Executive Management Must Establish IT Governance: Tokio Marine Group

By Yuichi (Rich) Inaba, CISA, and Hiroyuki Shibuya

Tokio Marine Group is a global corporate group engaged in a wide variety of insurance businesses. It consists of about 70 companies on five continents, including Tokio Marine and Nichido Fire Insurance (Japan), Philadelphia Insurance (US), Kiln (UK) and Tokio Marine Asia (Singapore).

In addition to Tokio Marine and Nichido Fire Insurance, which is the largest property and casualty insurance company in Japan, Tokio Marine Group has several other domestic companies in Japan, such as Tokio Marine and Nichido Life Insurance Co. Ltd, as well as service providers, such as Tokio Marine and Nichido Medical Service Co. Ltd. and Tokio Marine and Nichido Facilities Inc.

Implementing IT Governance at Tokio Marine Group

Tokio Marine Holdings, which is responsible for establishing the group's IT governance approach, observed that the executive management of Tokio Marine Group companies believes that IT is an essential infrastructure for business management, and it hoped to strengthen company management by utilizing IT. However, some directors and executives had a negative impression of IT—that IT is difficult to understand, costs too much, and results in frequent system troubles and system development failures.

It is common for an organization's executive management to recognize the importance of system development but to put its development solely on the shoulders of the IT department. Other executives go even further, saying that the management or governance of IT is not anyone's business but the IT department's or chief information officer's (CIO's). This line of thinking around IT is similar to the thought process that accounting is the job of the accounting department and handling personnel affairs is the role of the human resources department.

These are typical behaviors of organizations that fail to implement IT governance systems. Tokio Marine Holdings' executive management recognized that IT is not for IT's sake alone, but is a tool to strengthen business.

Tokio Marine Holdings' management recognized that there were various types of system development failures (e.g., development delays for the service-in date, projects being over budget). Even more frequently, the organization was finding requirement gaps—for instance, where after building a system, the business people say, "This is not the system that we asked you to build" or "The system that you built is not easy to use. It is useless for the business."

Why the Requirement Gaps Occur

The process of system development is similar to that of a building's construction. However, there is a distinct difference between the two: system development is not visible, whereas building construction is. Therefore, in system development, it is inevitable that there are recognition and communication gaps between business and IT (**figure 1**).

Figure 1—The Requirement Gap

The Requirements That Business Wants to Convey

The Requirements That IT Recognizes
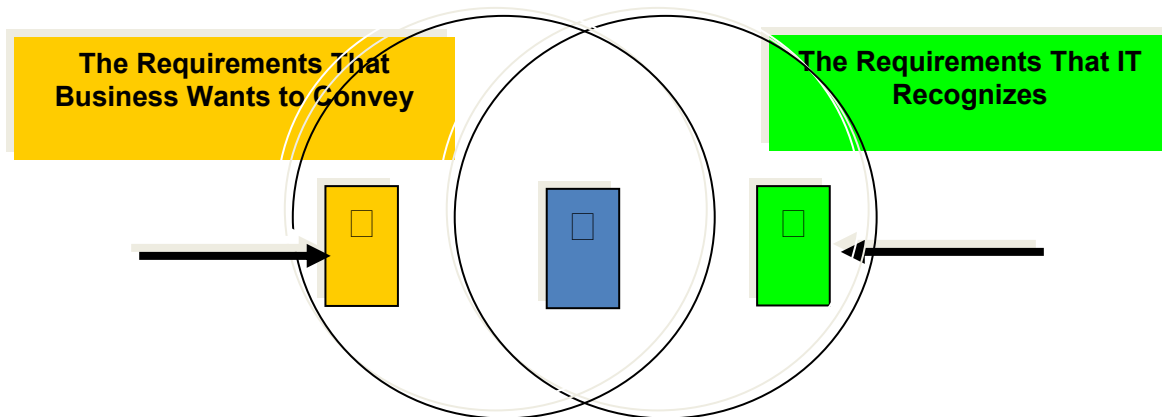
Tokio Marine Group's Solution for System Development Success

To fill these gaps, business and IT must communicate enough to minimize the gaps of A and C in **figure 1** and maximize a common understanding of B. The road to success for system development is to improve the quality of communication between business and IT.

Such communication cannot be reached or maintained in a one-sided relationship. Ideal communication is enabled only with an equal partnership between business and IT with appropriate roles and responsibilities mutually allocated.

