

Partnership drives business focus while reducing application management costs at Aviva

Overview

■ Business challenge

Following a long history of mergers and acquisitions, Aviva needed to simplify its IT estate to remove cost and increase its focus on meeting future business needs.

■ Solution

Working in partnership with IBM, Aviva split its IT environment into strategic and non-strategic systems. IBM was given responsibility for managing and rationalising non-strategic systems, enabling Aviva staff to focus on current business priorities. By providing a clear lifecycle for applications and systems the solution is driving significant cost savings.

■ Key benefits

- *Expected application run rate savings of over £8m pa*
- *Almost immediate bottom line benefits*
- *Model delivers ongoing cost management*
- *IT better aligned to business*
- *Up to 50% reduction in time to deliver IT solutions*
- *Improved time to market for Aviva products and services*
- *Improved staff motivation.*



Aviva is the world's fifth-largest insurance group and the largest insurance services provider in the UK. Its main activities include long-term savings, fund management and general insurance. Against a backdrop of volatile world markets, the company is remaining financially strong by continuing to transform for the future, becoming a leaner, more agile organisation.

Like most insurance companies, Aviva has a history of mergers and acquisitions which has resulted in a complex and unnecessarily costly IT environment. Inevitably this impacts the IT department's ability to respond quickly to emerging business needs. Simplifying the IT estate forms part of Aviva's overall transformation programme.

Susan Adcock, Director of Major Programmes at Aviva explains: "We need to reduce the cost of our IT and improve our support for the business by focusing on strategic applications and systems without the distraction of managing our legacy estate. We were running around 900 applications and have set a target to reduce that by up to 60 per cent."

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– Seán Egan, Chief Information Officer at Aviva

Vehicle for change

As Aviva's strategic partner, IBM has a history of helping the company with large transformation programmes and was involved from the beginning, helping to define and scope a simplification solution. “The fact that IBM offers a combination of top-class consulting, global delivery of application management and systems rationalisation expertise was a key benefit,” says Adcock.

The companies devised a plan to split the IT environment into strategic and non-strategic applications, enabling Aviva to tighten its control over the amount of money spent on non-strategic systems. IBM Global Business Services manages the non-strategic applications and is encouraged to do this as cheaply as possible, overseeing their decommissioning against an agreed plan and imposing strict rules on changes. Aviva's own staff are left free to focus on strategic systems.

Seán Egan, Chief Information Officer at Aviva General Insurance, says: “With the amount of change occurring in our business, we can't achieve our goals if we do everything ourselves. We recognised that we don't have the appetite to manage our legacy applications in-house so we handed them over to IBM. IBM can manage our non-strategic applications more cheaply and effectively than we can ourselves. And driving applications towards timely decommissioning is encouraging a beneficial shift in our behaviour.”

Reducing cost

Isolating the ongoing management of non-strategic applications not only enables productivity improvements through optimised management techniques, it also allows service levels to be reduced as far as is acceptable to the business. Combined with the carefully managed decommissioning programme this ensures that run and management costs are continually controlled. Furthermore, IBM engages with incumbent suppliers to agree how to minimise support costs.

IBM shares the risks and rewards of meeting cost reduction targets in a number of ways. Firstly, projects are completed for a fixed price, instilling momentum. Secondly, applications due to be decommissioned are allocated a retirement date at which point Aviva ceases to incur support costs for that application. If IBM is responsible for missing a retirement date it reduces Aviva's support costs at its own expense. Thirdly, all work is done under one contract and performance is assessed on a monthly basis against a scorecard. Aspects measured include the management of dependencies, meeting milestones and business satisfaction with IBM's performance. A percentage of IBM's fees are retained each month and some or all is released back depending on performance scores. IBM is also rewarded above its agreed fees if it can deliver cost reductions to Aviva in addition to those identified in the original business case. For example, IBM has benefited from the significant savings it has achieved through a review of third party maintenance contracts.

Scalable and transparent

One important benefit Aviva gains from IBM is scalability. “We aim to decommission applications at as low a cost as possible so, when the time is right, we want to do it quickly. We look to IBM to be very flexible, increasing capacity as soon as decommissioning work comes along,” says Adcock.

Adcock also stresses the importance of setting clear expectations with a partner from the start: “Our solution is working well because both Aviva and IBM put in the time and effort required to make sure that the contract was transparent. Each party understands what is to be delivered, what is being managed and how it is to be managed. We continue to be open and honest with each other and have clear lines of communication in place. IBM is fully integrated into our business model and this avoids the combative, “them and us” approach which is sometimes a feature of outsourcing.”

Immediate and ongoing impact

As a result of outsourcing its non-strategic applications and systems, Aviva predicts a reduction in its application run rate of in excess of £8million per annum. Seven months in, it has already gained significant bottom line benefits from the reduced cost of the managed service, software licence savings identified by IBM and the first large decommissioning event.

“It can be difficult to get investment for this type of programme,” says Adcock. “Achieving some quick wins means the business can already see the benefits so funding will be easier to secure going forward. And the fact that we now have an asset for moving our applications and systems through a lifecycle enables us to drive ongoing cost savings.”

Aligning with the business

The effort and skills of Aviva’s own people are now firmly focussed on strategic issues with many employees retrained and redeployed. Adcock explains: “Before IBM’s involvement, we had to constrain many revenue and growth generating requests from the business. We simply didn’t have the resources and this created an issue with time to market for new products and services. We’re now delivering to the business much more quickly. In our direct insurance business, for example, we’ve just delivered new products to market in half the time it used to take.”

A further bonus is that staff motivation levels among redeployed staff have risen as people recognise the improved career opportunities that working on strategic projects provides.

“The work we’ve done in partnership with IBM has created a real win, win solution that benefits IT staff and the business. It fits very well with Aviva’s overall transformation strategy of driving economies of scale throughout the organisation. I see the approach we’ve adopted as something that other areas of the Aviva group can use and benefit from in the future,” concludes Adcock.

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