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USAA: Organizing for Innovation and Superior Customer Service

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Authors: **Jeanne W. Ross and Cynthia M. Beath**

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Abstract: USAA, a diversified financial services firm serving the U.S. military, had long been recognized for outstanding customer service. The company had never operated branches, instead providing services through remote channels, such as the telephone, Internet (USAA.com), mail, fax, and any bank's ATM machines. USAA wanted customers to be able to access their services any way they liked. By 2010, however, USAA recognized that serving customers remotely meant responding to the rapid introduction of mobile consumer devices. To ensure constant innovation and integrated customer services, USAA was transforming its operating model and promoting innovation across the enterprise. The IT unit was focused on providing technology platforms and solutions to support both an integrated business model and rapid innovations. This case describes how USAA was transforming itself and, specifically, how the IT unit was addressing changing demands from customers and business partners.

Keywords: IT organization structure, IT innovation, business transformation, shared services, IT metrics

18 Pages

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USAA: Organizing for Innovation and Superior Customer Service

Soon after Apple introduced the iPad in the spring of 2010, USAA's CIO Greg Schwartz distributed iPads to the top 50 executives in the company. Earlier, he had distributed iPhones to the top 500 executives:

> *I want them to dream along with me. I want them to experience the new technologies, I want them to understand and think about how it can help them not only be more productive as an individual, but how they could leverage this great new technology with our customer base.*
>
> *—Greg Schwartz*
> *SVP and CIO*

USAA, a diversified financial services firm serving the U.S. military, had long prided itself on providing outstanding customer service to its members. Going forward, management believed that serving members meant enabling them to access USAA services through any technology they might prefer:

> *Whatever devices the members have, we need to be there. It doesn't matter if it's only a small portion of our membership. We're going to be there for them.*
>
> *—Greg Schwartz*

EVP and CAO Kevin Bergner, an enthusiastic iPad convert, noted the importance of technology innovation:

> *We have made it part of our commitment, part of our journey, to truly embrace the opportunities offered by new technologies and not just leave them on the floor.*
>
> *—Kevin Bergner*
> *EVP and CAO*

In August 2009, USAA had led the industry in introducing Deposit@Mobile®. This application allowed members to take a picture of a check with their iPhones and immediately deposit it into their USAA bank account. From August through December 2009, 75,000 USAA members deposited $234 million with USAA Deposit@Mobile®. In early 2010, average monthly member deposits via USAA Deposit@Mobile® hit 130,000. Over the course of 2010, member adoption and usage increased 270%; and by October 2010, USAA members had deposited over $1.5 billion using Deposit@Mobile®.

This case study was prepared by Jeanne W. Ross of the MIT Sloan Center for Information Systems Research and Cynthia M. Beath of the University of Texas, Austin. This case was written for the purposes of class discussion, rather than to illustrate either effective or ineffective handling of a managerial situation. The authors would like to acknowledge and thank the executives at USAA for their participation in the case study.

In August 2010, USAA introduced USAA Auto Circle™—a seamless way to find, buy, finance, warranty, and insure a new car from a computer or iPhone. Soon thereafter, USAA rolled out Home Circle™, an integrated service to help members find, buy, finance, insure, rent, and sell a home. USAA's goal was to improve the customer experience in the automobile and home-buying experience:

> *We brought out the Deposit@Mobile® first and we've done a handful of other things. But our goal is to really have an industry game-changing thing like that, multiple times a year.* —*James Lutz*
> *VP Enterprise and Infrastructure Business Services*

To achieve a constant stream of innovations and higher levels of customer service, management had introduced significant structural and process changes. By the summer of 2010, senior executives felt these changes had positioned the company to seize the customer service opportunities presented by the rapid introduction of new technologies:

> *One of our biggest strengths is we are truly taking our vision to be innovative and seeing it turn into a culture of innovation. In this business environment, in this technology environment right now, that's an advantage.* —*Kevin Bergner*
> *EVP and CAO*

USAA Background

USAA was formed in 1922, when a group of US Army officers met in San Antonio to address a shared need for auto insurance. They were regarded as "transient" and "bad risks" by most insurers. The 24 officers decided to pool their money to insure each other.

Over the years, USAA expanded membership eligibility from U.S. Army officers to anyone who had ever served honorably in the U.S. military, as well as their families. USAA's mission was established as follows:

> *…to facilitate the financial security of its members, associates, and their families through provision of a full range of highly competitive financial products and services; in so doing, USAA seeks to be the provider of choice for the military community.*[1]

The business expanded from property and casualty (P&C) insurance to include life insurance, investment management, retail banking, and buying services. By charter, only members could buy USAA P&C insurance, but USAA's other businesses could offer services to non-member "customers."

In 2009, while many financial services companies struggled to survive a deep recession, USAA had what CEO Josue (Joe) Robles Jr. referred to as "our best year ever." Due to strong operations and favorable investment income, company revenues increased 36%. Absent the significant turnaround of the 2008 investment portfolio, core operational revenue grew 8%, which was well ahead of the prior year results. In the 2010 Fortune 500 list, USAA ranked 132nd. Its 21,500 employees, based mostly in San Antonio, Texas, were managing over $137 billion in assets. (See Exhibit 1 for USAA's 2009 financial highlights.)

USAA was frequently recognized for both its financial performance and customer service. In 2009, USAA was the only P&C insurance group to retain the highest possible ratings for financial strength from A.M. Best (A++), Moody's (Aaa) and Standard & Poor's (AAA). USAA received the highest scores in the JD Power and Associates 2009 Insurance Shopping Study, the 2009 National Auto Insurance Study, the 2009 National Homeowners Insurance Study, and the 2009 Auto Claims Satisfaction Study. (Exhibit 2 provides a partial list of USAA's 2009–2010 achievements and awards.)

Employees throughout USAA noted that the company's mission guided their daily activities and interactions:

> *At USAA, no matter how differently we may see a problem and solutions, we have such a unifying mission that we can*

[1] USAA 2009 Report to Members, found at http://www.usaareporttomembers.com/2009/annual/downloads/USAA_RTM_2009.pdf, p.2.

spark collaboration just by posing the question, "What's the right solution for the member?" —Cynthia Combs
SVP Business Solutions

USAA's management team was always looking to enhance member experience. In 2010, they believed the firm would need to offer more integrated services to take member experience to the next level.

Building an Integrated Enterprise

As a direct marketing company, USAA had always operated without insurance agents, investment brokers, branch banks or even a network of ATMs. Members and other customers accessed USAA services through remote channels, such as the Internet (USAA.com), mail, fax, and any bank's ATM machines. USAA's reputation for customer service stemmed largely from the efforts of its 12,000 member service representatives (MSRs), who staffed the firm's call centers.

