

Argyle Conversations

by Argyle Executive ForumSM

The Fundamental Rule for Managing IT Costs: Plan Ahead

Michael Stiglianese, Partner at TMO Partners LLC, chats with Shahryar Shaghghi, partner at Kurt Salmon, on the need for organizations to implement IT Financial Management (ITFM) and why controlling costs in IT should be a logical priority area.

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SHAHRYAR SHAGHAGHI: Before we dive in, can you give us a little background on yourself and your organization?

MICHAEL STIGLIANESE: I'm a managing partner at TMO Partners, a management consulting firm. We work on technology management in the areas of financial management and risk management. Our approach takes into consideration the perspective of the individual who is hiring the consultant and addressing senior management issues. I spent 28 years in corporate America, so I have a strong foundation of industry experience, which I believe positions our company well to consult in this area.

The Affordable Care Act was signed into law on March 23, 2010. It included a number of provisions, some of which became effective immediately, while others phase through 2020. Do you think the Act included any significant game changers for health insurance providers on the day it was passed?

Yes, I certainly do. While the Affordable Care Act has a far-reaching impact on every aspect of healthcare, in my opinion, the most significant impact it has on health insurance providers relates to the creation of health insurance exchanges. These exchanges cover each state and are meant to create an online marketplace where individuals, small employers, and eventually larger employers will be able to shop and compare health insurance options. They are intended to facilitate the access that people will have to affordable insurance, and this is new to the health insurance marketplace and will definitely have significant impact on the way that health insurance providers will do business.

Additionally, part of the Act involved putting regulations in place regarding the percentage of premiums that could be spent on non-medical-related costs. Again, this will have an impact on how these companies do business. What will eventually happen is that health insurance companies will need to be more focused on the details behind their cost structure than ever before.

In 2014, an estimated 12 million consumers will choose their health insurance through exchanges. What is the potential impact that health insurance exchanges will have on health insurance providers?

Aside from the obvious impact that health insurance providers have been working on, which is to systemically connect their operations to these exchanges, the exchanges are going to bring a new transparency to health insurance plan costs. Because of this transparency, it will be easier for Americans to compare plans based on price, quality of benefits, and other important features. By bringing this transparency to the exchange, it is intended that healthcare costs will be lower. The key words to focus on here are "easier to compare" and "lower costs." What this means is that health insurance providers will have increased competition and will be competing in a way that is relatively new to them. In order to compete effectively, they will need to have a thorough understanding of the cost of delivering their own IT services. While everyone currently manages IT costs, the level of detail required will be relatively new for the industry, and it is important for organizations to have an understanding of their IT costs. Financial services companies, for example, have done this extensively for many years. For health insurance companies, this will no longer be something that's nice to have; it will be something they must have.

What are some of the immediate actions that health insurance providers need to consider to address the challenges ahead of them?

First and foremost, they need to recognize that the way in which they do business will be impacted significantly. Some impacts, like the need to connect to the exchanges, are obvious right now, and providers are working on that. Most of them will be done by October of this year. However, the impact of increased competition won't be obvious until sometime in the future, and now is the time to take action to mitigate the impact of this competition. Typically, as competition increases in business, value-adjusted prices decrease and market share migrates to the best value. In those markets, innovation starts expanding and uncompetitive providers are restructured or go out of business. This is the trajectory that's been common in all industries. It has happened in banking,

communications, the technology industry, and every other industry. We believe it will also happen in the health insurance industry over the next few years. In other words, those who proactively plan for efficiency and competitiveness will thrive while others will not.

In order to be price competitive, health insurance providers need to relentlessly work towards improving their processes and driving down delivery costs. The area in which they have the greatest ability to do this is in administrative costs, which is basically the cost associated with delivering plans. The largest component of admin costs are IT costs. We recommend that health insurance providers immediately assess their current IT financial management practices and determine if it's positioned to meet their future needs. If they delay that process until after they see increased competition, it will be too late. As they do this, we also recommend taking action to resolve any immediate changes to their IT financial management processes.