This is the core concept of Tokio Marine Group's Application Owner System.

Implementing the Application Owner System

Tokio Marine Holdings decided to implement the Application Owner System as a core concept of the Group IT Governance System. Tokio Marine Holdings believes it is essential for the group companies to succeed in system development and to achieve the group's growth in the current business environment.

The basic idea of the Application Owner System (**figure 2**) is:
- Mutual cooperation between business and IT with proper check-and-balance functions, appropriately allocated responsibilities and shared objectives
- Close communication between business and IT, each taking their own respective roles and responsibilities into account

Figure 2—The Application Owner System in Tokio Marine Group

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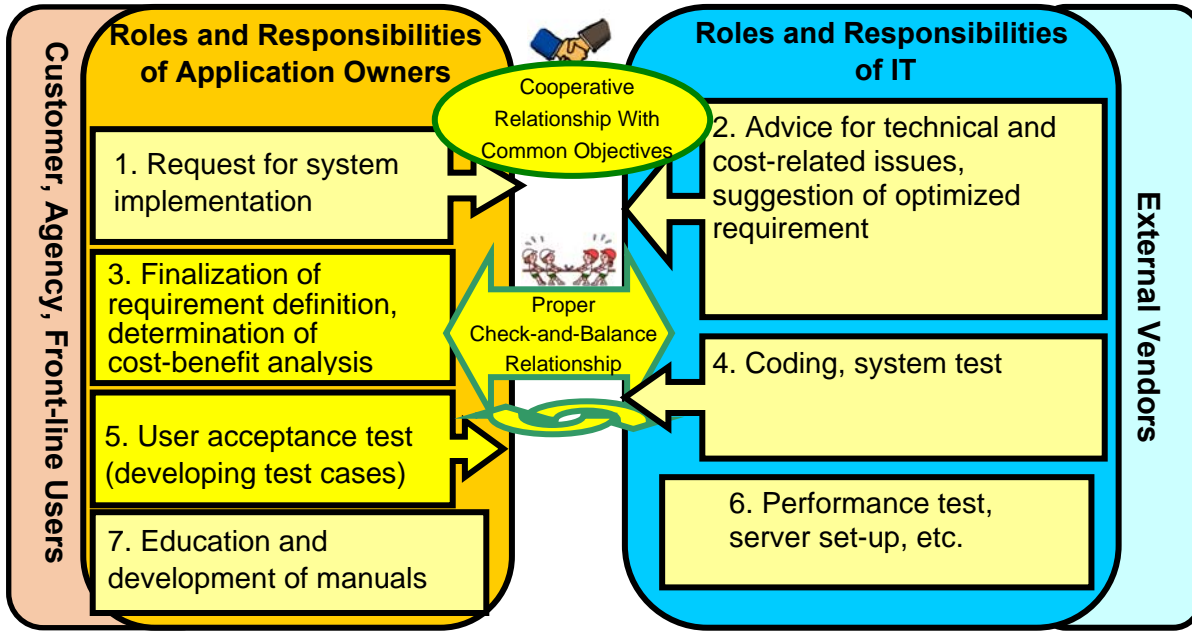
Early Success in Tokio Marine and Nichido Fire Insurance

Tokio Marine and Nichido Fire Insurance Co. Ltd., the largest group company, implemented the Application Owner System in 2000. Implementation of the Application Owner System immediately reduced system troubles and problems by 80 percent (**figure 3**).

Tokio Marine Group is now implementing the system across the group companies.