Traditionally, the call centers had been organized around the individual lines of business. To provide more integrated services, management decided to reorganize the call centers around members' life events (e.g. buying a car, relocating, retirement, birth of a baby, death in the family) rather than USAA's lines of business. To bring about the focus on life events, EVP Wayne Peacock headed up a new organization called Member Experience. (USAA's high-level organization chart is shown in Exhibit 3.) The Member Experience organization was created to consolidate channel and call center management for the enterprise, in addition to spearheading marketing and sales efforts:

We used to be organized as four separate lines of business, who all turned to marketing, channel management, and other corporate functions for enterprise services, but all of whom had their own functional units to service members, process their own fulfillment, and so forth. The new business model integrates member service across channels, life events, and products into a centralized organization called Member Experience, whose sole focus is to understand our members' needs, provide integrated solutions, and create exceptional experiences on every interaction."
—Craig Hopkins
VP Enterprise Strategy and Planning

USAA would be unifying all the call centers on January 1, 2011. Much of the change management would involve recognizing and reconciling differences in the ways the lines of business had operated call centers:

All of the business units had their own operating procedures [for call centers]. Simple things, like hours of operation and the way they handle time off and career paths and training, now need to be brought together. A lot of the very simple fundamentals that you take for granted all of a sudden become this huge list of things that need to be reconciled and accounted for. —Michael Merwarth
VP Enterprise Transformation

USAA had anticipated the change to a unified contact center for several years and had been developing data, processes, and technology to help with the transition. The company had long had a single customer information file. The IT unit was integrating that file with related files so that MSRs knew not only all about the customer, they knew about the customer's assets:

The Customer Information File means I don't have to ask you questions about yourself twice. But now I don't have to ask questions about your car twice. It's the same car you're insuring. The same car you're getting a loan on. The same car you're going to get a warranty on.
—Jim Kuhn
SVP Project Delivery

To help prepare for the reorganization, USAA started co-locating and cross-training MSRs in the summer of 2009. The Contact Center Operations organization tested scripts as part of the cross-training to help learn what would—and would not—work for the MSRs:

During these periods of exploration, we work closely with our teams to manually step through processes to bring the vision

to life. This helps us get smarter about technology requirements.

—Michael Merwarth
VP Enterprise Transformation

The IT unit had, for some time, been developing applications and processes to enable efficient call handling in an integrated contact center:

We have focused a lot of investment on our contact center — intelligent call routing and things like that. We've been putting in foundational stuff, so that we can really recognize the member... We've had it in maybe a year and a half or so, and we're still learning how to get the rules right, but we're seeing a lot of value.

—Rickey Burks
SVP IT Architecture

The reorganization would also demand changes in MSR responsibilities and training. Formerly, an entry level MSR in the property and casualty business might learn first about auto insurance and then about property insurance. In a contact center organized around life events, after auto insurance the new employee might learn about auto loans.

The change to a more integrated enterprise impacted far more than the call centers and MSRs. Across its lines of business USAA offered around 100 products, including property and casualty insurance, life insurance, health insurance, long-term care insurance, annuities, no-load mutual funds, IRAs, discount brokerage services, college savings accounts, checking accounts, savings accounts, credit cards, CDs, deposit services, mortgages, auto loans, personal loans, motorcycle/RV/boat loans, financial planning, travel services, retirement advice, and merchandise such as diamond rings. Going forward, USAA intended to manage these products as an enterprise portfolio and then deliver to its members an integrated portfolio of services across all available channels:

We have a strategy of "channel of choice," which aligns to our core competency of providing an exceptional member experience. So if the member says, "I want to interact with you this way," then it's really important for USAA to be able to interact with them that way.

—Michael Merwarth

The desire to provide members an integrated set of services on a wide-ranging set of technologies created demands for constant technology and business process innovations. While everyone at USAA shared responsibility for innovation, in particular two shared services units were designed to enable enterprise-level innovation and integration: the Enterprise Strategy and Planning (ESP) unit, headed by EVP Steve Speakes, and the Information Technology unit, headed by CIO Greg Schwartz and reporting to EVP and CAO Kevin Bergner. (See Exhibits 4a and 4b for descriptions of these two organizations and their responsibilities.)

ESP and IT worked closely together and partnered with every other part of the firm. They took on three leadership challenges related to USAA's transformation to a more integrated firm: (1) planning, prioritization, and funding of business change initiatives; (2) delivery and support of technology and systems; and (3) design and implementation of business innovations.

Prioritization and Funding of Business Change Initiatives

At the highest level of USAA, the Executive Council (the presidents of each line of business and the EVPs of each corporate shared services group, as shown in the organization chart in Exhibit 3) took responsibility for establishing business direction and strategic goals. (Exhibit 5 summarizes USAA's strategic goals.) In setting direction, the Executive Council paid particular attention to what Kevin Bergner referred to as "the length and scope of the journey:"

Very large and very long journeys generally don't do as well as more segmented, well-defined, scoped journeys.

—Kevin Bergner
EVP and CAO

Thus the Executive Council did not make decisions on IT or business project priorities, but rather laid the groundwork for defining and prioritizing project investments by deciding what

USAA needed to do to be competitive and how much it could afford to spend to bring about the needed changes. The Executive Council received monthly updates on key project decisions and changes (which were also reviewed quarterly by USAA's board). However, they handed over most of the responsibility for investments in new business capabilities to the Enterprise Portfolio Governance committee.

Project Portfolio Governance

The Enterprise Portfolio Governance (EPG) committee was chaired by the CFO and included the CAO; the head of Enterprise Strategy and Planning; the heads of the three lines of business (P&C, Bank, and the Financial Advice and Solutions Group); the head of Member Experience; the CIO; and Cynthia Combs, head of Business Solutions within Enterprise Strategy and Planning. In 2010, the EPG approved a budget of $500 million for the next year's portfolio of projects.

Most projects were part of a multi-year program of change, and the current year's projects from each program were grouped into portfolios for governance purposes. The projects in a given portfolio had similar business goals (e.g., member growth, product development, underwriting, or channel management), risk profiles, and resource requirements, so that a single portfolio sponsor and a team of project owners could make meaningful tradeoffs of resources among the projects and, more generally, provide meaningful oversight.

The EPG monitored the progress of the portfolios but empowered portfolio teams to adjust resources among the projects within the portfolio to address changing needs. Portfolio decisions were guided by USAA's mission and business strategies, as well as an ROI and milestone target for the portfolio. Portfolio teams reviewed the progress of each of their projects at their regular meetings (which varied from weekly to monthly, depending on the size of the portfolio). A portfolio team could not get more money for the portfolio in total unless they went to the EPG. But program leaders and portfolio sponsors were expected to shift resources among their projects, depending on which ones were costing more than expected or perhaps which was emerging as more important to the company. They debated the tradeoffs of shifting funds among projects in a portfolio:

> *Basically you put key stakeholders together and create conditions that force tough decisions… The point of the portfolio governance is for them to invest in the initiatives that deliver the greatest business value.* —*Cynthia Combs*
> *SVP Business Solutions*

Before projects came to the EPG for grouping into portfolios—and for portfolio funding—they had been vetted through the initial stages (Align and Integrate) of USAA's Delivering Integrated Business Solutions (DIBS) process.

