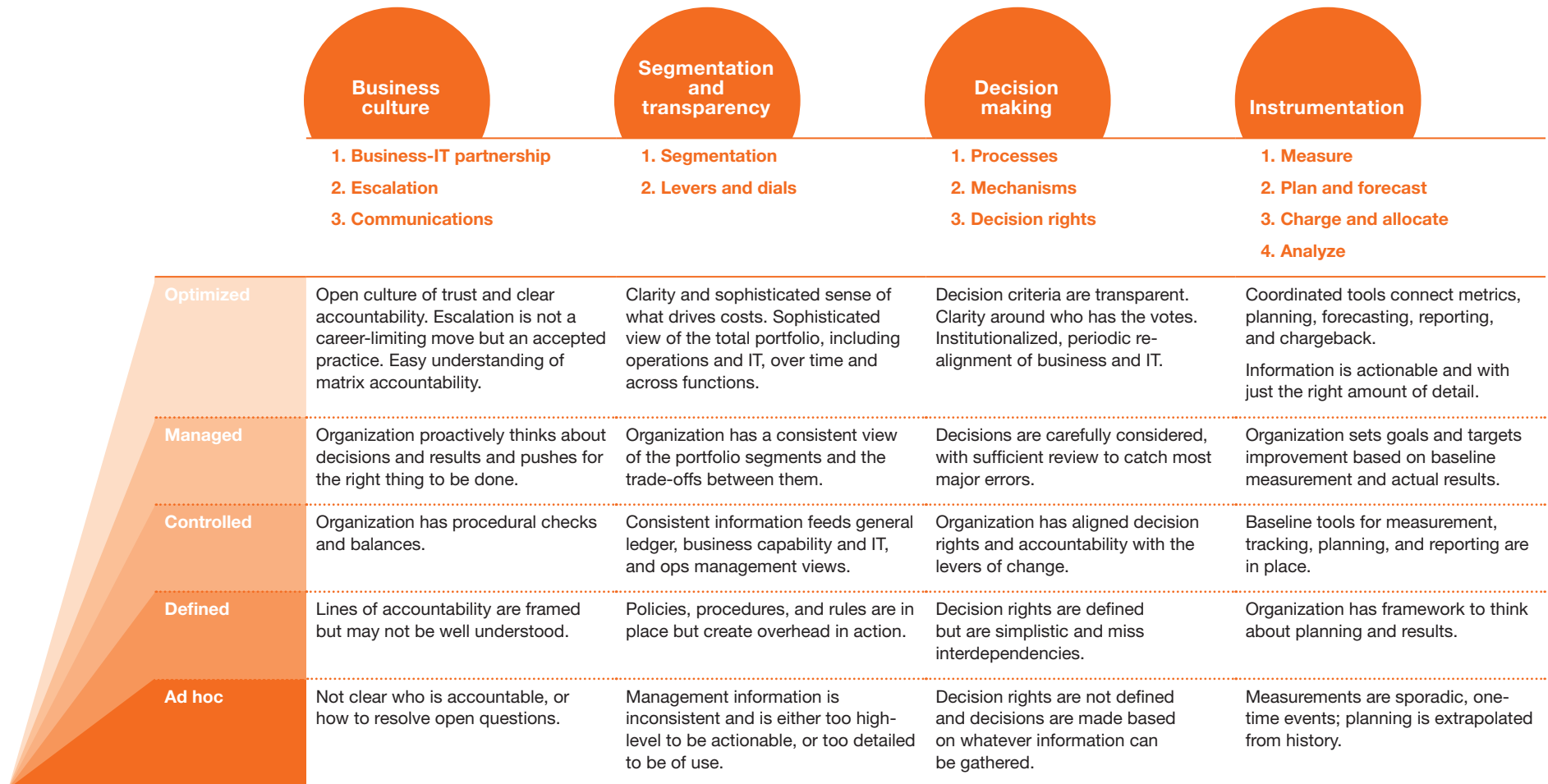
- Identifying current IT value ecosystem maturity against leading practices, including the identification of any cultural barriers.
- Conducting impact analyses of current maturity, including impact of partially implemented or poorly adopted solutions.
- Defining the future-state ecosystem and any transition stages on the path to that state. This might include the needs of the business, IT, and the ability to align to external benchmarks.
- Helping to build the case for change, including the multi-year effort required to effect and accept the proposed change.
- Facilitating workshops, within IT and across the business, to develop client-specific data segmentation scenarios and decision-making processes that are aligned to the business needs.
- Preparing and conducting data-rich annual and quarterly budget and planning sessions.
- Helping IT regain its trust and partnership with the business.