Figure 3—Number of System Troubles
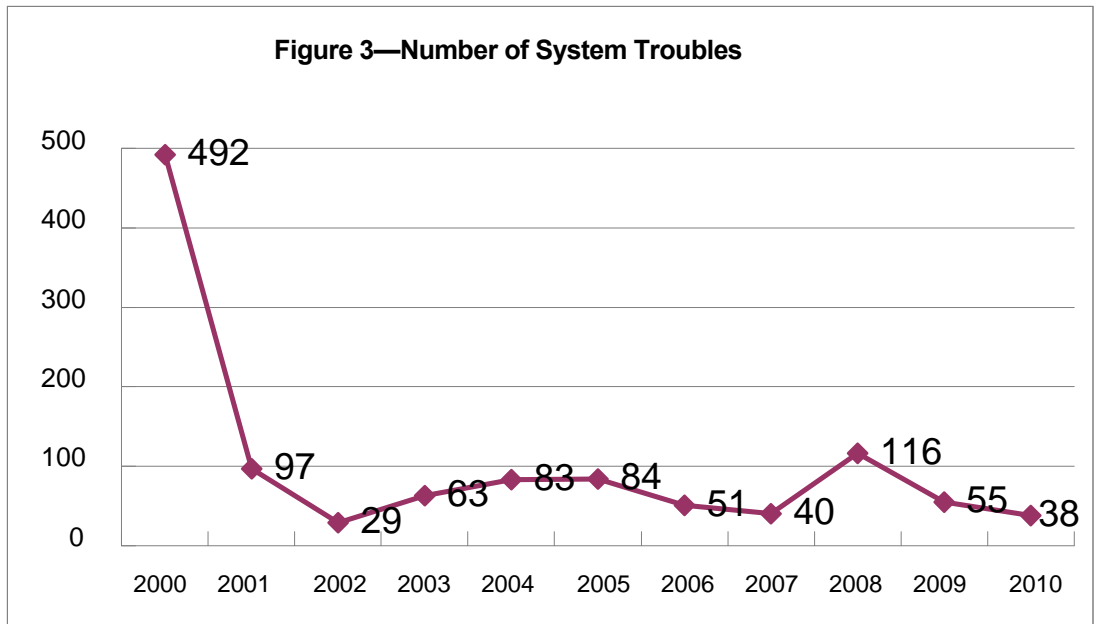
Mind-set of IT

Tokio Marine's mind-set is that only executive management can establish the enterprise's IT governance system. Thus, IT governance is the responsibility of executive management.

Furthermore, the organization is of the mind-set that all employees, not only executive management, should understand the principle that strong IT systems cannot be realized by the IT department alone but require cooperation between business and IT. It is important that all employees recognize IT matters as their own, not as the matter of the IT function.

Establishing such a mind-set within the enterprise is a role of executive management.

Tokio Marine Group's IT Governance System

Characterized by the Application Owner System, Tokio Marine Holdings has introduced an IT governance framework, focused on the COBIT 4.1 framework, specifically the Plan and Organize (PO) domain.

The main goals of the IT governance framework are:
- **Establishing basic policies for IT governance**—Tokio Marine Holdings established the Basic Policies for IT Governance as the policies for the group's IT governance framework.
- **Establishing guiding principles for IT governance**—Tokio Marine Holdings defines seven principles as the guiding principles (**figure 4**). These cover the five focus areas defined in the *Board Briefing on IT Governance*, particularly focusing on strategic alignment and value delivery. The seven principles are included in the Basic Policies for IT Governance. Tokio Marine Holdings thinks that the most important principle is the Application Owner System, which is stated as follows:

> *In implementing the plan, it is important for the IT unit and the application owner units to cooperate with each other with proper check-and-balance functions. Management shall clearly determine the appropriate sharing of roles between the IT unit and application owner units, secure human resources of adequate quality in both units, and establish a management system to assure that each unit will execute the plan according to its responsibilities.*

No.	Figure 4—Seven Guiding Principles	
No.	**Guiding Principle (Summary)**	**Focus Area**
1	Establish an IT strategic plan that enables management to achieve its business strategic plan, build the business processes for it, and develop an execution plan.	Strategic Alignment
2	In executing the plan, ensure that the IT unit and the application owner units cooperate with each other with proper check-and-balance functions.	Strategic Alignment
3	In the development or implementation of information systems, ensure that management scrutinizes the validity of the project plan from the standpoint of quality assurance, usability, commitment to service-in date, appropriate cost estimation and matching to the human resources availability.	Value Delivery
4	Ensure that the information systems are fully utilized by all staff in the company in order to achieve the objectives for the development or implementation of the information systems.	Value Delivery
5	Conduct appropriate IT resource management, including computer capacity management and human resources management.	Resource Management
6	Conduct appropriate risk management and information security management, and establish contingency plans for system faults in consideration of the accumulation of various risk factors in IT, such as high dependency of business processes on IT, centralization of important information and threats from wider use of the Internet.	Risk Management
7	Encourage the transparency of IT operations to be improved, and monitor their progress, which includes, for example, the progress of projects, the usage of IT resources and utilization of information systems.	Performance Measurement

- **Establishing a governance and management system for Tokio Marine Group**—Tokio Marine Holdings defines the governance and management system to be implemented in the group companies. It covers five domains and consists of

three major components: establishment of the organizational structure, establishment of policies and standards, and execution of the plan, do, check and act (PDCA) cycle for improvement. The governance and management system required for Tokio Marine Group companies is detailed in the Group IT Governance Standard.