Delivering Integrated Business Solutions

USAA introduced DIBS in 2009 to better determine (1) what capabilities USAA needed to implement its desired operating model and (2) how projects should be sequenced to create both enterprise and business unit capabilities when they were needed:

> *Over the past several years we had made considerable strides in improving delivery efficiency in terms of IT labor mix, fungible skills and software development discipline. But we still needed to fix the front end of the process. What I mean is, at the point we actually started a project and brought on the hordes of programmers, if we knew exactly what we wanted to do from the business side, if we had made all the major business decisions, if we had considered all the options, if we had our act together as a business team, then IT could code, test, and implement, without all the rework and the churn. We were convinced of that.* —*Cynthia Combs*

Much of the responsibility for DIBS was assigned to the Enterprise Strategy and Planning unit. (See Exhibit 6 for a flowchart of the DIBS process.) DIBS involved 4 steps: Align, Integrate, Design, and Build. Each step had a different leader.

Align was the responsibility of Chief Strategy Officer Craig Hopkins. His team (some direct and some matrixed across the business units)

vetted nearly every major business initiative to determine if it was aligned with USAA's strategic goals. Most DIBS programs either did or did not align with corporate strategy, so this step was basically a "sniff test" to determine if an idea should be considered. Hopkins used his corporate strategy and planning role and the DIBS process as an opportunity to dialogue with senior executives about their business strategies and how they aligned with the corporate strategy. His goal was to help business leaders develop their business unit strategy:

> *I look at DIBS as part of a greater corporate development process, not an IT project prioritization process. It allows us to consider the viability of all business ideas and their intended outcomes and determine if they help us achieve our corporate strategy.*
>
> *—Craig Hopkins*
> *VP Enterprise Strategy and Planning*

Once an idea passed Hopkins' "sniff test," it went to Michael Merwarth's Enterprise Transformation team for the Integrate step.

Integrate referred to capturing ideas in a business architecture and master plan that sequenced and established timing for individual capabilities:

> *The purpose behind the business architecture is to say, "If that's what we want to achieve, and there is some gap between here and there, then what are the things we have to do to close the gap?"*
>
> *—Michael Merwarth*
> *VP Enterprise Transformation*

One focus of Integrate was "de-duping"—recognizing where USAA had multiple ways of doing the same thing:

> *Almost every product line we have has a billing system. Is that the best way of doing it? Maybe one is too simple. But do we need six? —Cynthia Combs*
> *SVP Business Solutions*

Merwarth's team had been working with IT, People Services (HR), Facilities, and business leaders to determine what processes needed to change, where processes could be standardized, and what skills needed to be addressed. This assessment would identify the key capabilities USAA needed to develop as well the firm's ability to make the desired changes:

> *I feel personally accountable for making USAA better at defining what the people and the process requirements are before we start implementing technology.*
>
> *—Michael Merwarth*

USAA was in the early stages of designing and using business architectures. The IT unit had built significant expertise in IT architecture, and that expertise informed Merwarth's efforts, but the success of IT architecture depended, in part, on business architecture efforts:

> *Rickey Burks [SVP, IT Architecture] has been doing IT architecture for a long time at USAA—they're at the top of their game, too. These guys are really good. The conclusion he has reached is that in order for them to be even better, they need the business architecture to evolve. So he is one of our most passionate supporters. —Michael Merwarth*

Design was the responsibility of Cynthia Combs' Business Solutions team. This team determined how to group the capabilities required by the business architecture and how to address them:

> *Do we build? Do we buy? Do we partner? How much of this can we afford to do at once? Is there an optimal execution sequence? What are the resource requirements? —Cynthia Combs*

The Business Solutions team examined alternative approaches to addressing the firm's needs for capabilities and worked with business leaders to clarify business processes. Combs then pulled together a team of experts to develop plans to implement each program. The team included:

> *…the business owner that's going to take on these capabilities once they've been delivered, subject matter experts from the area, usually a process engineer, an IT architect, a project manager, and my program manager. We flesh out all the major business decisions here and at least get to*

high level requirements and high level design, so that we can feel comfortable about our estimate, our ability to successfully execute, and the change implications for USAA. —*Cynthia Combs*
SVP Business Solutions

Combs' team worked with IT to estimate the costs—and risks—for each program. To reduce the risk and start generating benefits sooner, she worked with business teams to break the programs into projects that could in most cases be completed within a year. Combs then presented projects and programs to the EPG, which made funding decisions.

Build was the final step. Once Combs had defined projects and helped sponsors secure funding for them, those projects that involved IT capabilities—which included most projects—were handed over to Jim Kuhn, head of Project Delivery in IT. To pass this tollgate, Cynthia Combs had to agree that the project was ready to leave planning and Jim Kuhn had to agree it was ready to come into the build process and that he had the resources to deliver it:

What we have found is, with this structure, [Jim] can go a lot faster. He has less rework. The units of work get smaller. At the beginning of this year, our average number of projects running concurrently was about 160. We're running 244 right now, which we view as increased efficiency. —*Cynthia Combs*

Jim Kuhn's Project Delivery team was responsible for business solutions:

I'm in charge of building things as effectively and efficiently as possible, and being a good steward of the money that USAA decides they want to spend.
—*Jim Kuhn*
SVP Project Delivery

To ensure effective and efficient delivery, Kuhn worked in a highly integrated IT unit that sought to minimize the cost of not only delivering, but also maintaining and operating technologies and systems.

Delivery and Support of Technology and Systems

USAA's IT unit delivered, maintained, and supported technology solutions, business applications, and IT infrastructure components enabling realization of the company's business objectives. The IT unit did not attempt to lead business transformation or business process engineering:

My job is to be the most effective enabler, to show them the art of the possible, help them by influencing their strategy, not owning their strategy. Then, when we make a decision, I've got to be in a position to just run like there's no tomorrow. —*Greg Schwartz*
SVP and CIO

Essential to being able to deliver on business needs was helping business leaders understand the costs of using IT to support business processes. To that end, Schwartz recovered all IT expenses from business managers through a chargeback process.

The catalog of charges distinguished IT products from development. The term "IT products" referred to the business applications and enterprise applications supported by IT and some infrastructure services, such as desktops and phones, provided by IT operations. The bulk of the costs incurred in IT operations were to run the applications, and IT operations transferred these run costs to IT units that supported applications, and they rolled those charges into their IT product bills to the businesses or corporate staff units.

Separately, charges for project development (primarily in Jim Kuhn's Solutions Delivery unit, but sometimes including people from other support units as well as third party resources) were billed to project sponsors in the lines of business or corporate functions. Costs for people assigned to IT shared services and the IT architecture group costs were rolled into IT product costs or IT development charges, as appropriate.

Schwartz focused his staff on minimizing IT unit costs. He had two other goals: accelerate time to market for new capabilities and provide satisfying careers for IT staff.