PwC's approach to getting started.

Objectives	<ul style="list-style-type: none"> To understand the impact of desired change and other drivers for change on your organization. To define and develop your change objectives. To develop with you an implementation plan with actionable recommendations. 		
Approach	Educational session	Targeted workshop	Impact assessment
What is it?	<p>A session of two to three hours to:</p> <ul style="list-style-type: none"> Develop a common understanding of changes affecting your company. Jointly identify broad impacts across departments and business units. Determine whether further study makes sense. 	<p>Targeted workshops, including the following topics, can supplement an educational session or be included in an impact assessment:</p> <ul style="list-style-type: none"> IT value diagnostic. Segmentation and transparency. IT portfolio management. Governance. Expense and consumption management. Chargeback and IT finance. 	<p>A series of workshops over two to four weeks with key functional areas to:</p> <ul style="list-style-type: none"> Understand in detail key developments and how they may impact your activities. Work with you to define your objectives. Identify changes to policies, practices, processes, and systems. Provide a basis for a strategic and tactical plan to manage change.
Who participates?	<ul style="list-style-type: none"> Selected leaders from key functional areas and business units. PwC team members, including specialists in insurance, finance, regulatory, accounting, and others. 	<ul style="list-style-type: none"> Selected leaders from key functional areas and business units. PwC team members, including specialists in insurance, finance, regulatory, accounting, and others. 	<ul style="list-style-type: none"> Broad group of management from key functional areas and business units. Selected leaders from key functional areas and business units. PwC team members, including specialists in insurance, finance, regulatory, accounting, and others.
What are the deliverables?	<ul style="list-style-type: none"> Summary of broad impacts. Summary of potential areas for further investigation. 	<ul style="list-style-type: none"> Summary of high-level impacts. Summary of high-level implications and recommendations. 	<ul style="list-style-type: none"> Articulation of your objectives. Summary findings, implications, and recommendations against objectives. Plan for next steps and rationale.

IT value ecosystem— capability maturity model.

To better understand where an organization is starting, PwC has developed a maturity model. In addition to understanding the maturity of each component, it is also important to help establish consistency of maturity across the entire model.

