

## Chapter 4.27

# 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He quickly realized that the TAC IT systems were out of date, lacked IT process integration, and were constraining improvement in business processes, and that no significant investments had been made for some time.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 21<sup>st</sup> 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

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