Minimizing IT Unit Costs

In 2010, the IT unit spent approximately 50% of the annual IT budget on new development. The other 50% was for "run the business" costs (e.g., IT product costs). Ten years earlier, only 29% of the annual IT budget had been spent on new development:

> *I can see the "run the business" costs probably clearer than most of my peers in the industry… I'm spending less money to run the business today than I did ten years ago. …And that's with almost $2 billion worth of new projects delivered and IT transactional volumes increasing by over 400% on the IT side.*
>
> *—Greg Schwartz*
> *SVP and CIO*

Cost reduction efforts were especially intense in IT operations. Rick Schlitt noted that technology standardization and automation were his most important cost reduction tools. For example, the team had automated much of the process for configuring servers for new applications. Schlitt's teams worked closely with the business and enterprise application support groups within IT to identify opportunities to reduce operations costs:

> *The support team really has some influence over the cost of processing an application. If their applications are more efficient in the way they process, I charge them less. And in turn, they can lower the price of the product to their customers.*
>
> *—Rick Schlitt*
> *SVP IT Operations*

Separately, Jim Kuhn's development teams worked to minimize future support and maintenance costs by including people from the business and enterprise application support organizations (headed by Tom Anfuso and James Lutz, respectfully) in development work:

> *Tom [Anfuso] and I matrix people to Jim [Kuhn], so we know a lot about what's going on. These resources are in development from design to implementation.*
>
> *—James Lutz*
> *VP Enterprise and Infrastructure Business Services*

Rickey Burks' architects and technical fellows worked with all parts of IT to evaluate and recommend efficient, effective technologies to support the business. Schlitt noted that he received a report card from Burks' team every year that identified the effectiveness of the technology services in each of his major technology domains. Schlitt intended to lower unit costs every year:

> *Every year, in each domain, I do a pricing review and I challenge my team, "You've got to reinvent the future." If the unit prices are the same next year, we can't afford it.* *—Rick Schlitt*

Accelerating Time to Market

Rickey Burks' IT architecture team had been working with developers since around 2001 to build reusable infrastructure, data, and application services:

> *But you couldn't immediately see the payback of those services. So it wasn't always popular. But we stayed the course… You've got to lay a foundation of services to achieve enterprise-level reuse.*
>
> *—Rickey Burks*
> *SVP IT Architecture*

The firm's investment in common technology, data, systems, and processes had, over time, enabled reuse. And reuse was helping to cut delivery time:

> *The industry average for time to market according to a 2009 industry benchmark was 235 days. We finished the year last year at 178 days, and we're going to finish this year at 165 days, so we're getting much better.* *—Greg Schwartz*

Both structurally and culturally, USAA was attempting to institutionalize reuse. Jim Kuhn's development organization included a business services team of 140 people who created common services—prime candidates for reuse—to meet the functionality requirements of new projects:

> *The theory is you deliver for a project, but you build it for the enterprise.*
>
> *—Jim Kuhn*
> *SVP Project Delivery*

IT architecture played a pivotal role in reuse:

> *Rickey's architects are distributed all over Jim [Kuhn]'s, Tom [Anfuso]'s and my organizations. They're the eyes and ears who watch what's going on; they are the technologists that know which business capability requires what kind of infrastructure capability. And do we have it or not? And if we don't, then they wave a red flag to say, "Hey, James, put something into your program to go build this, because there's a need coming that you don't have a capability for."*
>
> *—James Lutz*
> *VP Enterprise and*
> *Infrastructure Business Services*

Jim Kuhn depended on Burks' architects to provide guidance and tools. Sixty percent of Rickey Burks' architects were assigned to development teams in Kuhn's area.

> *Architecture is super critical to our ability to deliver projects better, faster, cheaper, and as important or more important, integrated.* *—Jim Kuhn*
> *SVP Project Delivery*

Kuhn took a pragmatic approach to reuse:

> *I think what gets us to the same frame of mind is to build an application, and then start copying it. For example, we built PAS, the auto policy administration system for $150 million. Now, Claims is using the same model. Property uses the same model… You build something that works, and then you build onto it, copy it. And that's why we have the same data model throughout P&C.* *—Jim Kuhn*

But to be fully prepared for future needs, Burks was focused on aligning IT architecture with business architecture. Thus, IT architects partnered closely with Michael Merwarth's transformation team:

> *Enterprise Architecture, to me, is not just about IT. …You can have EA outside of IT, and IT plays a critical role. In our transformation group, I'm looking for Michael to bring this together, to reach out to People Services, to reach out to IT, and to have the process skills.*
>
> *—Rickey Burks*
> *SVP IT Architecture*

Greg Schwartz was imploring his team to stay focused on reuse to reduce time to market. He noted that on IT's scorecard, he put "big, hairy, audacious goals on the table:"

> *So you can say, "OK guys, we deliver in 175 days, that's awesome! Now," we ask ourselves, "how can we do better? If we could get down to say 150 days, look at how much more capacity and productivity we could bring to the business community! We could potentially make a huge dent in our backlog of projects that are not yet funded."* *—Greg Schwartz*
> *SVP and CIO*

Providing Satisfying IT Careers

IT employed around 2400 people and, in the summer of 2010, relied on the services of 3000 staff provided by third party partners. IT leaders took employee development seriously. They did extensive succession planning, and they invested in performance reviews that considered scorecards focused on growing each individual's responsibilities. The matrixed organizational structure broadened the experience of individuals within a function. When an employee was assigned long-term duty outside his or her area, the "host" manager would take responsibility for performance review.

USAA mapped out both technical and managerial career paths. IT employees also had opportunities to move into managerial roles outside IT. Cynthia Combs and Craig Hopkins, for example, were previously IT employees, and about half of Combs' team had IT backgrounds. Some IT people had also transferred to the lines of business. Moreover, some individuals in business roles, particularly MSRs, had been found to be well-suited for business analyst positions in IT.

Because worker satisfaction was important to IT leadership, USAA participated each year in Computerworld's Top Places to Work award competition. After placing in the top 100 for

eight consecutive years, USAA was ranked number one in 2010:

> *If I walk out of here tomorrow, of all the things that I've been part of—this innovation, that innovation—the thing I'm most proud of, is that [Computerworld] award. It means nothing to most people, but it means everything to me. People are what this business is all about.*
>
> *—Greg Schwartz*
> *SVP and CIO*

The IT unit was committed to using third party partners for staff augmentation. Their staff augmentation model, in which USAA people did the design and led all projects, allowed USAA to focus on developing the careers of its employees while also achieving significant scalability:

> *If the CEO says, "Greg, I've got to put this in. Here's another $100 million, make this happen." I've got to do it, and I know that with the relationships [with strategic suppliers] I have today, I can do it in a heartbeat. I can scale up that fast; I can also scale down that fast. If he said, "Greg, we've got to tighten our belt. We're cutting our budget $100 million," boom, I will need to make that happen as well. We have successfully scaled this business in both directions.*
>
> *—Greg Schwartz*

Third-party partners were also important because Schwartz had found that the universities couldn't keep up with his demand for entry-level staff. Each year USAA hired around 100 college grads into its IT program. IT leaders told new hires that they were hiring them to be leaders:

> *We say, "Look, we're not hiring you to be a programmer, we're hiring you for a career. You're going to be a programmer for part of your career, and if you want to choose a technical path, and continue to develop, we've got a great program for you. But what we're really doing is growing leaders. You're going to lead teams of international workers. Your collaboration skills, communication skills, all those things are very, very important."* *—Greg Schwartz*

Design and Implementation of Business Innovation

For many years, the IT unit had operated an applied research lab that led technology-based innovation at USAA. In 2010, to ramp up innovation, USAA created an enterprise innovation team within Enterprise Strategy and Planning. Mick Simonelli was hired to be Chief Innovation Officer. His team included IT's applied research lab, which was matrixed to him, a staff of six permanent people, and another 27 people who were matrixed to him from home units throughout the company. Over 200 people in USAA applied for these 2–3 year matrixed positions:

> *The senior leaders were very supportive. They said, "You can pick whoever you want." And so we were able to select the very best candidates… These people were hired first for their innovative spirit. And then because they know the ins and outs of their business.* *—Mick Simonelli*
> *AVP Innovation*

The innovation team was responsible for identifying good ideas throughout the firm and pushing them through USAA's project process:

> *People want to innovate. But they're just too busy in their day jobs. So you need somebody to take that idea and say, "Great job, director so and so, or employee so and so," and then build a business case, promote it, sell it, get it into a process where there's some funding, where there's some know-how, where there's the ability to build a prototype, and then carry it and shepherd it through the process. These folks are the ones that do that. And without them, innovation fails here.* *—Mick Simonelli*

To generate good ideas, USAA used a Salesforce.com ideation tool called ICE. USAA employees could enter ideas in ICE and anyone could comment on those ideas. During the first three months ICE was live, 76% of USAA employees submitted, commented on, or voted on 6000 ideas.

Ideas were voted on for about a month and then every idea was vetted by the Innovation team and subject matter experts. More than half the ideas entered a discovery phase in which the Innovation team would do some rough numbers—and often some prototyping or testing of ideas—to determine whether the suggestion had merit. Suggestions for larger projects would enter the DIBS process, but most of the ideas were too small for the DIBS process, and thus went through a stage-gate process for small projects. (See Exhibit 7 for a description of the stage-gate process.)

In the second stage, the innovation team would complete a business case and identify a project sponsor:

> *Our gated process ultimately ends up by finding the accountable people at each level and getting their approval before we move on. So we're not building innovations that nobody wants. We're building innovations that people want and care about.* —*Mick Simonelli*
> *AVP Innovation*

The Innovation team notified everyone who submitted an idea of the decision on moving forward:

> *When we tell them no, it's what we call a "soft no." It's a no that gives them an opportunity to come back if they feel they should. (Because we don't know everything, and we're going to miss some good ideas.) We tell them why it didn't make it, and then we give them two outs: "If you can generate enthusiasm and get enough votes, we will reexamine it." Or "if you can do some basic financial sizing for us…," and that kind of forces them to work on the business case.*
> —*Mick Simonelli*

About 1-2% of the projects receiving a "soft no" came back a second time.

Because most of the suggestions had a technology component, the Innovation unit was tightly partnered with IT. Tom Anfuso encouraged his people to monitor and contribute to suggestions on ICE:

> *What I told them is, "Look, I want to see some personal ownership here, these applications are your baby, right? I want you to go look at the ideas people are submitting about the things that you support."*
> —*Tom Anfuso*
> *VP Business Application Support*

Anfuso noted that his team had responded enthusiastically. In some cases, submitted ideas were actually identifying defects in existing applications. His people could log them as such and skip the gated process. For other suggestions related to existing applications, Anfuso was looking for a way to aggregate small ICE suggestions that his team could address when they had an opportunity.

Just a few months after the formation of the Innovation team, Simonelli was enthusiastic about its potential. (See Exhibit 8 for a breakdown of how projects progressed through the gates.) He estimated that USAA would implement 75 innovations in 2010 and that these would achieve at least a 4x ROI over three years.

> *My strategy has been let's get some quick wins, find those low-hanging fruit, grab them, and then let's celebrate them… Our innovation program is fledgling, and we have to show success to the company, not only to the senior leaders, but the entire company.* —*Mick Simonelli*

Persisting on the Integration Journey

For about ten years, USAA's board of directors had encouraged enterprise thinking by designating an annual bonus that was shared by all employees in good standing:

> *So last year it was 18.8%. The year before it was something like 14.9%. It's working. Our entire company is highly collaborative and extremely motivated to hit these enterprise goals.* —*Greg Schwartz*
> *SVP and CIO*

This was just one of many changes USAA had introduced to transform into an integrated enterprise. By 2010, management recognized that the firm had made significant progress on what had already been a long journey:

We are increasingly looking at USAA as an enterprise as opposed to individual lines of business. So we are constantly making ourselves look at better opportunities to provide an enterprise effect and still improve the level of support to the specific products. An interesting tension exists there. —*Kevin Bergner*
EVP and CAO

Structurally, Member Experience, Enterprise Strategy and Planning, and the new contact center focused people throughout the firm on enterprise strategy and execution. The DIBS process, the innovation process, the transfers of people between IT and business roles, and the matrix assignments across organizational boundaries helped identify and prioritize enterprise initiatives. The coordination and teamwork that these new structures and processes required were not always comfortable:

We have some of our challenges. We all go back into our rooms, and we forget, "Oh, yeah, we need to work with these guys over here." So it's not perfect yet by any means. —*Rickey Burks*
SVP IT Architecture

But management would continue to learn and tweak its practices and structures. Leaders were confident that the enterprise-wide commitment to the firm's mission and the culture of the firm would help USAA achieve its goal of providing integrated, innovative services to members:

We are a collaborative company here. So we want to act like one company. We have an environment of collaboration and the ability to really reach across traditional organizational boundaries that is unlike anything I've ever seen in corporate America. —*Greg Schwartz*
SVP and CIO

Exhibit 1
USAA 2009 Financial Highlights

Years Ended December 31	**2009**	2008	2007
TOTAL MEMBERS (in millions)	**7.4**	7.0	6.6
TOTAL EMPLOYEES (in thousands)	**21.5**	21.9	22.7
USAA CONSOLIDATED (Dollars in millions)			
Revenue	**17,558**	12,912	14,418
Expenses	**14,538**	12,489	12,563
Net income	**3,020**	423	1,855
Assets owned	**79,905**	68,296	67,177
Assets owned and managed	**137,288**	119,550	125,140
Total liabilities	**62,888**	53,716	52,800
Net worth	**17,017**	14,580	14,377

Source: 2009 USAA Report to Members

Exhibit 2
USAA Awards for member service, employee well-being, and financial strength
(Partial list from 2009-2010)

***Fortune* 500 Ranking**: For 2009, 132nd in Revenue, 66th in Net Worth and 60th in Assets

MSN Money: MSN Money ranked USAA as the No. 1 company on its list of Customer Service Hall of Fame. (2009)

American Association of Individual Investors ranked USAA Brokerage #1 in Overall Customer Satisfaction. (February 2010)

Bloomberg *BusinessWeek*: For the past four years, USAA ranked among the top two "Customer Service Champs," highlighting legendary customer service.