What is IT financial management by definition, and how can ITFM benefit an organization? Why is it important to health insurance providers in particular?

IT financial management is the process used to plan, control, and recover costs expended in providing individual IT services. Most organizations look at IT services in total, but when you start getting into IT financial management, you look at the individual services IT delivers to the business, such as the desktop, network, or hosting services. The role of financial management and how IT is viewed will vary within each organization. Some companies view IT as an expense center; others view it as a profit center; and some view it as a source recovery center. However, in all cases, financial management supports the business of IT because IT really is a business within the organization itself. The objective of IT financial management is to give insight into the true costs of providing IT services and the effects of business consumption on those services. It is the foundation of running IT like a business.

Once health insurers begin to see the impact of increased competition, they'll need to start driving real value. They're going to have to take a more strategic approach than they have in the past. By managing the financials of IT, business leads are provided visibility into the unit costs of delivered services and their ability to truly manage IT.

There is another important reason to implement IT financial management at this point rather than waiting until the impact of increased competition becomes more evident. When you enter a competitive market, there will be pressure to reduce costs because this will allow you to keep pricing competitive. If you don't have visibility into those costs and don't understand exactly what the cost of delivery is, there's usually a tendency to come out with an across-the-board type of decision, such as reducing costs by 20 percent without getting into specific areas. But good cost cutting needs to be business-driven and based upon business needs, and IT financial management provides the needed information to do this intelligently.

Is there a "right amount" for health insurance providers to spend on IT?

There's no universal right amount for any organization to spend on IT. Each organization has its own right amount based upon its business strategy, level of services, and levels of consumption. Determining this amount is commonly called IT optimization. IT financial management provides the information an organization needs to determine its own right amount. Having the information needed to manage the end-to-end technology spend and the IT organization as a business is what provides a company with confidence in its IT spend. What is important is the overall cost of delivering your business and, obviously, IT is a big component of that.

What are the opportunities for health insurance providers who proactively address the challenges of this new landscape?

As the exchanges take hold, health insurance providers will find that the real management challenge will be in optimizing IT costs as margins narrow while they operate in a market that's becoming more competitive. This is comparable to attempting to change a flat tire while the car is moving. The trick is to start now so that companies can understand and manage their costs before competition heightens; essentially, they need to change the tire before the car starts moving too fast. Those organizations with the foresight to manage their costs and look at that process will be better positioned to gain market share through competitive pricing at the expense of those who arrive late to the process. The best time to install an effective IT financial management process is now, prior to facing the burning platform of competition and the potential loss of market share.

Recently, TMO Partners, LLC entered into a partnership with Kurt Salmon to help health insurance providers address all of these challenges. What will your organization do for them?

We have developed a structured approach that can quickly evaluate the current status of a health insurance provider's IT shared services or operational costs. What has been developed extends beyond IT; however, right now, our recommendation is that organizations focus on IT first. Once an understanding of the current state of their existing financial management process is established, we work with our client to design the ideal state for their organization. In developing a target state, we consider the business objectives, the corporate culture, and the availability of the data so that they can support an ongoing process. While all target states have certain common elements, each organization has elements that will be unique to their specific culture and needs and we help them identify those areas. There is no sense in designing a process that will not be utilized or one that will be met with resistance from the organization. It should be sustainable and workable on an ongoing basis.

Once the gaps between the current and target state have been established, we work with our insurance providers to develop an implementation plan. Our strategy is to help the client evolve in a gradual manner toward achievement of their target state. As a combined organization, our resources make it possible for us to partner with the client throughout this design phase. We then help them implement the process and provide ongoing support during the overall IT cost optimization process.

Why did TMO select Kurt Salmon as that partner?

We have extensive experience in effecting, enhancing, and implementing IT financial management and budgeting processes, and we help healthy organizations optimally manage their technology resources. We embody both the client side and consulting experience side on behalf of our clients and tend to view issues from the perspective of a senior corporate officer tasked with solving the problem, rather than a typical consultant. We needed to find a large firm that would complement our capabilities and remain consistent with our view of how to operate. Luckily, we found that in Kurt Salmon.

