

Moving Forward

Risk Management Meets the Information Age

by Scott Lange

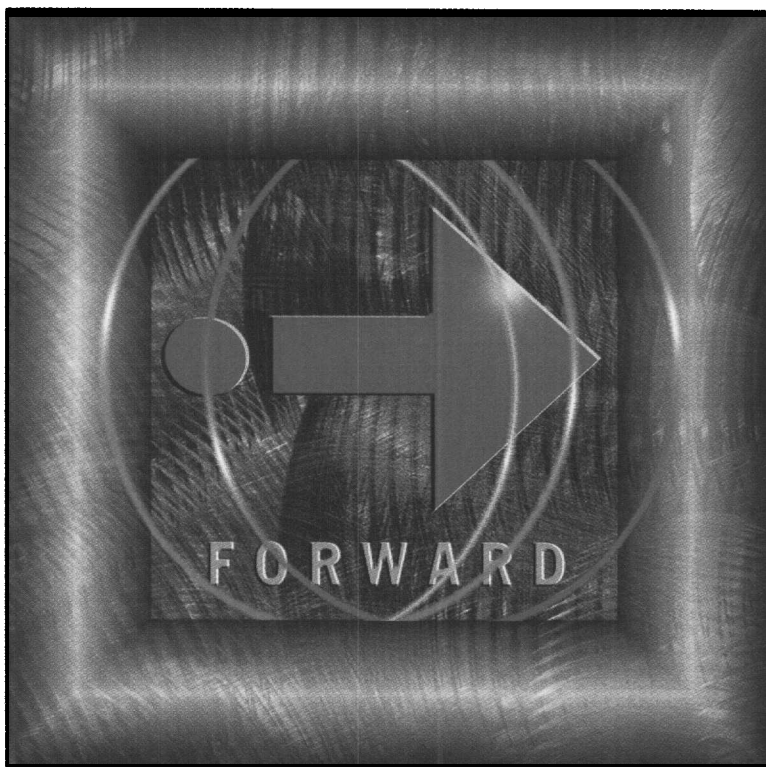
There is little doubt that we have entered the information age. Communications and information technology are reshaping how individuals and businesses interact and operate. As computers deliver more power at lower costs and online activity grows exponentially, we can expect to see even greater changes as society goes increasingly digital. And like every other sector of the global economy it has touched, technology will bring significant change to the risk management industry.

A look at risk management today shows an industry sorely in need of technological advancement, and change is beginning to occur on several fronts. Long tied to mainframes, insurers are finally implementing new information architectures that support underwriting, claims management, administration, reinsurance transactions, sales and marketing. At the same time, the insurance brokerage sector is rolling out its own electronic transaction network, the "World Insurance Network" (WIN), and is developing several online customer services and interfaces via the Internet. Indeed, there is much movement, but is it taking us as risk managers where we want to go?

Consider for a moment the risk manager's world. How beneficial are the new technology initiatives? Presumably, with all of this investment going on, industry service providers will either become more efficient (and less expensive) or they will be able to offer expanded services to their customers.

Somewhat surprisingly, little of the technology investment by insurers and brokers is aimed directly at their customers. In fact, for the most part, I'd say they are creating information systems directed at their internal operating needs, with customer benefit, in many cases, a fortuitous byproduct. Not that this is bad—it is simply an assessment of our current reality.

Insurers and brokers are scrambling to operate in an increasingly competitive marketplace where customers are demanding greater value. Many have to run



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flat out just to keep up with the basic technologies needed to run their own businesses, and they have little time to address customer preferences. This pace isn't going to let up anytime soon.

Consequently, risk managers should not look to insurers or brokers to deliver new technologies that will make their jobs easier. We may all benefit from technology initiatives that ultimately reduce premiums, but we aren't likely to see technology tools that will provide critical value for us. And if providers do change course and offer products to risk managers, caution is in order. Historically, service providers have offered technology

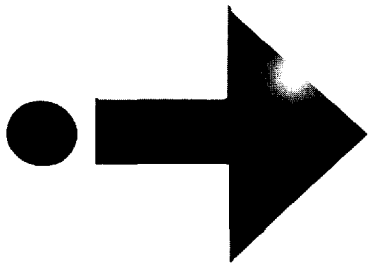
insurers. Anyone who manages an RMIS knows that the process of "converting" data from the insurer's systems to the RMIS is tortuously inefficient. Electronic tapes are received regularly from numerous insurers; data on the tapes is re-mapped to conform to the RMIS data fields; and, assuming that the data validation goes smoothly, a risk manager may then gain claims information that is 30 days to 60 days old by the time it shows up in the system. The data are useful for analysis, but fall short if a risk manager seeks to manage claims on a real-time basis.

In addition to being stale, claims data are limited to the contents of the

and losses not covered by insurance as well as traditional claims information.