Computerworld: No. 1 Best Place to Work in IT (2010), after ranking in the top 100 since 2001

***InformationWeek* 500** ranking of the most innovative companies employing IT in their businesses, USAA No. 1 in Insurance industry and No. 7 overall (2010)

Military Times: No. 2 Best for Vets Employer (2010)

G.I. Jobs: Top 100 Military-Friendly Employers (2003-2010)

Latina Style: 50 Best Employers of Latinas in the U.S. (2001-2010)

***Military Spouse* magazine**: Top 10 Military Spouse Friendly Employers (2007-2010)

Forrester Research: USAA was a top-ranked company by consumers for Customer Advocacy in January 2010 "Customer Advocacy 2010: How Customers Rate U.S. Banks, Investment Firms, and Insurers."

Javelin Strategy & Research honored USAA Federal Savings Bank as best-in-class on the "2010 Mobile Banking Scorecard"

***American Banker* magazine** named CEO Joe Robles as “Innovator of the Year” and The Christian Science Monitor proclaimed him the #1 Veteran in Business

***Fast Company* magazine** named USAA's Executive Vice President of Member Experience, Wayne Peacock, as one of the "100 Most Creative People in Business 2010"

Under the category “doing the right thing for our community and our environment,” USAA noted the following achievements in its 2009 Report to Members:

- More than 8400 employees and retirees gave more than 409,000 volunteer hours—equivalent to $8.3mllion in value.
- Employees, retirees, and the USAA Foundation gave more than $8.4 million to United Way.
- The USAA Educational Foundation distributed more than 3.7 million publications.
- Saved 20 million gallons of fresh water.
- Saved 115,000 trees. 3.3 million members chose to get USAA documents electronically, preventing 804 million pages from being printed and mailed. USAA also switched to recycled paper stock.
- Avoided driving more than 3.7 million commuter miles through programs that encourage employees to carpool, ride bikes, or use mass transit.
- Recycled more than 4,500 tons of paper, glass, cooking oil, aluminum and more. USAA recycles 64% of its waste.

Exhibit 3

USAA Management Organization

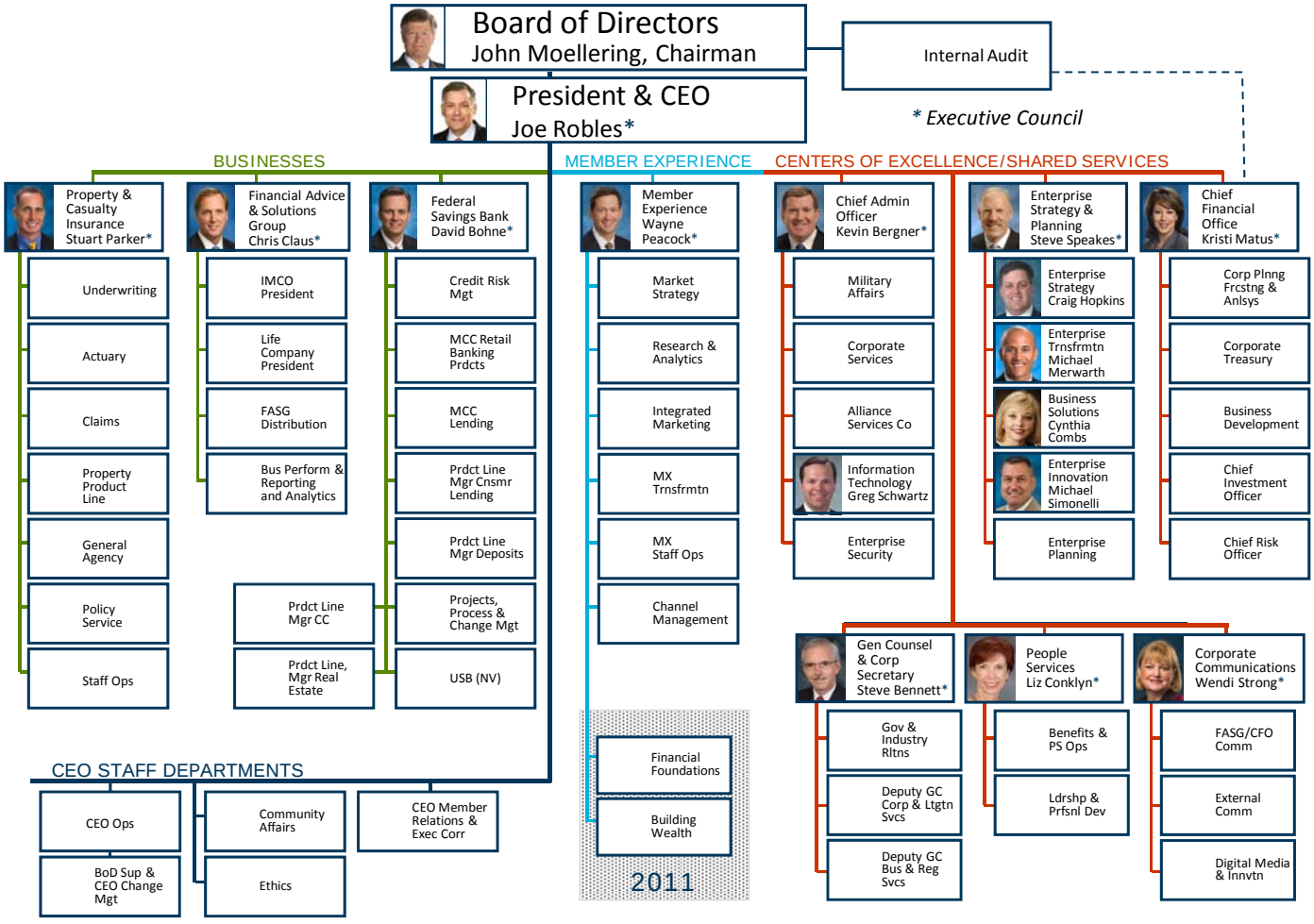


Exhibit 4a

Enterprise Strategy & Planning

Craig Hopkins, Strategy Alignment, filled the role of "chief strategy officer." His staff of 13 acted as facilitators to help senior executives strategize and think strategically.

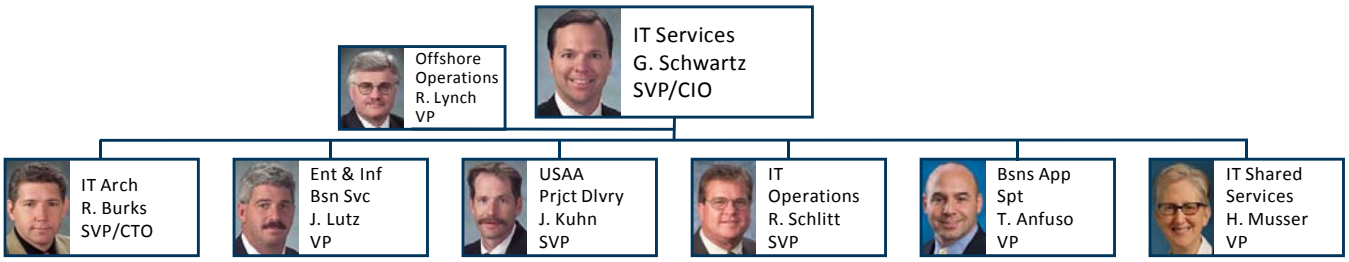
Michael Merwarth, Enterprise Transformation, had a staff of 75 people responsible for business architecture, process engineering, and change management. Formed in 2009, the first responsibility of this organization was to help with the design of USAA's unified overall project funding decisions were made.

