

Optimize

Business Strategy & Execution for CIOs • November 2005

Innovation Forward

Could you transform your IT budget to spend 60% on new development? Fireman's Fund did it in two years.

CIO Fred Matteson



Fireman's Fund's formula for new technologies and sourcing helps it exceed industry growth rates while saving the company millions

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MODEL
OF
GROWTH
THROUGH
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By Fred Matteson

Photography By KEN SCHLES



EXECUTIVE SUMMARY ▶ Measuring and defining innovation is often a difficult task, but the CIO of Fireman's Fund has created a clear and executable plan that's helped enhance the company's competitive position. In just two years, he's transformed the IT department by developing an SOA model, building a compelling ROI, lowering maintenance costs, and redefining IT jobs.

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ALTHOUGH the insurance industry has always relied on technology to streamline operations and reduce costs, it's earned an unfortunate reputation as being slow to use technology for new-product innovation. Now, companies like ours are realizing that the decisive use of new technology

can fundamentally change our competitive position.

Innovation is easy to talk about but much tougher to pull off. Oftentimes you have to battle entrenched thinking, archaic processes, and stubbornly slow execution. A colleague once said it best: "Invention without execution is just hallucination." Innovation is about execution of good ideas, not just creative brainstorming. At Fireman's Fund, our technology strategy focuses on accelerating delivery of innovative new products through a relentless focus on product ownership and execution. We're focused on removing the friction in the process from good idea to great product.

To help us leverage innovation, we've restructured the IT department by reevaluating and redefining job functions to ensure we have the right people, with the right skill sets, in the right places. We've also reengineered our budgeting and prioritization process. Two years ago, when I joined the company as CIO, only 15% of our budget was allocated to new development, the rest spent on managing our legacy environment. That percentage had to change.

To successfully structure IT for innovation, we concentrated on four areas:

1. We focused funding for new development on enterprise-wide projects, with a key emphasis on service-oriented architectures (SOAs) that can be used across our lines of business.
2. We attracted additional IT funding by developing a compelling ROI for reengineering business processes across the company.
3. We dramatically lowered our maintenance and development costs by reengineering IT with the help of strategic partnerships, and reinvested those savings in new development.
4. We redefined the jobs within IT to focus on those that encouraged competitive advantage and customer intimacy.

Our 2006 budget tells the tale: Nearly 60% of IT dollars are now allocated to new development, and those dollars are almost exclusively pointed toward building innovative products that drive bottom-line results.

Understanding the end user

Fireman's Fund competitive positioning relies less on managing underwriting risk as a differentiator and more on the customer

experience. In our model, the independent agent who sells our policies is our most important customer. And because those agents also sell the policies of our competitors, truly connecting with them and understanding their needs is even more critical for our business.

In our case, the independent agents and brokers who sell Fireman's Fund products sit outside our corporate firewalls. New tools aimed at these constituents must be compelling, easy to use, and represent a clear business advantage or they simply won't be adopted. Toward this end, we're delivering new Web-based systems supporting our 3,500 agents that will enable a whole new level of communication and speed, driving real competitive advantage where it counts: on the

front lines. The first of these is a system for property-insurance quotes that allows agents direct access to our quoting systems either through a Web interface or directly through their agency management system—a huge leap in productivity and speed.

New development simply can't be about rolling out new technologies. If we wanted to transform IT into a much more creative and market-centric organization—equipped to understand the critical business problems that our different internal and external user communities face, and roll out offerings that would be well-received and enthusiastically

adopted—we had to fundamentally change the dialog with our business partners. For the past 35 years, we've taught these partners to describe to us how they do their work, step by step. This linear process, communicated from business-side analyst to technology-side analyst, allowed us to use our procedural languages to automate work flow. In these conversations, we rarely talked about business outcomes—the "why" we were doing something—only the "what" we were doing. That system worked well when the primary role of IT was to automate back-office processes. With SOAs and our development efforts focused on innovating with business partners, the conversation must now be on business outcomes and the services needed to support them. The old procedural languages and structural analyses don't work well in this world. New tools are needed that allow business and IT to develop ideas faster, and to test and implement them quickly to deal with competition and shortening product life cycles.

