

Dynamic

SOURCINGSM

INSURANCE FOCUS

NEW GENERATION SOURCING FROM CSC



CSC'S 5 PRINCIPLES OF DYNAMIC SOURCING

1. Focus on business outcomes
2. Create a collaborative sourcing model
3. Align customer and supplier intentions
4. Build mechanisms for sustainable transformation
5. Ensure appropriate governance/alignment

Insurance companies now need to have the concurrent objectives of driving growth and optimising operational efficiency and performance. This paper outlines how Dynamic Sourcing can be used as a strategic enabler for insurance companies and outlines the principles clients should apply in order to create a collaborative sourcing environment that delivers enduring value for money.

Optimising Efficiency To Drive Growth & Performance

Insurance institutions are facing unprecedented levels of competition and pressure to improve performance. A proliferation of competition from new entrants combined with the pressure of regulation is impacting premium growth. This means that executives today have to deal with two conflicting board room agendas. The first – to improve operational efficiency and agility. The second – to drive growth, transformation and improve services - all at no extra cost to the organisation.

Understandably, these multiple demands are convincing the markets more than ever that some things are best done outside the firm and/or in partnership with those for whom such activities are core and who command 'best practice'. In the insurance sector, market leading insurers are taking steps towards global sourcing to improve operational efficiency and agility, whilst enabling them to focus on entering new markets and optimise new legislative opportunities. For example, CSC's strategic sourcing relationship with Zurich Financial Services demonstrates how applications sourcing can help a world class insurance provider transform its business on two fronts. Firstly by reducing and optimising costs by moving the organisation to a more centralised structure which leverages greater economies of scale. Cost optimisation was a tertiary objective, but has nonetheless been central to freeing resources for strategic investment. Secondly by creating a centralised application function delivering greater quality and responsiveness to business unit demands and improved time to market for key projects.

Avoiding Potential Pitfalls

Traditionally, outsourcing has been seen primarily as a means of improving operational efficiency – reducing the cost of service whilst improving technical performance. However the traditional approach to outsourcing is now being challenged as today's requirements for organisations are very different.

As outlined above, organisations now need to pursue a wider agenda than cost reduction and technical improvement. In contrast to this, CSC often finds that clients engage on discrete 'tower of service' outsourcing transactions that still just focus on operational efficiency, often with little regard to the overall sourcing strategy which needs to take into account the need for greater agility, integration and business effectiveness. Therefore, understanding how to design a sourcing strategy to be a dynamic collaboration of best-of-breed partners working together to innovate, transform and create measurable improvements to the overall business, rather than a collection of contracts offering price/performance gains within each specific domain, is becoming a hot topic.

To compound matters further, traditional outsourcing arrangements and the contracts that define them have not coped well with radical change, and fail to address flexibility and collaboration between competitive service providers.

That is why CSC is taking a new approach to strategic sourcing: accommodating and exploiting change; weaving innovation and continuous transformation into the fabric of a long-term relationship; and designing and facilitating multi-partner, collaborative business models to improve performance.

CSC calls this approach 'Dynamic Sourcing' which in essence is built around five principles.



DYNAMIC SOURCING IS UNIQUE IN FIVE WAYS

A collaborative business model which creates successive waves of IT and business value, and a mutually beneficial basis for long-term sourcing relationships

Expressly designed to embrace a multi-partner environment through seeking to combine capabilities across the value network to maximise synergies and realisable value

Innovation is 'value creating' and woven into the relationship fabric with defined innovation programmes focussed on the realisation of shared outcomes and rewards

Dynamic Sourcing relationships are 'agile by design', adaptable to changing business needs and leveraging processes to enable closer IT and business alignment

A pragmatic approach to sourcing with each client engagement facilitated by an integrated portfolio of value creation initiatives designed to address each client's particular business needs and sourcing objectives

Principles of Dynamic Sourcing

1. Focus on Business Outcomes:

Dynamic Sourcing recognises that the technical goals and measures within conventional outsourcing contracts are becoming secondary to the business outcomes that the overall sourcing strategy aims to accomplish or support. These higher order objectives are better understood by the business and have the advantage of greater longevity.

2. Create a Collaborative Sourcing Model:

Most organisations are 'serial outsourcers', optimising each transaction with little regard for the target 'sourcing model' and with almost no regard to the eventual collaboration between the portfolio of partners that they are creating.

Dynamic Sourcing acknowledges the need for each sourcing transaction to be designed to fit into a collaborative sourcing model as well as to be optimal in its own domain. These considerations are made explicit in the solution, transition, transformation and governance as well as in the commercial and contractual approach.

3. Align Client and Supplier Intentions:

Dynamic Sourcing aims to accommodate and exploit change as opposed to simply mitigate it. There is an explicit recognition that many of the assumptions that underpin the initial transaction will change, as will the required performance levels and economic expectations. The key is to focus on the real requirements from a business perspective and to be realistic about the supplier's need to recover investments and make profit.

4. Build Mechanisms for Sustainable Transformation:

Traditional outsourcing envisages a single period of aggressive transformation to improve services and deploy supplier processes, followed by a sustained period of continuous improvement. This however is no longer sufficient to maintain market-leading performance. Dynamic Sourcing uses the latest tools, techniques and approaches that enables sustained, or iterative, transformation throughout the life of the sourcing relationship.

5. Ensure Appropriate Systems of Governance/Alignment:

Dynamic Sourcing assumes that from the outset there will be the need for appropriate aggregation and orchestration of a multi-partner environment providing end to end service delivery, management and improvement processes. It assumes the existence of end to end service delivery, management and improvement processes. It assumes that the objective is to harness the combined capabilities of the various partners into a cohesive whole working to meet client goals whether those goals are driven by opportunities, threats, market requirements or innovation. Dynamic sourcing embodies these ideas in an innovative operating model and a radically different approach to governance.

So as insurance executives juggle the need to optimise their cost base whilst driving growth and transformation - Dynamic Sourcing should be considered as a key strategic enabler for enhanced business performance.

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