- **Establishing an IT governance standard** (the definition of Tokio Marine's priority processes)—Tokio Marine Holdings has decided to utilize COBIT 4.1 to define the management system. However, the organization recognizes that it is difficult for relatively small group companies to implement matured processes for all 34 COBIT 4.1 processes. To handle this concern, the organization focused on the minimal set of processes or more detailed control objectives, which are essential for its group business in terms of IT governance and the most important controls for Tokio Marine Group.

In the IT Governance Standard, Tokio Marine Holdings defined the IT controls outlined in **figure 5** as priority for the Tokio Marine Group. The priority IT controls are defined as five domains, 14 processes and 39 control objectives, which are selected processes from the 210 control objectives of COBIT 4.1.

The group companies are required to improve the priority controls to reach a maturity level 3, according the COBIT Maturity Model, and report the progress of improvements to Tokio Marine Holdings.
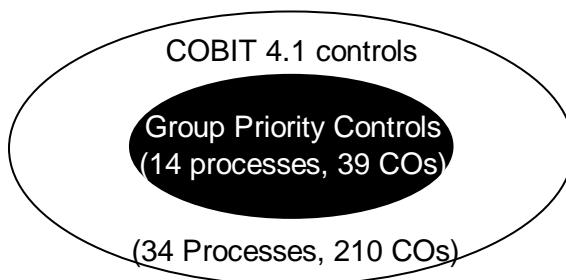
Toward the Future

Since the establishment of the IT governance system for Tokio Marine Group, Tokio Marine Holdings has extensively communicated not only with the CIOs but also with chief executive officers (CEOs) and executive management of the group companies to ensure that they understand, agree on and take leadership for IT governance implementation.

Figure 5—Tokio Marine Group's Priority Controls

COBIT 4.1 controls

Group Priority Controls
(14 processes, 39 COs)

(34 Processes, 210 COs)

	Domain Name	Id	Process Name
a.	Planning and organization	a1	Annual IT planning
		a2	Definitions of roles and responsibilities of the IT unit and application owner units
		a3	Establishment of an IT steering committee
b.	Projects management	b1	Management of development and implementation projects
c.	Change management	c1	Change control
d.	Operations management	d1	Incident/problem management
		d2	Vendor management
		d3	Security management
		d4	IT asset management
		d5	Computer capacity management
		d6	Disaster recovery and backup/restore
e.	Monitoring performance and return on investment	e1	Annual IT review
		e2	Monitoring the IT steering committee
		e3	Monitoring project management, change management, and systems operation management

Through these activities, the organization is confident that the core concept of IT governance has become better understood by management and good progress is being made as a result of the implementation of the application owner system in group companies. Tokio Marine Holdings will continue its evangelist mission to the group companies, realizing the benefit for the group business and giving value to stakeholders.

Yuichi (Rich) Inaba, CISA

Is a senior consultant specialist in the area of IT governance, IT risk management and IT information security in the Tokio Marine and Nichido Systems Co. Ltd. (TMNS), a Tokio Marine Group company. Before transferring to TMNS, he had worked in the IT Planning Dept. of Tokio Marine Holdings Inc. and had engaged in establishing Tokio Marine Group's IT governance framework based on COBIT 4.1. His current responsibility is to implement and practice Tokio Marine Group's IT governance

at TMNS. Inaba is a member of the ISACA Tokyo Chapter's Standards Committee and is currently engaged in translating COBIT 5 publications into Japanese.

Hiroyuki Shibuya

Is an executive officer in charge of IT at Tokio Marine Holdings Inc. From 2000-2005, he led the innovation project from the IT side, which has totally reconstructed the insurance product lines, their business processes and the information systems of Tokio Marine and Nichido Fire Insurance Co. Ltd. To leverage his experience from this project as well as remediate other troubled development projects of group companies, he was named the general manager of the newly established IT planning department at Tokio Marine Holdings in July 2010. Since then, he has been leading the efforts to establish IT governance basic policies and standards and to strengthen IT governance throughout the Tokio Marine Group.