The key to our innovation effort lies in establishing customer intimacy—understanding what customers need and providing it quickly. Recently, we invested in iRise Inc.'s interactive simulation technology, which allows us to visualize new business applications in order to understand how these products would impact our operations. In the past, we would have to make de-

At A Glance

Company: Fireman's Fund Insurance Co.

Headquarters: Novato, Calif.

Employees: 4,042

IT employees: 414

Assets: As of Dec. 31, 2004, \$11.6 billion in assets; \$2.9 billion in policyholder surplus

U.S. locations: 61 operating offices in 26 states and Puerto Rico

Business units: Commercial business; personal insurance; specialty insurance

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tion process. It also removes the fear of failure in the early stages of the brainstorming process. That fear can stifle the spirit of experimentation, which is needed to produce truly innovative products.

Expanded skills

The jobs in our IT department require more than just technical competence. We place a high premium on creativity and business skills. Unfortunately, there are no courses of study at colleges and universities that prepare workers for the demands of innovation in corporate America. This is particularly true in our computer-science and engineering schools, where we get many employees. We've worked hard to create job descriptions and training curricula that emphasize the role IT plays in our business. Our staffers are now "business architects" and "product designers," for instance—not systems analysts and applications developers.

I've found that many team members, even those long immersed in the old ways, see the new direction as a competitive advantage and are investing time to retool their skills. As we recruit new employees at Fireman's Fund, we're finding a rich vein of talent in unexpected places among people with technology-product marketing and sales backgrounds, as well as those from traditional technology backgrounds who see their jobs as more than a technical specialty.

If IT personnel are retooling for innovation, so must IT departments themselves. The global economy is making it much less important *where* you build things; the real

emphasis is on design and execution, such as being smart about what to build in the first place and then getting those ideas to market quickly and effectively. As a result of this thinking, we made the decision to outsource much of our maintenance and support functions last year—approximately 30% of our entire IT workforce.

In order to reduce risks surrounding our outsourcing strategy, we determined which IT functions would be good candidates by distinguishing core and context functions. The terms come from Geoffrey Moore's well-known book *Living on the Fault Line* (HarperCollins, 2002), in which he describes how successful companies in the destabilizing times of the Internet relentlessly focused on core areas—meaning they provide competitive advantage and are hard for competitors to duplicate—and context, which is everything else. You still have



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decisions on new systems without the benefit of being able to interact with them prior to expensive coding and a lengthy, time-consuming review of paper documents. By investing in simulation, we are substantially reducing the cost and time associated with getting the right business applications to market. We're also improving the quality of our final products by testing the simulations with line-of-business owners and our end users—before a single line of code is written. As innovative ideas are transformed into new products, simulation has proven to be an efficient way to communicate progress on critical projects to nontechnical business executives and managers—the people out on the front lines.

Our business analysts spend more time with our business partners and customers, having the conversations that really matter, and less time writing specs. The more time they spend with our customers, the more valuable they are to the innova-

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to do these tasks well, but not necessarily in-house. I like to think of my IT organization's core functions as design, engineering, and the development and maintenance of code, and the running of our systems as manufacturing. Think of a chip manufacturer that maintains strict control over product design, but outsources the fabrication of the chip. The competitive advantage is in the design.

