

Runaway Computer Systems

BY JAMES A. WILLBERN

Runaway computer systems are computer projects which have gotten so out of control that they are unable to meet a company's management objectives. They are systems that don't do what they are supposed to do.

Runaways occur in every type of business. A Peat Marwick survey indicates that 30 to 35% of all computer system projects can be identified as runaways. And runaways can be especially disastrous to insurance companies because insurers rely more heavily on information systems than most other businesses do.

At the very least, runaway systems can deprive a company of vital new products, market niches and customers. In the worst cases, runaways can bring an insurance company's business

to a screeching halt. For example, marketing plans by a third-party administrator for life insurance companies were derailed when the TPA bought a software system to process policies and accounting information. The TPA, a start-up company, charted a growth plan that was to give the firm two million life insurance policies in force by a target date. It bought a \$3 million system that was installed in four months and was supposed to be operable after simple modifications.

More than a year after the system was installed, the computer wasn't able to handle the administrative needs of even one-fourth of the policies projected for that time period. Indeed, it turned out that the system could handle a maximum of only 60,000 policies.

"The system just hit a wall," a stunned company executive said. "Our marketing department had mailers ready to go. We had quarterly revenue and expenditure targets we were trying to meet. All of that work was worthless without a computer system to process the policies." It turned out that the

TPA's software system was designed to run on a small computer and could not process information on the company's mainframe which the application required.

In the early 1980s, workers' compensation claims shot through the roof of the Oklahoma State Insurance Fund. Unfortunately, fund administrators found that the rise in the number of claims left their old computer system riddled with holes. To handle the increase in the work load, administrators selected a \$500,000 software system that was scheduled to be up and running in six months.

Two years and \$2 million later, the new system was chewing up data like a garbage disposal. Records of the fund's customers disappeared into the system's black hole. Claimants were not getting paid. On top of everything else, the system was user-hostile. It took a long time to input information, and it was even harder to retrieve. In short, the Oklahoma Fund had a runaway computer system on its hands.

An initial evaluation immediately

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uncovered numerous problems. The project plans and goals were vague and continually shifting. Implementation of plans was haphazard, and system testing was grossly incomplete. In time, a full evaluation would turn up more than 90 problems in the runaway system.

Because of the costs involved in revamping the system, the only realistic solution was to scrap it. Key users were immediately brought into the process, and a new system was custom-designed from scratch. The custom-designed system gave the fund the ability to effectively and efficiently perform risk evaluation and underwriting, benefits administration, policyholder management, statistical analysis and fiscal reporting. Since the system was implemented in 1986, the Oklahoma Fund's premium income has nearly doubled to \$95 million, while the number of personnel has essentially remained constant.

HOW TO SPOT A RUNAWAY

Runaways usually are easy to spot: a number of signs or "showstoppers" could indicate that your system is a runaway. Runaways are usually two, three and even four times over budget and two-to-three times behind schedule. They are not performing as expected and are time-consuming and complicated to use. They may require more users than had been originally anticipated to operate the system. Also, they often destroy or "lose" data that cannot be retrieved in any usable form.

Constant delays in the project's completion date are another sign that something is amiss. At the end of two years, administrators for the Oklahoma Fund were still being told their system would be up and running soon. "Give us a little more time," was the request of the project managers. Stuck with a shifting implementation date, the state fund was unable to plan for growth in workers' compensation policies.

Technical problems rarely cause runaways. More often, a system spins out of control because of poor planning, poor task management or insufficient monitoring. The number one cause of runaways is the installation or expansion of a computer system when management does not know what the automation is meant to accomplish. Before it updates a system, management must know exactly what it wants to achieve. A simple goal like "greater capacity" is not enough to ensure desired results.

At the Oklahoma State Insurance Fund, specific goals and business functions were not defined, and the information that passed between administrators and the system designers was inadequate. As a result, the fund's new software system resembled the old, outdated one and was still unable to perform statistical analyses, fiscal reporting or other necessary functions. The designers had simply put a new face on

senior management in the project, but they lacked the necessary insurance skills to oversee it. The same problem existed with the users who were involved in the project.

Poor system planning throughout the project is pervasive among companies with runaways. In companies that ultimately end up with runaways, we've found that planning for new computer systems is usually limited and

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the automation without changing what the automation did. Cloning of old systems is a likely outcome if a project lacks careful planning and clear-cut goals from the start.