Kurt Salmon is a global management consultancy of more than 1,400 consultants in 13 countries, and they have the scale and experience necessary for us to be successful. Most importantly, we found their approach to business consistent with ours, and it was refreshing to see that in a larger firm. Overall, it presented the perfect opportunity to jointly utilize our experience and connect our resources to provide value to health insurance providers, which is exactly what we're doing now.

When you meet with health insurance providers, what is the key message you want to convey to them?

The one point I stress is that it's very important for health insurers to understand that, while they may not be feeling the impact of increased competition right now, it takes time to manage their cost base and have an overall understanding of costs and that knowledge gives them a competitive advantage. For this reason, it's crucial that they don't wait until this becomes a burning platform; they need to focus on ITFM now and put things in place. It's much easier to implement financial management as an evolutionary process, where you can take time to understand things better, rather than waiting until you are under pressure to act immediately.

BIOS:

Michael Stiglianese

Mike Stiglianese is a managing partner of TMO Partners, where he advises Fortune 500 companies on management of their strategic technology, financial, risk, and shared services initiatives. He is an accomplished chief IT risk and financial executive with extensive experience in leading financial and risk management solutions for global organizations. His accomplishments include driving critical strategic, financial, IT security, and operational initiatives through dispersed and complex enterprises to achieve balance between risk and reward while meeting compliancy requirements.

Mr. Stiglianese's career includes 25 years in Citigroup's financial control function, which he joined to work in the regulatory reporting department. He later advanced to the role of chief financial officer (CFO) for several of Citigroup's major businesses, including The Financial Institutions and Transaction Services Group, Global Transaction Services, Global Shared Services, and Corporate Operations and Technology. Subsequently, he was named Citigroup's chief information technology risk officer and became responsible for the corporation's global information security and business continuity programs to address the rigorous scrutiny from various regulatory agencies.

He also led the identification, development, and implementation of global, cross-business expense reduction efforts and was recognized as a key contributor to capturing \$3 billion in savings at Citigroup by driving senior management buy-in and leading key initiatives in consolidation of business functions and the implementation of a global shared services financial management process.

Mr. Stiglianese received his Bachelor of Science degree in accounting from Long Island University, CW Post campus in New York. He is a frequent speaker on risk, regulatory, and governance related topics at numerous industry forums as well as top-tier business schools including New York University's Stern School of Business and Columbia University's MBA program. From 2005-2008, Mr. Stiglianese served as an adviser of the intelligence community for the Department of Defense. His professional affiliations include advisory council member and chairman for BITS, the technology policy division of the Financial Services Roundtable, and as an advisory board member of Sentrigo, a database security software company that was later acquired in 2011 by McAfee.

Shahryar Shaghaghi

Shahryar Shaghaghi is a partner in Kurt Salmon's CIO Advisory practice in North America. He has over 25 years of client-focused leadership experience in assisting business executives with integration of processes, technology, organization, and relationship-building with strategic partners. His expertise in the design, re-design, and launch of leading-edge IT and operations solutions has helped organizations address the need to increase profitability while managing costs and risk. Other areas of expertise include: transformation and reengineering, business and IT strategy, cost optimization, risk and compliance, information security, business continuity, anti-money laundering, application development, IT operations & infrastructure management, strategic partnerships, organizational development, and managed services. In addition to achievements with Fortune 100 clients in the U.S., he has helped clients globally with a focus on the emerging markets. Mr. Shaghaghi graduated magna cum laude from Bethune-Cookman University in Florida where he received his Bachelor of Science degree in computer science and earned his master's degree in software engineering with distinction from Embry-Riddle Aeronautical University in Florida. He serves as a coach and mentor for developing talent and champions numerous diversity initiatives focused on fostering leadership skills and career advancement.