

Will the REAL RMIS please stand up?

Standard practice pigeonholes RMIS based on their features, not their payoffs. Unfortunately, these too often make RMIS a bit player in the drama of Risk Management. The real RMIS should function as leading man/lady, not just a member of the chorus.

Better practice defines RMIS to improve the effectiveness of your organization's Risk Management operations (outcomes approach). Using outcome approaches is a challenge, because it builds from the needs and environment of your organization. We present this paper as a means to balance seven distinct attributes, and all must be considered in defining the technology right for your organization.

Still the standard is useful to define your current program, showing both your system features and how they are provided (Table I below). Fill in this simple table to give yourself a good overview of the status quo.

STRATEGY

The route to a successful RMIS runs through an accurate linking of your overall Risk Management objectives with RMIS technology. This thoughtful review is not a listing of what you are currently using or doing. A RMIS should expand the dimensions for Risk Management, but can do so only if you define what those dimensions are. Thus, STRATEGY should begin with the Mission¹, responsibility, and resources of the Risk Management Department. Business goals should be the driving force, not technology features. For example:

- ↔ What do you need to reduce claim frequency by 10%?
- ↔ When should you outsource Risk Management functions?
- ↔ How can you rate your vendors in an objective and goal-oriented way?

Innovation is crucial to the process. Today, organizations cannot survive in maintenance mode. Accordingly, RMIS must consider change in all forms from irrational insurance markets to the new regulatory structures of Sarbanes-Oxley. RMIS should be part of enterprise risk implementation and the tool to address recent cost increases in workers' compensation expenses that far exceed revenue growth.

Make your evaluation of RMIS rest on standard ROI conventions that your organization requires for other investments. This discipline of measuring both the costs and (more importantly) the payoffs, insures that you do not buy too much or too little RMIS resources. Make an annual assessment of the gaps between your Risk Management Mission and Objectives and actual performance. Determine where RMIS technology can fill these gaps.

In summary, ask not what you can do for your RMIS, but what your RMIS can do for you. Such are the components of a successful STRATEGY.

TABLE I

PROVIDER ↔	IN-HOUSE (your own organization systems & services)	INDEPENDENT (stand alone services & products)	BUNDLED (provided separately, but thru a unit of your broker, TPA, etc.)	INTEGRATED (packaged as a vertical service extension to your TPA, insurer or other risk services)
FEATURE ↔				
Claims Administration Management				
Loss Prevention				
Data Consolidation				
Financial Reporting & Analysis				
Executive Information System				
Other				

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¹ You do have a mission statement, right? If not, assemble your team and brainstorm a draft statement. Refine it with discussions of your superiors and with other risk management professionals. Don't word smith someone else's; write your Mission Statement reflecting the specific conditions you face. Keep it simple, short, and honest.

USERS

Never forget the obvious. Users produce Risk Management results, not computers. Any RMIS is a blend of product and service components. The needs of users can range from making a simple claim inquiry, to evaluating vendor performance, or to performing intricate actuarial calculations. You will need a matrix listing with the skills/needs of each user group. The biggest mistake is defining the RMIS around the sophisticated, power user instead of the power interpreter.

What is a power interpreter? It is your largest and most important user group—those unlikely to ever touch the keyboard, but who will take action based on RMIS reports, graphics, and interpretation. It might be the CEO, Plant Manager, or COO. The usual criticism of RMIS is not too much information, but too little. The human eye can absorb huge amounts of text, graphic, and image information.² Make sure your RMIS is providing it.

DATA

Data are the core asset of any RMIS. Everyone is for the flag, apple pie and “accurate and quality data”. Working with organizations that make a serious effort to achieve data quality, we have learned how difficult it is to achieve even an 80-90% accuracy level. Organizations that do not test compliance, nor use their data extensively, are ironically the very organizations that are the most confident of their data quality. Keep this fact in mind when you consider the merits of benchmarking!

Quality has a price that must be considered in your definition. For example, the value of this data is substantially enhanced when ‘as of’ valuations are also maintained. This allows you to monitor experience at the same prior points in time. The method reduces the bias caused by loss development. It is also useful to show the data at specific retention limits to facilitate financing and allocation choices.

In addition, the RMIS should address location, premium, exposure, organization, and demographic information appropriate to the risks collected. Most important, the data should be defined by the Mission and goals of the RM Department. This charter will vary substantially, and the first step toward Best Practices is identifying and gathering data that will best promote that success.

Timeliness is another dimension of data quality. Like fresh fruit and newspapers, data value diminishes with time. Use the same ROI standards mentioned above to determine the benefits of getting loss prevention and claim data to the right people at the best time for them to be effective.