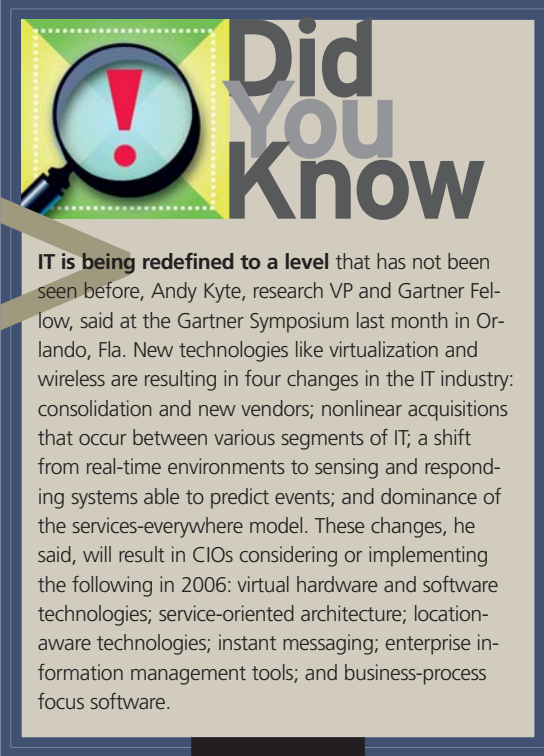
This thinking has led to our decisions to outsource our network to AT&T and our infrastructure and applications maintenance to IBM. These functions don't contribute much to innovation or maintaining a competitive edge within the insurance industry, nor do they contribute to the Fireman's Fund brand. Rather, they are commodity services, requiring the same expertise no matter what industry they serve.

THIS design philosophy approach to outsourcing requires more than simply engaging in a labor arbitrage agreement; it also requires active management. Our team must have product design, business analysis, and management skills all in place. That, in turn, requires more than just code-writing and network-management skills—where most people have received their training. The key point here is that outsourcing is an active management activity, not a passive, cost-saving move.

We're now using some of the cost savings from this outsourcing to beef up our investment in three mission-critical job functions that remain in-house: architecture and technology; product management; and business-relationship management. And those staffers operate within a more free-flowing organization.

Here's how we've structured IT at Fireman's Fund:

- The technology office. It handles everything from infrastructure services to architecture and operations. It manages the outsourced team running our networks and data centers, and ensures that our architecture will meet the needs of our business.
- Product management. This group manages the life cycle of the products we design and deploy for our businesses. We



IT is being redefined to a level that has not been seen before, Andy Kyte, research VP and Gartner Fellow, said at the Gartner Symposium last month in Orlando, Fla. New technologies like virtualization and wireless are resulting in four changes in the IT industry: consolidation and new vendors; nonlinear acquisitions that occur between various segments of IT; a shift from real-time environments to sensing and responding systems able to predict events; and dominance of the services-everywhere model. These changes, he said, will result in CIOs considering or implementing the following in 2006: virtual hardware and software technologies; service-oriented architecture; location-aware technologies; instant messaging; enterprise information management tools; and business-process focus software.

named it the product-management group, rather than the applications-development group, because it manages products, not just applications. The difference? Products solve business problems and demand care and feeding throughout their life cycle. Applications solve point-in-time problems. And as with any software-development organization, internal or external, the challenge is to figure out which new features will be truly useful and which won't. All software is susceptible to becoming bloatware, with new features adding to the cost and learning curve without adding much else. Therefore, a good product manager is ever vigilant.

Managing the entire life cycle also means that the team must consider the hidden costs of implementation. You can't just build

a new underwriting system, for instance. You must be accountable for turning off the old one.

- Business-relationship management. Comparable to vertical-industry managers in a commercial software company, this group works directly with each internal customer. Team members learn the three-year plans for each business unit, and figure out the best technological response, factoring in deadlines and cost. The group also includes the business architects, who describe the services that contribute to outcomes. These services become the core of our SOA offerings.

The end result

So how well has all this worked? So far, Fireman's Fund has exceeded industry growth and met our own aggressive growth targets. Customer-retention rates across our product lines are above industry standards, and we're happy with our new customer acquisition. The changes in our IT sourcing model will contribute more than \$200 million in savings to the company, and that's being reinvested in new functionality for competitive advantage. We've also created a staffing model that gives our employees meaningful connection to our business and the ability to manage their careers in a world of significant change. ●

FRED MATTESON is CIO of Fireman's Fund Insurance Co.