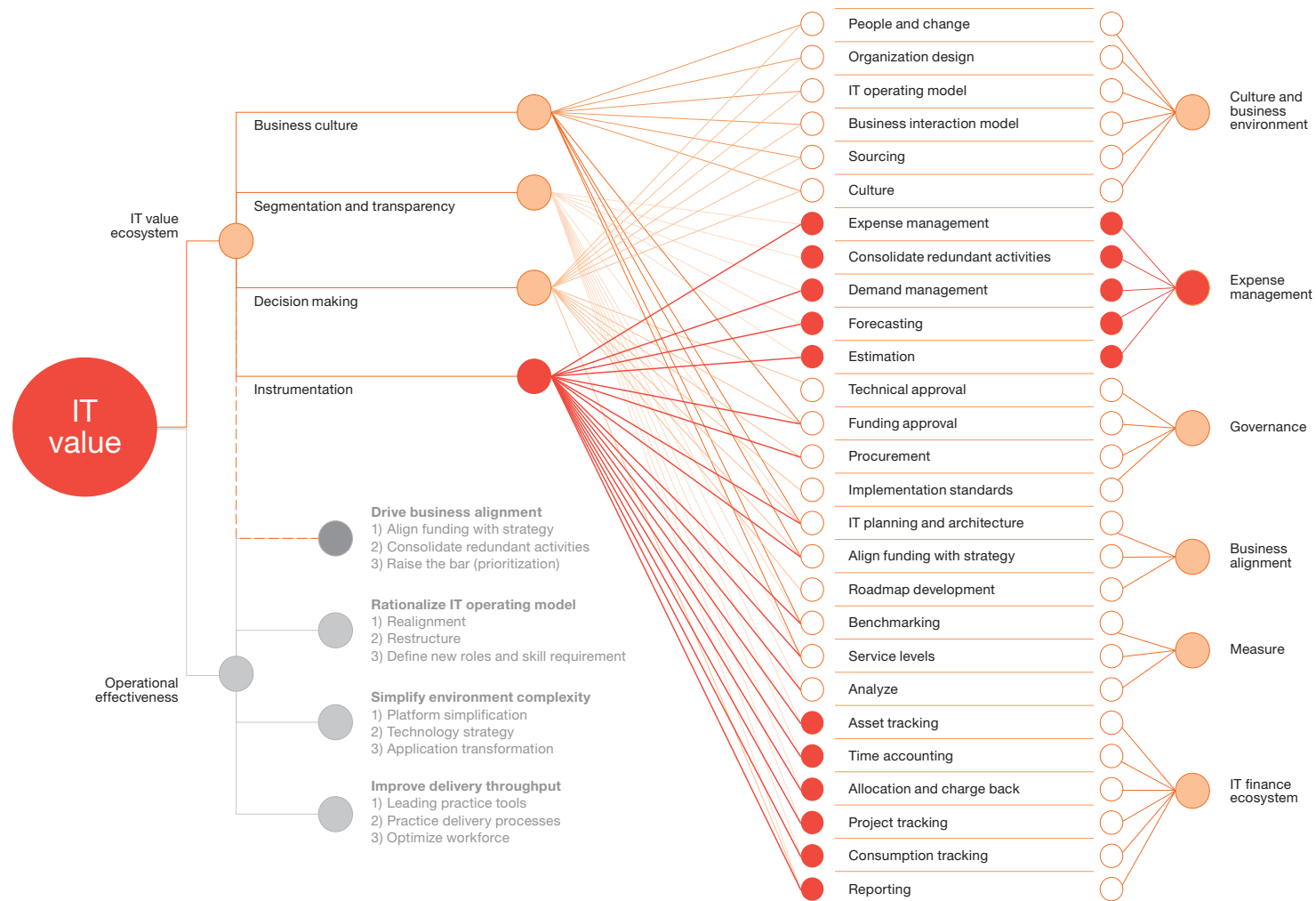


PwC's holistic IT value framework.



It's important to identify the problem, its causes, and the levers that must be pulled to generate a different outcome.

For example, the issue may be a need to cut expenses. In this case, identifying savings opportunities will require understanding and forecasting demand, which is dependent on instrumentation of time, projects, and consumption.

The solutions to most IT value problems require good instrumentation and reporting, linkage to the strategy, and an understanding of how decisions are made.



Establishing the solution suite.

Components	Assessment focus areas	Design and position future state	Syndicate and implement
IT value diagnostic	<ul style="list-style-type: none"> Create a customized mind map to identify IT value gaps. Assess and prioritize critical areas. 	<ul style="list-style-type: none"> Design an integrated roadmap to address critical areas in the context of the company's IT ecosystem. 	 <ul style="list-style-type: none"> Establish segregation of duties and control points. Adjust current processes and tools. Align people and change management.
Segmentation and transparency	<ul style="list-style-type: none"> Emphasize usage of nondiscretionary, semi-discretionary and discretionary expenditures. Link expenditures with explicit business and IT strategies. 	<ul style="list-style-type: none"> Customize a segmentation model to highlight critical areas that allows for tracking data for planning, expense management, and reporting purposes. 	
IT portfolio management	<ul style="list-style-type: none"> Assess portfolio allocation against strategy. Assess strategic alignment. Assess process maturity. 	<ul style="list-style-type: none"> Design portfolio sectors. Map projects, initiatives, and staffing to sectors. Attach mapping results to governance. 	
Governance	<ul style="list-style-type: none"> Clearly articulate decision rights. Align decision rights with explicit business and IT strategies. Maintain balance among business, finance, and IT authorities and controls. 	<ul style="list-style-type: none"> Develop underlying principles for governance of IT expenditures. Identify sources of decision rights and improperly governed areas. Design simplification or capability improvement program. Build out framework for governance processes, calendar, artifacts, and roles. 	 <ul style="list-style-type: none"> Create pilot and baseline. Prepare launch.
IT expense and consumption management	<ul style="list-style-type: none"> Approach budgeting, planning, and forecasting to a zero-base standard. Establish maturity of one-time and ongoing programs. Identify benchmarking and consumption management utilization and maturity. 	<ul style="list-style-type: none"> Design expense and consumption management program that includes integration points to annual planning process. Build consumption controls. Define management framework for understanding expenditures and consumption. 	
Chargeback and IT finance	<ul style="list-style-type: none"> Identify level of maturity for program, project, time, expense, and asset management. Enhance management information capabilities. Identify areas of over- and under-development and assess the efficacy of various chargeback, allocation, and cost-sharing approaches. 	<ul style="list-style-type: none"> Design enhancement or simplification program for more effective time and expense tracking, as well as more effective allocation and chargeback. Create roadmap and change-management approach for operations, regulatory, and accounting changes. 	