Actively support the growing development of standards specific to the Risk & Insurance industry (including RIMS-ACORD claims and exposure data standards and the PRIMA data definition).

SYSTEMS INTEGRATION

Even if your RMIS is limited to property and casualty applications, your entire organization and business environment influences your results and impacts your decision-making. Best Practice is to perform as an enterprise risk tool, which means having the ability to integrate multiple systems. For example, there are essential benefits in using the claims/incident interface with your TPA(s) or insurer(s). This allows for e-mail contact with adjusters, alerts concerning special conditions, and close monitoring of performance guarantees. But, don’t stop there. Include other data sources that reflect vital Risk Management services in the scope of the RMIS. These will vary with specific programs but typically include Defense Firms, Actuaries, Brokers, and Loss Control Engineering.

Best Practice standard is for a seamless path allowing the user a consistent interface to the required information. The benefit of such integration is reliance on data that is accurate, timely, and consistent. This effort is paid for many times over through the efficiency gained by avoiding the time-consuming and error-prone process of building individual data sets. The best test is simple to express, but hard to satisfy: can you find causation between your Risk Management results and the operations or processes that drive them?

Additional Resources

Books:

Books in the more effective use of RMIS technology are

The Visual Display of Quantitative Information by Edward R. Tufte

An Introduction to Categorical Data Analysis by Alan Agresti (part of the Wiley Series in Probability and Statistics)

Operational Risk: Measurement and Modelling by Jack L. King

² Microsoft Corporate applies the term ‘bandwidth’ to judge the effectiveness of human communication. It simply means the amount of data that is transmitted per unit of time. A well designed piece of paper can combine images, words and numbers with the content equivalent of 50 to 250 PowerPoint slides (E. Tufte, *Cognitive Style of PowerPoint*, Graphics Press, 2003).

TECHNOLOGY

The business needs of Risk Management should control the choice of technology, not technology features. Flexibility is essential; therefore the choice of system architecture should avoid being restricted by proprietary software and systems. If you rely on your insurer or TPA for RMIS services, have a plan 'B' to serve as a contingency against the unacceptable happening. At a minimum, have a data migration plan with the written agreement to transfer your data from the service company in a predefined format. Better is a plan for converting to an open architecture system (such as SQL, LINUX), if needed.

APPLICATIONS

Review the key report/graphical outputs for each of the applications listed below.

USERS:	Chief Executive Officer	Division Heads	Chief Financial Officer	Chief Legal Counsel	Chief Accounting Officer	Safety/Human Resources	Site Operation Managers	Broker	Defense Counsel	Third Party Administrator(s)	Insurers / Re-Insurers	Regulatory
REPORTS:												
ANALYTICAL	X	X	X		X			X				
ACTUARIAL	X		X	X	X					X		
CAPTIVE INS SUBSIDIARY			X	X				X				
FINANCIAL	X	X	X	X	X	X	X	X		X		X
CLAIMS / LITIGATION	X	X		X		X	X		X			
POLICY MANAGEMENT			X					X			X	
REGULATORY				X				X			X	X
BENCHMARKING	X	X	X							X		
PERFORMANCE INCENTIVES			X					X		X	X	
LOSS CONTROL / SAFETY	X	X										
ALLOCATIONS / INCENTIVES		X		X		X		X				
OPERATIONS	X	X				X						
RISK SERVICES PERFORMANCE				X			X		X	X		

CONTACT TAC

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TAC welcomes feedback on this bulletin and suggestions of topics for future bulletins. Topics and content are the sole discretion of TAC.

PROCESS

The success of Risk Management builds on the meticulous adherence to detained routine processes—to report a claim, to accommodate Return to Work (RTW), to investigate a suspect claim. Such routines must be written and easily accessible to anyone who needs them. Do not forget the language and reading skills of your users where the 'rubber meets the road'. Be realistic about the actual work conditions of the individuals you are counting on. We have seen beautiful Internet-based applications that are totally ineffective, because the organizations do not place computers in their warehouses, selling floors, or restaurants (or, at least do not provide high-speed internet access). There must be proven methods to perform these procedures, defined methods to check compliance, and (most importantly) adherence or lack of adherence must have consequences.³

CONCLUSION

This matrix is a better form to develop a definition of RMIS that will provide payoffs for your organization. Start by identifying where technology can fill gaps between your current Risk Management performance and your goals. Then complete the six other sections as necessary components to implement a *real RMIS*.

Strategy			
Users	Data	Applications	Systems
	Process		Technology

³ Credit to Fred Travis, Dir. of Risk Management, Anheuser-Busch Companies, for this concise statement of the requirement.

