A Government Insurer Enters the Brave New World

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INTRODUCTION

Governments provide a wide range of services, and the digital economy provides both threats and opportunities in this sector. The Transport Accident Commission (TAC) is a compulsory, government owned and operated insurance scheme for third-party, no-fault liability insurance for transport accident victims, operated in Victoria, Australia.

E-business has now been widely used in all sectors from small business (Loane, McNaughton, & Bell, 2004) to emerging economies (Li & Chang, 2004), and in very different industry sectors (Cagno, Di Giulio, & Trucco, 2004; Golden, Hughes, & Gallagher, 2003). Major steps forward and applications have occurred in retailing (Leonard & Cronan, 2003; Mackay, Altmann, & McMichael, 2003; Starr, 2003).

Applications need to be highly customized as the business-to-consumer (B2C) and business-to-business (B2B) environments are very different, and requirements of industries such as retailing and mining, and indeed government, differ substantially (Carter, 2003; He & Lung, 2002; Rotondaro, 2002). Government provides a particularly different environment for e-business applications because government services are often delivered in monopoly circumstances, with no real profit motive behind them.

At the height of the technology boom in October 1999, Tony Marxsen joined the TAC as head of IT to develop a new IT outsourcing contract for the organization as the current 5-year contract was due to end in July 2000.

He quickly realized that the TAC IT systems were out of date, lacked IT process integration, and were constraining improvement in business processes, and that no significant investments had been made for some time. Renewing or redesigning the outsourcing contract, the basis for which he had been employed, would only be a short-term solution.

The problem was that the cost of new infrastructure would be high, and return on technology investment would mainly be realized from redesigned business processes enabled by the new technology. Tony wanted to propose a business transformation, with process changes as well as significant investment in IT infrastructure. Together, these would take the TAC from 1970s technology into the 21st century. The problem was that

their (investments in such transformation) payoffs are not easily and quickly achieved. Their value does not come from installing the technology; it comes from changing both operating and management processes— perhaps operating and managing cultures too. (Ross & Beath, 2002, p. 53)

Tony knew he would have to win the support of the board and senior management, but he could not immediately give them a concrete business case for the investment. He also knew that any infrastructure investment had to be linked with a major process-improvement initiative from the start to avoid the double investment of building new applications to support old processes, and then undertaking major modifications or even replacement when the need for improvement became obvious to the board and management team. He compared investing in IT infrastructure to rewiring and replumbing your house:

as far as visitors are concerned, there's no visible difference, everything's behind the walls, but as the owner you get the benefits of things like cheaper electricity and water bills because of efficiencies in the new redesigned systems. The problem is convincing people that they will get these results in the future, but that they need to hand over the money now, when there's no hard evidence for the benefits they'll get, just a bunch of assumptions and no guarantees. It's a big ask for any Board. (Marxsen, personal communication, September 4, 2003)

Tony knew that the first hurdle he would have to overcome would be getting the board to agree to give him the opportunity to put together a team to develop a business case for the board's further consideration.

BACKGROUND

The economic and social costs associated with road accidents have made the issue of road safety a major concern and cost for the community.

In 1986, the Victorian Parliament passed the Transport Accident Act 1986, establishing the TAC from January 1, 1987. The purpose of the act was to establish a compensation scheme "in respect of persons who are injured or die as a result of transport accidents," as well as promoting road safety in Victoria and improving Victoria's trauma system (Marxsen, personal communication, September 4, 2003).

Operating as a commercial insurer, the TAC is funded by payments made by Victorian motorists when they register their vehicles each year, and by premiums charged to managers of tramways and railways, as well as from investment income generated on reserves. As such, the TAC operates as a state-owned enterprise of the Victorian government.

CONCEPTUAL FRAMEWORK

Timmers (1998) specified a number of e-business models, and Rappa (2003) more recently defined nine categories for e-business models: advertising, affiliate, brokerage, community, infomediary, merchant, manufacturer, subscription, and utility. TAC is clearly a manufacturer of insurance policies and claims processing services, many of which are quite complex. Joyce and Winch (2005) provided a comprehensive conceptual framework posing that the firm's business strategy, emergent and realized, should combine with the firm's dynamic capabilities to form a business model within which the business processes and the enabling technologies should be chosen and implemented. This framework has valuable insights, which TAC learned to some extent the hard way, for it began its e-journey looking closely at the technological opportunities and then realized that it needed to step back and consider its business processes (and their reengineering) first. Then it realized that at an even higher level, future organizational strategy needed to be well formulated in order to drive the business model, and only then can process and technology choices be sensibly made in an existing organization that is mature in its life cycle and in an established industry. While technological opportunities may be a major driver in a private-sector Greenfield or start-up company or industry, in a government-owned services organization, which primarily exists to implement an act of parliament (which is very detailed in its prescriptions of what and how it must act), the board of the TAC and the e-TAC project team realized that e-business choices must be governed and constrained by a primarily top-down approach.

TAC Business Processes and Information Systems

The TAC processes around 18,000 new compensation claims per year covering transport accidents directly caused by the driving of a car, motorcycle, bus, train, or tram. The organization pays benefits to people injured in an accident as a driver, passenger, pedestrian, motorcyclist, or cyclist.

The accountability and administrative issues surrounding claims management means that the TAC sends around 1,200 letters and 350 faxes per day, and issues around 800 checks and electronic funds transfers (EFTs) per day. On top of this, it is estimated that the organization receives around 4,000 inbound correspondence items and 550 pages of faxed items per day.

Administrative costs are around $64 million per annum, whilst claims payments made are in the order of $500 million per annum.

A Changed IT Environment

Whilst overall the 5-year TAC contract with DMR outsourcing had been successful, with a number of financial savings, project phases delivered on time and on budget, and successful Y2K (year 2000) work amongst other things, a number of changes in the marketplace had taken place during the life of the contract.

The changed environment meant that major savings could probably be achieved if the current contract was broken into smaller parcels going forward.

However, in order to write effective tender documents for the various services that could be unbundled and outsourced, various organizational systems and processes needed to be reviewed.

Developing the New TAC IT Strategy

A review in late 1999, in conjunction with the board and with input from the Boston Consulting Group and Deloitte, confirmed that significant changes to the organization's information-technology systems were needed to move forward. It was proposed that a new IT strategy had to be designed that would deliver the following important organizational requirements:

- Systems and infrastructure to deliver quality information for effective liability control
- Systems to support process improvements aimed at efficiency and service delivery
- Best-practice security of all information
- Active management of technology at risk

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