Example—Semi-discretionary spend

Sometimes you need a better mousetrap.

Good segmentation is so key to unlocking IT value that it is often a first step to solving other issues by providing transparency and a roadmap. We explore this idea in the next few pages.

The insurance industry embraced “build” and “run” concepts, but they fall short of providing enough insight into the IT spend to satisfy the need of the business to be involved in decision making and for IT to understand its cost structure.

PwC’s segmentation model is a framework to capture IT spend. It locates each spend category on a continuum of choice or discretion.

At one end of the continuum are spend areas that are difficult or impossible to impact in the short term without effecting services.

At the other end of the continuum are spend categories over which the business

has complete discretion. Thus, the current business can continue to operate without the additional expenditure.

In the middle of the continuum are those spend areas over which management has some discretion as to the amount of spend and the risk taken. Investment may be needed, but not necessarily now.

Discretionary

Discretionary expenditures enhance the business and are important for growth, change, or improvement, but not critical today.

Semi-discretionary

Semi-discretionary expenditures may fall into the category of “pay me now, or pay me later.” Decisions about semi-discretionary expenditures tend to be based on the level of risk that the company is willing to take.

Nondiscretionary

Nondiscretionary expenditures support the ongoing business. They keep the lights on at an agreed-to level of service. All costs are variable in the long term, but in the short term, these costs are nondiscretionary.

To fully understand consumption, it is important to categorize spend at a more granular level below build versus run.

Investment classes	Segmentation model		
Innovation	Discretionary	New capabilities	Investment in a new capability to fulfill functional and non-functional requirements in order to meet evolving customer needs (net new capability).
		Enhancements to existing capabilities	Investment to add new feature to an existing capability, improve business process, or change business data to meet customer needs.
		Service quality improvements	Investment in an existing system or process improvements to either meet new service levels or to improve the technology platform in a fundamental way that improves throughput for all future initiatives (faster, better, cheaper).
Strategic	Semi-discretionary	Compliance	Upgrades to system/process to conform to new regulations or meet local statutes in new markets, correct broken pricing components necessitating refunds/rebates, and/or investment to maintain, adhere to internal practices.
		Life cycle management	Costs incurred in migration of service components or point upgrades, primarily to help ensure a current, stable operating environment.
		Preventive maintenance	Costs primarily in hardware and/or software upgrades to continually assess whether the currently agreed-upon service levels are met and proactively prevent outages.
		Corrective fixes	Costs to fix known faults that have been triaged, have defined correction (e.g., patch, code change, or manual workaround) and could be tied to service level agreement (SLA).
		IT delivery management	Cost of activities to help ensure effective management, governance, and support of work that makes any changes to the technology environment, including activities generally considered development, engineering, and maintenance.
Business improvement	Nondiscretionary	IT base management	Costs incurred in essential IT management activities to help ensure normal operations, without investing in changing or improving anything.
		Outage restoration (red to green)	Cost of activities associated with restoring normal operations as per agreed-upon service levels.
		Operate (keep the lights on)	Costs incurred in operating the environment (running, monitoring and support of systems on a day to day basis).
Core business enabler			

How PwC can help



*Our capabilities and
tailored approach.*

What makes PwC's Financial Services practice distinctive.

