

IT Governance and Corporate Governance at ING

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Much has been written during recent months and years about the growing importance of strong governance in today's volatile and challenging business world. This has had particular resonance following the accounting and related scandals at diverse organisations such as Enron, WorldCom, Global Crossing and Ahold. This article is intended to demonstrate how the global financial services group ING is rising to these challenges and, in particular, how the organisation has managed its IT governance responsibilities.

About ING Group

ING Group is a global financial services institution of Dutch origin offering banking, insurance and asset management to 60 million private, corporate and institutional clients worldwide. ING is a multiproduct, multidistribution company, approaching the customer through his/her channel of choice. The company comprises a broad spectrum of prominent businesses that increasingly serve their clients under the ING brand.

ING employs more than 115,000 people, and 70 percent of its stock is held outside the Netherlands.

In today's financial markets the group has a current market capitalisation of some €23 billion and total assets of more than €700 billion (*Note: as of March 2003*). Its asset management business has approximately €450 billion of assets under management.

ING is a large and diverse business that has grown significantly in recent years through a combination of autonomous growth and targeted acquisitions.

The organisation's corporate governance and transparency have been improving continuously since ING was created in 1991. This year, ING's governance will make a big step forward, as it moves away from a typically Dutch governance structure toward a structure that is better adapted to the needs of an international company that has 70 percent of its shares held by non-Dutch investors.

ING claims to have full commitment to corporate governance and, as an integral part of achieving its governance objectives, also has full commitment to governance of its IT investments and operations.

Governance: Corporate and IT

There are many definitions of corporate and IT governance, all expressing the concept that running a business must be a well-organised activity carried out by professional people who accept full responsibility and accountability for their actions. In other words, a well-governed company is not gambling with other people's money, whether it be in a new acquisition or an investment in technology.

IT governance is a subset, a very important subset, of governance as a whole. ING cannot afford to apply to its IT governance anything less than the commitment it applies to overall governance, according to the company.

Like all global financial services organisations, ING is totally dependent on information technology, not just to support and enhance its business, but increasingly to enable it. Today's global financial markets have IT as their lifeblood. The organisation is reliant upon it 24/7/365 days a year. Without IT, there would be no business.

IT Road Map

As part of its annual planning exercise, ING produces an IT Road Map. This is designed to set out the current high-level issues concerning its use of IT. It also outlines the organisation's current priorities for IT investment and addresses the way in which it will continue to ensure that IT is properly aligned with the needs of the business. The highlights include:

- The need to continue the existing focus on e-business and leverage further the success so far achieved. The emphasis in this area is very firmly on further benefits realisation.
- The need to ensure that technology properly provides solutions to current business challenges including:
 - Increasing customer centricity
 - Optimising distribution channels
 - Improving operational efficiency and driving down operational costs
 - Improving organisational agility
 - Ensuring operational resilience—business continuity and security
 - Increasing information intensity and availability
 - Optimising cost structures (through, for example, Straight-through Processing)
 - Maintaining a close watch on new technologies such as ubiquitous computing, location sensing, grid computing and web services
 - Identifying key trends and issues from the IT dashboard exercise (to be discussed later)

This information allows for the definition of the organisation's IT agenda and priorities which include:

- Sourcing
- Business architecture alignment
- Rationalisation, consolidation and standardisation
- Improved information and metrics
- Security
- IT governance

Yes, IT governance is one of ING's key focus areas.

Addressing IT Governance at ING

The IT Governance Institute's *Board Briefing on IT Governance* (now in its second edition) encourages boards of directors to seek answers to questions such as:

- How does IT add value to the business?
- How often do IT projects fail to deliver what they promised?
- Does the board have a clear view on how much the enterprise invests in IT compared to its competitors?

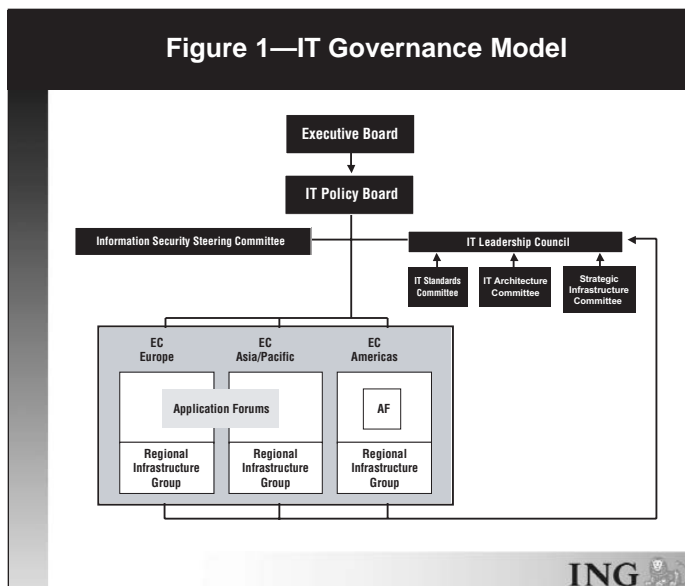
The board of directors at ING does ask these questions, and it is a responsibility of the members of that board to ensure that the mechanisms are in place to provide answers. Sometimes, as with all organisations, the answers may make uncomfortable reading, but at least by asking the questions and finding out the answers ING is in a position to do something about identified problems and issues. Ignorance is only very short-term bliss!