Cynthia Combs, Business Solutions, helped business organizations achieve their business goals by developing and managing the multi-year program plans for delivering targeted business capabilities. Combs facilitated Enterprise Portfolio Governance meetings where overall project funding decisions were made.

Mick Simonelli, Innovation, filled the role of "Chief Innovation Officer." His small permanent team relied on matrixed employees from each of the lines of business and staff units to respond to innovation ideas and shepherd the best ideas into the DIBS or other development process.

Exhibit 4b

Information Technology Services



Descriptions of IT Functions

IT Architecture (Rickey Burks) included around 100 researchers and nearly 60 architects and technical fellows. The small group of tech fellows provide technical leadership at the top of USAA's technical career path. About 60% of architects sat on project teams.

Enterprise and Infrastructure Business Services (James Lutz) had about 250 people. Sixty percent supported enterprise applications and components that were developed by Jim Kuhn's Project Delivery organization. The other 40% worked on development projects, either for Jim Kuhn or to make "small mods" to enterprise systems. The IT liaison to Mick Simonelli's Innovation team was also officially in Lutz's organization.

Project Delivery (Jim Kuhn) had 656 USAA employees and about 1400 third party contractors who organized the build for the vast majority of applications in USAA. The team was organized by system or developer area of expertise, but built enterprise services (a 140 person team) as well as individual business systems.

IT Operations (Rick Schlitt) had 620 USAA employees and 300-350 contractors on and offshore who provided 30-40 IT "products," such as desktop support and phones (sold directly to business units or corporate functions) and mainframe and server processing, database support, and incident management (sold to the units in IT supporting other IT products).

Business Applications Support (Tom Anfuso) had 362 staff and between 250-300 contractors supporting over 1800 business applications. This involved bug fix, monitoring, enhancements and "small mods." Organized by customer area, the business applications support team separated corrective and return to service work from preventive and adaptive work so that project teams could focus on delivering projects.

Exhibit 5
USAA's Strategic Goals

OUR STRATEGY

We will build lifelong relationships with our members by knowing them better and caring about them more than any other company.

As our members' trusted financial advisor, we will provide highly competitive, integrated financial solutions and exceptional experiences.

We will continuously innovate and improve, building our financial strength, and employing our resources to achieve the highest value for our members.

We will foster a community of loyal members and engaged employees, working together to ensure a strong and enduring association.