Integrated global network	PwC's Financial Services practice consists of more than 34,000 industry-dedicated professionals worldwide, including more than 4,500 in the United States. They serve large and multinational banks, insurance companies, investment managers, broker-dealers, hedge funds, and payments organizations. The US Financial Services practice is part of the PwC global network of firms, which has clients in more than 150 countries.
Extensive industry experience and resources	PwC serves more of the largest and most complex financial services companies than any other firm. We understand from personal experience the wide variety of business issues that affect the industry, and we apply our knowledge to our clients' individual circumstances. Moreover, our large, integrated global network of industry-dedicated resources enables us to apply this knowledge on our clients' behalf whenever and wherever they need it.
Multidisciplinary problem solving	The critical issues that financial service companies face today affect their entire business. Addressing these complexities requires both breadth and depth of experience, and PwC service teams include specialists in risk management, compliance, technology, business operations, finance, change and program management, data and business analytics, economics and analysis, internal audit, tax, forensics, and investigations.
Practical insight into critical issues	In addition to working directly with clients, our practice professionals and PwC's Financial Services Institute (FSI) regularly produce client surveys, white papers, and points of view on the critical issues that face the industry. These publications—as well as the events we stage—provide clients with new intelligence, perspective, and analysis on the trends that affect them.
Focus on relationships	PwC's size, financial stability, and 150-year history all contribute to our long-term view of client relationships. We help clients translate strategy into action by helping them address their challenges in finance, tax, human resources, operations, technology, and risk and compliance.

Appendix



Select qualifications.

Segmentation and governance— Large multi-line insurer

Issues	With unabated business-side pressures, a top-10 multi-line insurer needed to extract value from its \$1 billion-plus IT spend, aligning as much money as possible to strategic investments. Historically, governance had been informal, with funding for projects approved at the portfolio level, and budgets had increased due to inflationary factors and add-on demand. The business side lacked an understanding of planning, reporting, services, and service levels, as well as the choices available in those areas.
Approach	PwC worked with a joint finance and IT steering committee to create a customized segmentation model that categorized IT costs into discretionary, semi-discretionary, and nondiscretionary buckets. Actionable levers were attached to each segment. To achieve transparency on governance, decision rights were split between IT and the business, and they were attached to each lever.
Benefits	The carrier was able to institutionalize the segments in its annual and three-year planning processes and is investing in the tracking and reporting clean-up required in the new model. The use of relevant and understandable business terms, along with more effective governance for IT costs, has enabled the client to move toward zero-based budgeting.

Portfolio management for commercial insurance operations— Multi-line insurer

Issues	A commercial insurance shared services operation needed to improve the way it prioritized, selected, executed, and measured investments to accomplish the goals of its business partners. The shared services organization believed that it could improve the intake process for incoming demand requests from clients and could better help to establish that clients were working on the right work with the right people. When dealing with clients, shared services also wanted to shift the focus of its existing internal organizational structure from suites that offer services to the actual services being offered.
Approach	To improve the overall effectiveness of, and boost confidence in, the organization, efforts were focused in three areas. These included 1) demand management—organizing and governing the work; 2) resource management—matching the right people with the right skills to the right task and targeting areas needing skill development; and 3) communications and client partnerships—strengthening alignment and providing transparency to clients.
Benefits	Shared services was able to align portfolio managers to critical business areas and begin to look at resource program and project demand across the portfolio.

Enterprise portfolio management— Large property and casualty insurer

Issues

The \$1 billion-plus IT organization at a large property and casualty (P&C) insurer was increasingly pressured by its business partners to provide more transparency into spend for improved decision-making levers. This drove the need for a set of management practices, processes, and tools aimed at measuring and improving control, as well as increasing the business value of its IT investments.

Due to the inconsistency of the data being reported to the business—and because total spend was inflated—the IT organization needed transparency in its work efforts to help demonstrate that its IT spend was supporting its most critical business objectives. To that end, our client needed to develop a framework that would enable it to classify the data and then make sure that the data was accurate. The investment decision-making process had to be revamped to include factual and useful information to inform strategic investment decisions.

Approach

PwC worked with the client to create an effective framework for managing the portfolio of resources. This framework was comprised of the following three main capabilities:

1. A set of dashboards that provide executives with visibility into data—specifically focused on investment classification, work types, and project status—thereby helping them make decisions.
2. Analysis behind the data to provide insight and to guide decision making.
3. The ability to tie spend to specific business objectives.

PwC also helped the client design a governance wrapper that cleaned the source data and then helped maintain its ongoing integrity.

Benefits

After adopting the new framework, our client managed the portfolio with clean data and well-presented analyses.