So what is ING's IT governance structure?

IT Governance Structure at ING

The ING IT governance structure was recently profiled in a Gartner report, "Effective Governance by Design," and the model is shown in **figure 1**.

Within ING, a global IT governance structure has been



implemented that meshes with its overall corporate governance structure. In this author's view, this consistency is essential to success. Indeed, the recent reports from the MIT Sloan School Centre for Information Systems Research also strongly recommend that IT governance structures integrate with the overall governance model. This helps ensure the strategic alignment of IT with the business—another important objective of IT governance. This structure is meant not only to improve the quality of the IT function but also to speed up decision-making.

Within the board of directors, this author is responsible for IT policy. The policy is set by the IT policy board, which this author chairs. Two additional main board directors also sit on this committee, thus ensuring proper interest and accountability for IT at the board level. The IT policy board consists also of the OPS/IT portfolio keepers of the three

executive centres (ING-speak for divisions) and the director of the Corporate IT (CIT) staff department. There is also an IT leadership council, consisting primarily of business CIOs who advise the policy board. In addition, to demonstrate the seriousness that ING applies to information security, there is a separate information security steering committee that also reports directly to the IT policy board. The IT leadership council has three subgroups dealing with IT standards, IT architecture and IT infrastructure.

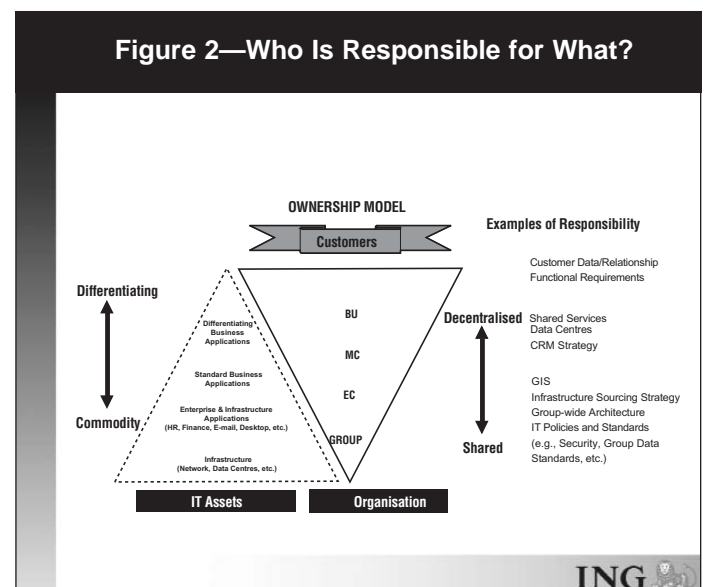
ING has particular challenges in many of these areas because of the plethora of inherited legacy systems around the world. ING was created out of a merger and has grown significantly through acquisitions. During the last decade of the previous century, business units, whether a forebear company or an acquired company, had a large degree of autonomy. This has had major advantages for the continuation of business as usual, but it has made it difficult to generate IT-related economies of scale and to leverage synergies and standards among the group. This strategy was abandoned in 2000 when ING rounded out its US position with two major acquisitions. Since then, the integration of systems and infrastructure has been a priority.

A key feature of ING's governance structure is the existence of corporate IT, one of ING's group staff departments responsible for policy preparation, the provision of IT advice to the businesses and monitoring the IT activity within the entire organisation. This latter activity is carried out by a small subgroup within CIT—the IT performance and investment management team.

In addition, there are application forums within the executive centres (divisions) to provide a mechanism for standardising functional application areas (e.g., CRM) across the businesses. The approach is to bring the demand (from the business) and supply (from IT) together to determine the optimum method to move forward.

Who Is Responsible for What?

This graphic shows ING's IT ownership model, which recognises the different needs and the different characteristics of ING's diverse businesses and provides examples of the responsibilities at each level (**figure 2**).