Exhibit 6

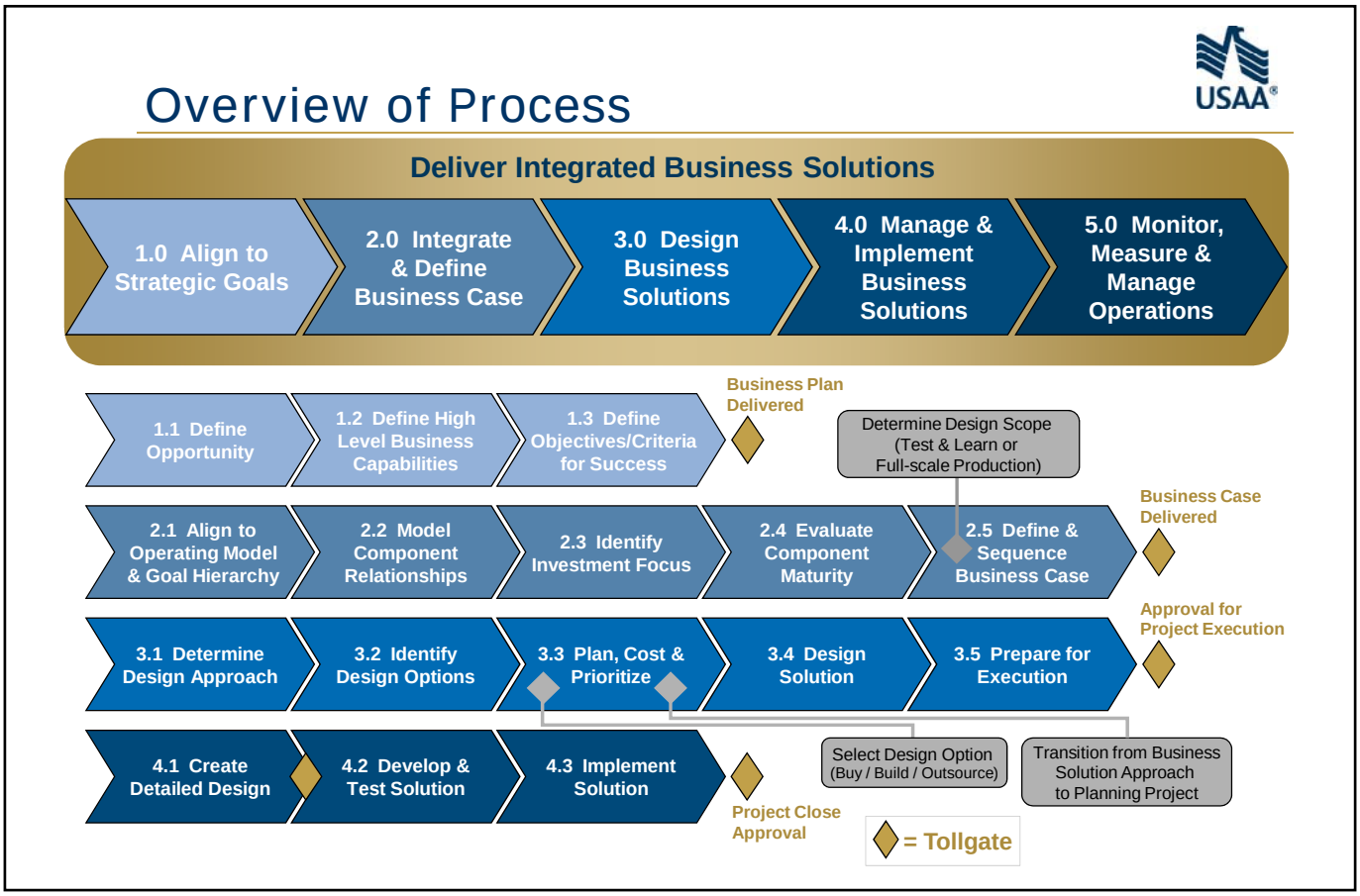


Exhibit 7

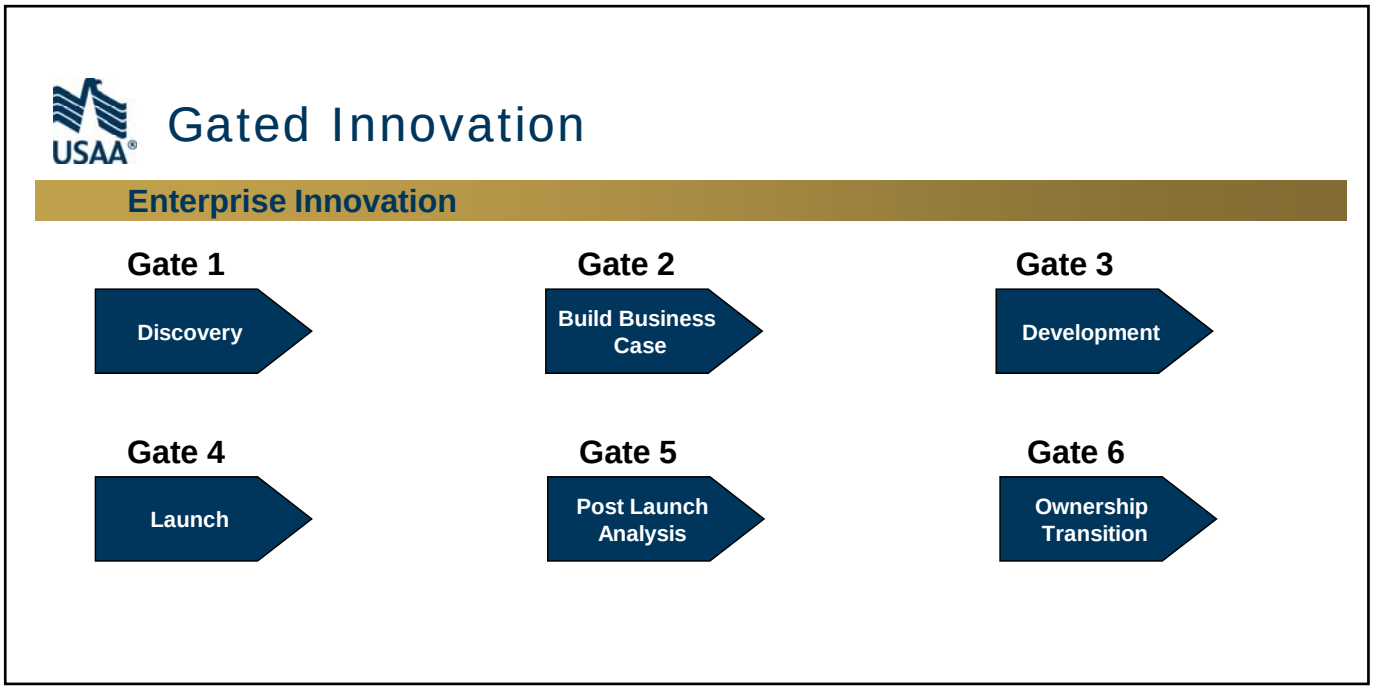
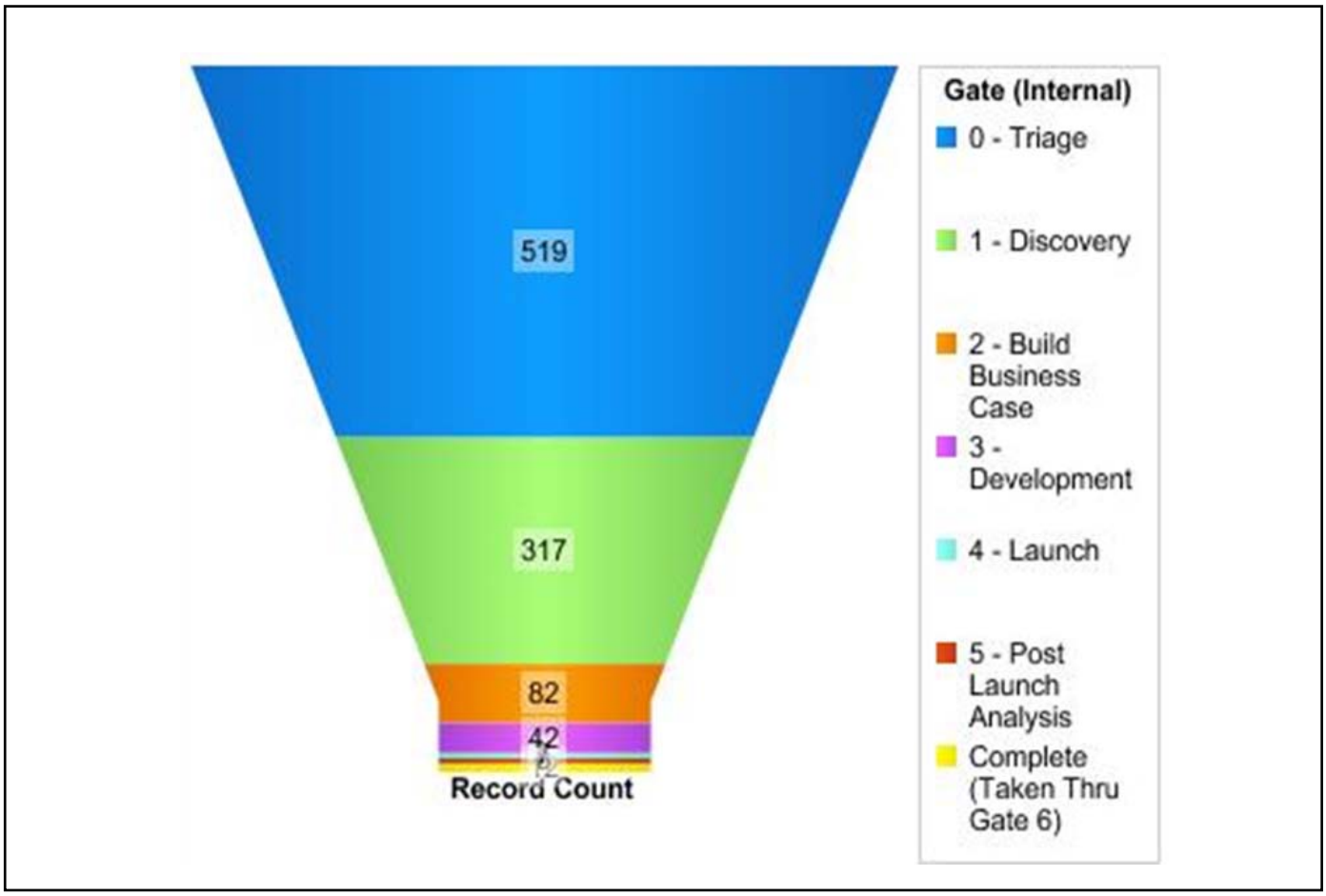


Exhibit 8
Ideas in Action by Gate



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- Business Transformation and Change Management

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