IT projects in the US Retirement industry - Challenges with the Budgets, Timeline and Resources

One retirement plan provider that I recently talked to mentioned that one of their internal implementation was 18 months late and three times more expensive than the original expected cost. Another plan provider has to scrap their project after 8 months for budget overrun reasons. These stories are common in most of the plan provider organizations in the US retirement industry. Reconfirming the same is a recent Gartner survey[#1] report stating that only 42% projects meet the original budget, and 82% take longer than expected.

In the US retirement industry, the situation is much graver. Projects related to upgrading or replacing core applications like record keeping systems and other plan administration applications have failed to deliver the planned business cases. In most of the cases, one common reason behind all budget overruns and project failures is lapse in factoring all critical cost drivers. With shrinking YoY IT spends (projected growth by Gartner for 2015 is 3.6% on average[#2]), and major of this spend being consumed by daily plan administration processes and legacy systems support, CIOS are critical about IT project spends. In spite of this extra caution, IT projects are plagued with budget over run issues. Let's have a quick look at a few reasons.

Identifying and considering all the factors that influence total budget and timeline of project is the cornerstone for success of any IT project. All the items related to product license (onetime or on-going, based on the license model), implementation, integration, migration and support have to be factored in and all possible risks have to be identified and then their impact on time line and budget of the project has to be calculated.

Items like overall deployment model, number of systems to be replaced, number of plans to be configured, the range of complexity within the plans, number existing integration points, and integration readiness (web services availability, updated service catalogues etc.) of these touchpoints, new integration touch points and their complexity, migration approach (big-bang or gradual) data volume and integrity (migration efforts can go up to 25-30% of the total project effort) have to be analyzed critically, for estimating budget and timeline. Considering the risk associated, a minimal of 15-20% variance has to be baked into the overall budget. As a thumb rule, most of the organizations are considering a change control buffer of 25-30% of the overall estimated project budget to safeguard the project from these risks. Is this control buffer sufficient? This call should be taken by CXOs considering the risk percentage of influencing factors, based on their 'known unknown' and 'unknown unknown' status (Refer to Taleb's 'Black Swan[#3] Theory' for more details).

Another common mistake made by most is underestimating the resource requirements, right at the start. Enterprise projects typically involve multiple internal and external stakeholders like Business SMEs, IT SMEs, product vendors, integration partners etc., the more the number of stake holders, higher the risk. A comprehensive skill-gap analysis and resource management plan (onshore/offshore availability, duration etc.) is paramount to avoid conflicting demands for key resources during the execution.

While I have only scratched the surface here in naming some critical factors that can jeopardize the chances of success in the US retirement industry, CXOs have to review all the critical factors at granular level and do a holistic budgeting exercise, before the actual commencement of a project, to avoid surprises.

[#1] High Failure Rates in Insurance Legacy Modernization Challenge CIOs, Gartner January 2014, Ref G00260479.

[#2] Gartner IT Key Metrics Data 2015: Key Industry measures

[#3] https://en.wikipedia.org/wiki/Black_swan_theory

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