The IT Governance Institute emphasises that “you cannot manage what you cannot measure.” ING fully endorses this adage. ING’s IT governance structure, particularly its accountability to the businesses and to the board of directors, would not be able to function effectively without the provision of regular reliable metrics and benchmarks to help measure value, performance and industry comparability. This is where the IT value and performance team come in, together with the annual IT dashboard exercise.

How the IT Dashboard Helps ING

The IT dashboard process, which is carried out at the same time as ING’s annual medium-term business planning exercise, provides the information necessary to:

- Enable ING, over time, to develop and compare the most appropriate metrics on IT spend, performance and value
- Help identify positive and negative trends and thus enable best practices to be shared and, where appropriate, managerial actions to be taken
- Enable direct comparison with specifically commissioned, peer group information
- Enable direct comparison of metrics among different business units
- Assist senior business and IT management to exercise their governance responsibilities over IT investments

IT Metrics

The metrics that are collected and analysed include the obvious yardsticks:

- IT costs by category and by activity
- IT staff numbers and costs analysed by activity
- Full-time vs. contract IT staff
- Outsourcing ratios
- Workstation costs
- IT intensity (IT costs as a percentage of total operating costs)
- IT related operational risk incidents (number and value)
- IT security incidents (number and value)

ING has paid special attention to develop metrics to follow-up IT projects and has come to view IT projects as IT-enabled business investments. The corollary is that ING approaches these projects as an asset manager would analyse an investment proposal.

For example, ING wants to know projections in terms of time until completion, budget and functionality. Before providing an approval, ING also demands financial transparency and risk/return metrics. This information, together with other metrics collected, including its own solutions delivery performance, results in a risk/return rating of ING’s IT investment portfolio and its ability to actively manage the portfolio on the basis of the capability maturity model (CMM).

The data are collected from ING’s own businesses and from a selection of peer group companies to enable ING to make cross-industry comparisons.

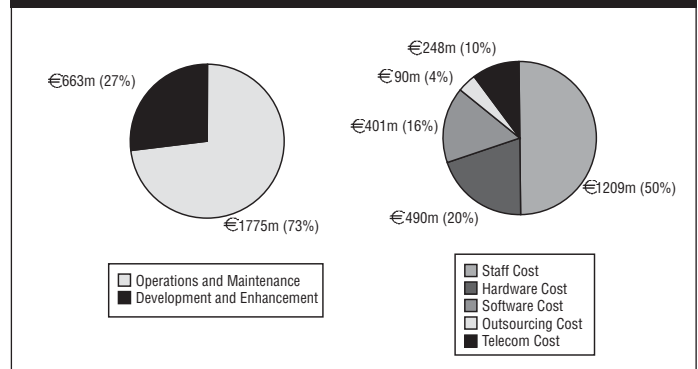
ING’s IT Cost in 2003

In 2003, ING spent more than €2.4 billion on IT. This is approximately 18 percent of its total operational costs and 25

percent of its total banking business costs. The left pie graph of **figure 3** shows ING’s total IT costs by IT activity. The pie to the right shows IT costs by cost category—hardware, software, labour, telecoms and outsourcing.

ING employs more than 15,000 people around the world in IT-related jobs; this represents about 13 percent of its total workforce.

Figure 3—ING Group 2003 IT Cost (€2438m)



Given the amount of money and number of people involved, this author believes that ING is right to stress the need for excellent governance structures and processes. How else to ensure that the right things are being done with the organisation’s resources and, as far as possible, the organisation is getting defined value from these investments?

How the IT Dashboard Helped ING with IT Governance

The metrics collected through the dashboard process are merely a means to an end. The results obtained from the analysis help to formulate the right questions and enable ING to focus on specific issues. The kind of questions and issues that ING has identified include:

- Why future IT expenditure predictions are out of line, in some cases, with the majority of competitors. (Further analysis will enable ING to decide whether this is a positive or negative thing.)
- The financial transparency of many IT investments is not as clearly defined as it should be; therefore, ING is not always clear on the returns expected from the investment being made.
- Anomalies have been identified in the IT investment portfolio in terms of risk vs. return. This requires further drill-down to ascertain the true and complete picture. This has led to a board-led requirement to reexamine existing IT investment portfolios.
- In common with many of its peers, ING is not as good at successful project delivery performance it should be. There has been a clear correlation between project delivery success and higher CMM levels. Therefore, the board has taken action to require all business units to attain a defined higher level within a specified and challenging time frame.
- Through the IT investment risk assessment methodology that is embedded into the dashboard process, ING now has a far clearer and more complete picture of where its major areas of

