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# A Dream Project Turns Nightmare: How Flawless Software Never Got Implemented

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## EXECUTIVE SUMMARY

It was in 1996 that Integra[1], a large Canadian life insurance institution, launched its *Banking and Loan Insurance Software System* (BLISS) development project with the aim of gaining access to the loan insurance market in small Credit Unions (CUs) across Canada. The company was ready to provide the system free of charge to the Credit Unions on the provision that they commercialize exclusively Integra's loan insurance products. To achieve this goal, Integra entered into a partnership with Intex Consulting, the Canadian subsidiary of a large international information system (IS) integration firm who wanted to gain a foothold in the Canadian banking business. After 1.3 million dollars of investment from each partner and twelve months of intensive efforts, the project came to an abrupt stop. The lessons learned in this case study include: (1) the importance of understanding requirements beyond micro-level user needs, (2) the need to get the enlightened involvement of each interested party in a large complex project, (3) the importance of appraising the specific contribution of each partner in a strategic alliance, and (4) the obstacles faced when entering an unfamiliar market with a new, unproven IS product.

## BACKGROUND

The Integra Financial Corporation is a holding company active through its subsidiaries in life insurance, general insurance, trust services, securities brokerage as well as asset and portfolio management. Operating mainly in the province of Quebec (Canada), Integra

manages assets in the order of eight billion dollars and a work force of more than 2,200 permanent employees. Integra's life operations rank among the seven largest in Canada in terms of written premiums[2].

One of Integra's most successful products (its '*cash cow*' in the words of the CEO) is its Loan and Mortgage Insurance Plan, developed in the early 1980s. With more than two million insured loans, this program is one of the largest group insurance plan of its kind in Canada. Commercialized exclusively through financial institutions in the province of Quebec, this product is totally integrated with the banking systems of the participating institutions. Thus, when a loan application is accepted at one of these institutions, the loan officer can offer his client, on the spot, an insurance policy to cover his or her loan. In return, the participating institution receives a percentage of the premium for its efforts.

This capability is available because the banking systems of the institutions are electronically linked to Integra's insurance management systems. These systems automatically determine the risk exposure of the loan and establish the premium to charge for the insurance coverage. Rates are calculated as a function of the balance due on the loan. In other words, the premium declines with each installment applied to the loan. Thus, the client pays an equitable premium for the real financial risk that his loan represents. For example, if the agreed rate of interest charged on the loan is 6.23%, and the life insurance premium is set at 0.07% of the loan, then the actual combined rate will be 6.3% of the outstanding debt. Based on a broad experience in the loan insurance market and a huge database accumulating data since 1984, Integra's actuaries have been able to develop a very proficient risk evaluation algorithm. This algorithm enables the institution to offer an insurance product with practically no exclusions (no more than 1% of all cases are excluded) applying to any particular field of work or the practice of dangerous sports, thus greatly simplifying the administration and lowering the operating costs of the product. Few, if any, of its competitors had attained this level of sophistication.

According to Integra's management, these hard to replicate characteristics gave the firm a persistent competitive advantage over other loan insurance offerings since, as of late 1996, the competition could only offer fixed (and much higher) rates based on the total amount of the loan and had to charge termination penalties when their clients reimbursed their loans ahead of time.

# SETTING THE STAGE

While Integra's Loan and Mortgage Insurance product proved to be a huge success in the province of Quebec, the company faced major impediments in its quest to commercialize its leading product in the rest of Canada. One reason for this difficulty is that the Canadian banking sector is fragmented along two basic modes of organization. In the first mode, which comprises the majority of the large financial institutions, banks operate under a federal charter. This charter gives the participating institution the right to operate anywhere in Canada, whereas a provincial charter grants access only to the provincial territory. On the other hand, most of the small institutions, including the credit unions, operate under provincial jurisdictions. Historically, and for cultural and political reasons, those small financial institutions have tended to structure themselves into very divergent configurations within each province, and the banking infrastructure of each sector differs somewhat. Whereas in the province of Quebec, the credit unions tend to be tightly integrated into large federations and use standardized central banking systems, their counterpart in the other