

Why can't IT projects get completion insurance?

By Graham Oakes

What's the difference between an IT project and bungee jumping?

They're both pretty scary experiences, but you can buy insurance against the risks of bungee jumping. For many organisations, kicking off an IT project feels like stepping into thin air with only one guarantee: it's downhill all the way.

Why can't we buy insurance for our IT projects? Many small and medium-sized organisations avoid IT, or do the bare minimum, because they're concerned by the complexity and risk that IT projects bring. Industry statistics, such as those in the Chaos Reports, suggest this isn't so daft, but it means that these organisations are also foregoing the benefits that effective systems might bring. If they could buy insurance against project failure, they might initiate some very valuable projects.

You can buy insurance for just about anything, if you look for it – satellite launches, models' legs, film productions. Why not for IT projects?

Film production is a good example. Like software development, it's a creative activity. You need a diverse team of technical specialists. The technology is always evolving. The end result depends on bringing together a lot of disparate scenes into a larger whole. Yet completion guarantees are common in the movie industry.

A completion guarantee is effectively an insurance policy that the project (the film production) will deliver on time and on budget. The person financing the film pays a premium to an independent third party (the guarantor), who then monitors the production and ensures it stays on track. If it doesn't, the guarantor repays the original financing.

A completion guarantee doesn't remove all risk. The film could still be a commercial flop. But by separating the production risk from the box office risk, financiers are better able to focus their attention on picking the right films. This is exactly what business executives should be able to do – focus on selecting the projects that offer the best potential for business payback. Instead, most IT projects entangle them in production risk. They lose sight of the benefits amidst their fear of out-of-control projects.

What would we gain if such insurance were available?

At a time when project budgets are under increasing pressure, it may seem odd to advocate siphoning some of those budgets off into insurance premiums. But I think there is a lot to gain by thinking about completion guarantees.

For a start, it could change the shape of our project portfolio. If completion guarantees allow executives to build a clearer picture of business benefits, with confidence that some of the production risks have been transferred to the guarantor, then organisations may well initiate more, and more meaningful, projects. Everyone gains – more projects for suppliers; more benefits for project sponsors.

And those sponsors will be better able to discharge their core responsibility – setting business priorities as the project progresses. Again, separating out questions of production and getting specialists from the insurer to oversee them allows

the sponsor to focus on the business questions, where their expertise really lies.

Completion guarantees could also improve the quality of our project delivery. Most thinking in this area has focused on the supplier. The SEI's Capability Maturity Model (CMM), for example, was founded on the assumption that projects would be delivered more effectively if the supplier were more capable. This is true, but it's only a partial truth. Successful project delivery requires maturity from both parties – purchaser and supplier. Each has a role to play.


This problem is becoming acknowledged in a number of domains. Advocates of Agile methods talk about the difficulty of finding effective 'product owners'. The public sector struggles with turnover of 'senior responsible owners'. Insurance gives us a lever to address these issues. If the sponsor moves on, the policy becomes void. If the 'on-site customer' proves to be unavailable when the development team needs them, then the premiums go up. This makes the costs of immature project sponsorship very clear, and in a language executives understand.

Compare this with the current state. Executives hear lots of people asking for more resources. They learn to discount most of these requests. When a project manager asks for 'more time from the users', executives discount it the same way. But write the need into an insurance policy and they can make an informed trade-off. That's the way insurance works – put better locks onto your doors and windows, and your insurance company will reduce your premiums. You decide whether the cost is worthwhile.

Finally, bringing in a trusted third party with a real interest in project success could fundamentally change the dynamic between customer and supplier. Many IT projects start from a position of distrust. Customers have been burned before. They've almost certainly seen the horror stories in the press. The may well have read the Chaos Reports. So they build ever tighter controls into their procurement and project oversight processes. These may mitigate some risks, but they also build barriers between customer and supplier, creating further distrust. This distrust eventually kills many projects, creating the foundations for future distrust.

How justified is this distrust? Well, the people writing the press articles or Chaos Reports are not without bias. Their work sells because it's newsworthy. Or consider this: have you ever sat on a tender evaluation board? Every vendor will attest to their track record of on-time, on-budget delivery. Yet these vendors are sampling the same project universe as the Chaos Reports. They come up with a different view of that universe because they use a different definition of success. Both definitions are biased.

Nonetheless, the distrust exists. Most of the IT people I know are bright and dedicated



professionals. They want to do a good job. But being bright and dedicated and well intentioned isn't enough to break this cycle of mistrust. The dynamic has become embedded in our industry. To break it, we need that trusted third party. Consultants might claim to fill this role, but they don't have enough 'skin in the game'. Guarantors would have skin in the game – they'd have to pay up if the project doesn't deliver. They could help rebuild trust.

Is IT project insurance really feasible?

On current statistics, the premium for an IT project completion guarantee would probably cost about as much as the project itself. No sponsor will pay such premiums. Completion guarantees work for films because their cost is reasonable – typically somewhere between 2% and 6% of the production budget.

The real question we need to ask ourselves is: what do we need to do to make our projects insurable?

To answer this, it's instructive to look again at how completion guarantees work for films. The guarantor doesn't just take the premiums and disappear – they play a very active role. This starts with the 'specification'. Before giving a guarantee, they conduct a thorough review of the script, production schedules, budget, and so on. They meet with key members of the team to

confirm that appropriate controls are in place, that the plans are feasible, and that the team has the necessary skills and experience.

The guarantor then actively monitors status throughout the production. They receive daily reports showing what scenes have been shot, who's been on set, what materials have been used, and so on. They retain the right to visit the set at any time, unannounced, and to meet with anyone on the team. If the production runs into difficulties, they can take control of the troubling aspects, for example, imposing additional financial controls or seeking changes to the script. In extremis, they may bring in their own producer to take control of the whole project. The guarantor steps in at some level on about one in five films.

This suggests to me that guarantors are managing their risk, and hence their premiums, in three ways:

- They help set clear standards for skills, processes, scripts, etc. The initial assessment and ongoing monitoring are impossible without such standards.
- They undertake independent assurance of the projects in their portfolio.
- They are able to provide skilled intervention when projects begin to get into trouble. Again, such intervention is only possible when the production is operating in reasonably standard way.

Importantly, such standards, independent assurance and skilled intervention don't dampen the creativity or professionalism of the film's scriptwriter, director, crew or cast. There's no fundamental reason why this couldn't also happen for IT projects.

Setting ourselves up for such external intervention may be scary for many IT project teams. There's a clear connotation of failure when someone takes over our work. But that air of failure taints the industry already (for all its evident successes). By making intervention possible, we'd also be making it less likely that such intervention will be needed.

Insurance companies started the first fire brigades. This was one way of managing their risks – by putting out fires, they reduced the amount they needed to pay out to their policyholders. Perhaps it's time for us to put out the fires on our IT projects?

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