CIO reporting—
Large P&C insurer

Issues	The IT leadership of a major insurance provider was seeking a means of improving portfolio management through the implementation of a desired enterprise project-management reporting capability. In turn, this would improve predictability and transparency. The IT group uncovered inaccuracies in employee time capture, limited access to data, and inconsistent financial information. All of these issues were impeding the alignment of IT efforts with the company’s key business strategies. Inconsistent financial data was leading to poor visibility into core versus discretionary spend, redirecting potential resources for more strategic initiatives. Since there was no technology in place to track trends or risks across the overall portfolio, the client recognized the need for a unifying framework, as well as processes and measurement tools that would enable accurate portfolio management reporting.
Approach	PwC assisted the client in actively managing the implementation of an enhanced reporting program, including a framework for IT metrics and a foundational infrastructure that would unify data from disparate applications.
Benefits	The effort yielded new transparency into the organization, which resulted in positive behavioral change and improved data quality. Information is now delivered via a variety of different mechanisms. These mechanisms include dashboards, more insightful portfolios, and client-view packages.

***Policies and standards
for enterprise portfolio
management—
Large P&C insurer***

Issues

The governance body of a large IT organization was seeking a common set of standards for processes across different business units. This was designed to facilitate meaningful data aggregating for an accurate view of information across the entire organization. The IT group was challenged in using cross-organizational data to make decisions due to wide variances in definition and intent of data produced with the common portfolio tool in place. Definitions and standards for processes such as portfolio planning, demand, project, and resource management were all disparate and inconsistent. Attempts at rolling up data into unified cross-organizational view reports were meaningless because similar data elements had been developed for different purposes. This impeded a clear view across the IT organization and diminished the value of available reports.

Approach

PwC facilitated multiple, cross-organizational meetings to find common definitions for processes and data. PwC worked with the client to generate policies and standards for enterprise portfolio management and to mandate consistency in definition so that there was an association with data. To promote adherence with these mandates, compliance reports were generated to identify and bring visibility to compliance.

Benefits

The client gained the ability to use cross-organizational data to make decisions with confidence.

*Technology
management office—
Large group insurer*

Issues	The IT organization at a large insurer lacked a solid structure for decision making and managing technology efforts. It also struggled to increase and communicate its own value to the business. Having focused its attention almost entirely on IT projects—including budgets, portfolio management, and architecture—rather than applying the portfolio approach to overall IT, the organization's effectiveness in managing technology efforts was limited. This led to an inability to answer such key questions as: What are we working on? How much work did we complete by department or investment category? How much of our recent work is maintenance versus discretionary? What is our capacity? What is the state of each of our current projects? How do work efforts align to our strategy? How can we meet expense objectives?
Approach	With a focus on value, processes, and controls, PwC worked with the client to design an organization structure and recruit staff to support a technology management office to assist with the day-to-day running of IT. PwC assisted the client in defining a program charter that included scope, timeline, and staffing requirements. We also helped to develop necessary processes, templates, and artifacts; provided coaching to resources; and helped develop training and communication materials.
Benefits	The client was able to quickly start the new technology management office and begin operations using mature capabilities and processes. And now—by collecting, analyzing, and providing a holistic view of its performance—the IT organization is able to increase and communicate the value it delivers to the business.

www.pwc.com/fsi

***To have a deeper conversation,
please contact:***

Bruce Brodie	bruce.brodie@us.pwc.com +1 646 471 3311
Paul Frank	paul.frank@us.pwc.com +1 412 355 6003
Jim Quick	james.m.quick@us.pwc.com +1 312 298 6882
Paul McDonnell	paul.h.mcdonnell@us.pwc.com +1 646 471 2072
Jamie Yoder	jamie.yoder@us.pwc.com +1 312 298 3462
Kevin Cáceres	kevin.caceres@us.pwc.com +1 312 298 3490

***Follow us on Twitter @PwC_US_FinSrvcs
and @PwC_Insurance***

“The price isn’t right: How to better understand your IT investment and get more out of it,” PwC FS Viewpoint, May 2013. www.pwc.com/fsi

© 2013 PricewaterhouseCoopers LLP, a Delaware limited liability partnership. All rights reserved. PwC refers to the US member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

NY-13-0688