Even with clear goals, top management must take an active role in overseeing the system and communicating frequently with users and designers. We have found that in almost every case of a runaway, top management was not in frequent communication with users and system designers. In most cases, designers and users in companies with runaways met less than once a month. As a result, executives often were not aware of the complexity of the project.

Frequent communication among top management and designers and users helps ensure that managers will become aware of problems before it is too late. Too often, data processing managers are able to shield executives from bad news about the project, keeping the executive uninformed. Therefore, completion dates keep getting pushed further and further back without the executive understanding the nature of the problem.

Another common cause of runaways is ineffective or inadequate allocation of personnel to staff or oversee the project. The TPA cited earlier illustrates this particular problem. As a start-up company with no previous insurance experience, the TPA needed to staff its software project with technical personnel who understood the insurance industry. The TPA had involved

very informal. Even tools for planning and incorporating key elements, such as charts, are usually incomplete if they are used at all.

For example, in one life insurance company we found that the project planning was based on long-range targets without any short-term goals. In addition, variance reporting between budgeted time and the actual time spent was not monitored and tracked efficiently. As a result, staff members failed to tell management that they were falling behind, and the project slipped out of control.

In other instances, meetings are not held on a regular basis, and they often do not include the people who ultimately will be using the system. Effective user involvement, which is a key to a properly functioning system, is overlooked or underutilized.

GOOD MONEY AFTER BAD

Surprisingly, the amount of money budgeted for a project is not a problem. Executives are often willing to pay for the best product on the market. Unfortunately, the high price of a system does not protect a company from winding up with a runaway. In fact, the larger the project, the greater the opportunities are for it to become a runaway and for costs to escalate without catching management's attention. One major life insurer that bought a comprehensive software system several years ago now has a runaway on its hands. The system still is not running, yet the project's budget has increased

21 to more than four times its original estimated budget.

Indeed, management's willingness to spend large amounts of money on computer systems is one reason why systems have become runaways. U.S. insurance companies spend an estimated \$7 billion a year on computer hardware alone. Executives who are willing to spend large sums on systems often have what we call a high threshold for pain. They are ready to commit more money to a project without finding out why it is over-budget. An over-budget system should be considered a strong warning signal that the system may be veering out of control.

Since we know the causes of runaways, we also know how they can be prevented. To make sure a computer project stays on track, top management should get directly involved. Talking with designers and users is a good place to start. Ask to be brought up-to-date on the project, and challenge the targets frequently. Review the system documentation (if there is any), and evaluate the project's goals and resources.

Don't rely solely on the data processing manager for information, es-

pecially if the project is over-budget or behind-schedule; the data processing manager may be part of the problem since he may be in over his head and unwilling to admit it. Finally, don't hesitate to bring in outside professionals if necessary. For example, the TPA managers were alerted that their system lacked sufficient capacity to process the targeted number of policies. Although they were warned, they still chose to rely on the advice of the installers (who had a vested interest in the system) rather than seeking the opinion of an independent expert.

Ideally, meetings between top management and system designers should occur weekly. Executives should have an extensive and proactive understanding of the project. Goals should be based on departmental or corporate objectives. The design and development methodology should be clear, thorough and utilized. Effective end-users should be involved in the project from start to finish.

TESTING, TESTING, 1-2-3

Finally, the system should be fully tested before it is put into operation. Don't wait until your product is ready to be rolled out before testing your system. One major life insurer lost its lead with a new product by not testing its new system beforehand. The company was attempting to coordinate the introduction of its new policy with the design of a software system.

The insurer had estimated it had a six-month window in which to gain new customers and build market share before other insurers began offering a similar plan. It had set up training materials for sales people and was ready to go with the product when it became clear that the software system would not be ready to go. At a critical time in the marketing plan, the planned computer system was still significantly behind schedule.

Computers and computer technologies have revolutionized the industry and have enabled the industry to respond quickly to market influences. However, as many insurers have come to realize, high-tech can carry very high costs. If not properly managed, computer systems designed to make an insurer more competitive and more profitable can bring it to its knees. The best policy for an insurer installing or updating a computer system is to take preventive steps designed to lessen the likelihood that the project will get out of control. □

AUTOMATION REVIEW

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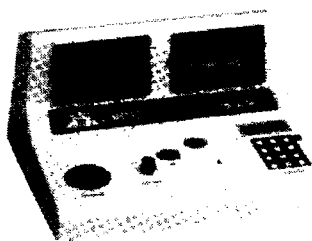
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