

Technology

By Gates Ouimette

Utility computing can lend itself immediately to providing business benefit.

Power House

To some observers, utility computing, also known as on-demand computing, is not that far removed from the days of mainframe time-sharing. Adding capacity was a basic exercise of adding more central processing units, disk storage or random access memory, each of which had fairly predictable costs that could be allocated on a per user or per application basis and were often included in an information technology charge-back model.

This perspective, however, oversimplifies today's computing environment. Along with incredible gains in terms of compute power per dollar and putting the applications directly in the hands of the users came the infrastructure requirements necessary to support this distribution paradigm. Evolution, or revolution, has continued at a break-neck pace with new advances, such as the Internet, AS2 (electronic data exchange over the Internet), extensible markup language and tablet person computers. While all of these technologies hold great promise for insurers, they also introduce further complexity.

A common challenge to insurers is how to understand and harness the continuous stream of technology enhancements available to them. Information technology investment trade-offs are often not understood from an enterprise perspective for multinational insurers. Small or medium-sized businesses lack the resources to think strategically about IT. In both situations, too large a percentage of IT dollars is spent on IT operations rather than on gaining an understanding of which strategic IT investments can most benefit their businesses. Some studies show that only 15% of insurers are able to leverage IT strongly for value creation.

Utility computing is one way to address the incongruity between the business importance of strategic IT vs. the bulk of IT spent on nonstrategic IT. According to a recent white paper by THINKstrategies, which provides services for IT solutions providers, "providers of utility computing services provide their clients a comprehensive set of IT planning, implementation and management services for a simple, predictable fee. In addition to this predictable fee structure, utility computing emphasizes a continuous, proactive approach." Utility computing providers are much like utility providers of electricity.

Unlike traditional outsourcing arrangements, which primarily began as a way to bulk-shift IT operational cost containment to a third-party, the granularity of utility computing allows insurance business management to treat IT as a variable cost. In addition, utility computing allows insurance IT models to more closely reflect their business models. For example, in the event of a natural or man-made disaster, an insurer's business must be variable (i.e., sudden influx of claims), resilient (i.e., internal operations may have to survive the same disaster) and dynamic (i.e., able to respond to business changes quickly).

An IBM study concluded that with the help of utility computing models, life insurers could potentially reduce the total fixed costs for the enterprise "by up to 50%," and shift the expense mix "so that 90% of all expenses are variable." Along with this, IBM sees the future benefit to insurers of a "capability for all types of policies to interactively assess a customer's risks, dynamically create a policy to address those risks, then underwrite price, bind and issue the policy all within minutes."

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Because of the complexities of the insurance business, utility computing can lend itself immediately to providing business benefit by helping support an IT investment shift from ongoing operations to creating strategic value. Insurers should consider the following in moving toward a utility computing model:

- Start at a chief executive officer level and move down the organization, by requiring that technology decisions be in line with an on-demand, or utility, computing vision. A tactical example of this is storage. Network-attached storage or storage-area networks should be deployed rather than direct-attached storage.
- Don't allow internal IT staff or budget limitations to act as a barrier to corporate learning of utility computing business benefits. Technology isn't an albatross, regardless of company type or size.
- In conjunction with instilling a utility computing culture, focus decision making on variable cost IT expenditures that will allow strategic business benefit, possibly including a quantifiable return on investment.
- Consolidate IT-related vendors to position your firm to begin taking advantage of utility computing, which requires a collaborative relationship with a primary IT vendor.
- While consolidation is the goal, there are arguments to be made for utility computing specialization. For example, personal computer/network infrastructure expertise is typically separate and different from business application

expertise. Applying a specialized level of expertise may provide for more "skin in the game" from a vendor if insurers are willing to share in any savings or profits resulting from the utility computing relationship. **BR**



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