⇒ *Timeliness*—Claims information must be incorporated into the RMIS quickly. For hands-on claims management, the system must show claims as they unfold, rather than 30 days to 60 days later.

⇒ *Data standardization*—Risk managers are forced to endure inefficient, expensive data conversion efforts because insurers have elected to use proprietary information structures instead of adopting common standards. A common claims data structure is needed to speed the movement of data to the RMIS and to reduce the high costs currently being paid by risk



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solutions in an effort to "capture" customers by making them dependent on their proprietary systems.

What should the risk manager's mindset be as the information age takes off? Should an expanded risk management information system (RMIS) be our basic tool? Or, do we need to look beyond the traditional RMIS to new products? What does today's risk manager need to know about technology to assure future success?

A Stale Standby

Most of us in risk management are familiar with RMIS products designed to track claims information. Some systems have been expanded to include exposure-tracking modules, insurance policy archiving and insurance certificate issuance and tracking. Generally speaking, these products barely scratch the surface of what risk managers need to function effectively in today's environment.

The design of the traditional RMIS has been limited by an over-reliance on commercial insurance products. A major shortcoming in these products is that the data derive largely from

insurers' claims recording systems. Consequently, the RMIS provides information that is generally much narrower than the broad scope of exposures that risk managers must address. And claims information may be incomplete, omitting out-of-pocket amounts the insured has had to pay due to coverage compromises or uncovered claims elements. The bottom line? Most systems don't give risk managers information they need to function.

A New Generation

So, are risk management systems going to continue to be part of the risk management landscape? Certainly. But service providers need to create products that meet risk managers' needs. Here are just a few of the characteristics that would provide value:

⇒ *Expanded scope*—The RMIS should reflect loss impacts from all major risks facing an organization, not just losses paid by insurers. To enable this broader recording of risk impact, standardized definitions of risk must be created and embedded into an organization's accounting system to track exposures

managers for data consolidation.

⇒ *Administrative features*—Claims are just the tip of the iceberg for risk managers, who spend a lot of time managing insurance programs and internal service requests, and handling budgeting and accounting issues. To accomplish these tasks more efficiently, the RMIS must incorporate additional administrative features that will make it the primary workbench tool for risk managers.

Internet Opportunities

The evolution toward integrated risk management is pushing new technologies to the forefront. One of the most promising to emerge in recent years is the Internet, through which risk managers can access the external world and at the same time deliver information-rich content throughout their organization via internal intranets.

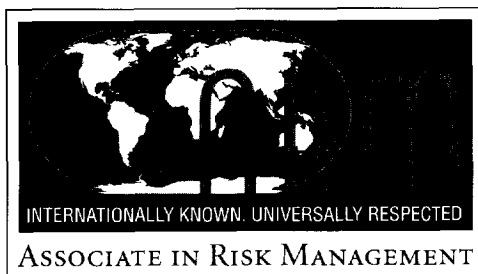
Risk managers can accomplish a number of functions with this new technology:

⇒ *Tactical risk administration*—Intranet technology is ideal for delivering routine risk management infor-

“Let him
that would
move the world,
first move
himself.”

—Socrates

As a risk manager, you can make a strategic, career-broadening move: earn the Associate in Risk Management (ARM) designation. For more than 30 years, this flexible, cost-effective program has given risk managers the specialized skills and knowledge they need to cut across organizational and occupational boundaries. It has set them apart as risk management professionals who have met rigorous national standards. Call the Insurance Institute of America at (800) 644-2101 today to learn more about the prestigious, internationally recognized ARM designation. It could be the smartest career move you've ever made.



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mation throughout a company. For example, an internal risk management Web page can provide relevant policies, “how to” instructions for a variety of operational topics, loss-reporting templates, mission and biographical information on the risk management staff, contractual pro-formas and electronic forms for requesting certificates of insurance, bonds and similar documents. By using this one-to-many technology, the risk management message can be kept current, made more interesting and delivered to more people—all with less direct staff time.

◊ *Strategic risk administration*—Intranets can be equally effective for addressing more strategic issues. A “strategic” Web site can track key organizational risks, provide quantitative profiles of risks, provide benchmark information, identify key individuals in the organization who are responsible for risk mitigation, recommend risk mitigation practices, enable coordination of risk management across multiple organizations, map risks to various internal processes and provide access to more detailed information. A strategic Web site shows an organization’s big risk picture and offers critical information to support business decisions at all levels.

◊ *Online placements*—Despite risk managers’ traditional reliance on brokers for insurance placements, risk managers may soon elect to access markets directly via the Internet. The technology is already viable for online access of personal lines insurance and commercial insurance markets will also want to take advantage of this new direct link to the customer. At a minimum, risk managers will be able to continuously transmit up-to-date underwriting information via the Internet, obviating the need to complete repetitive forms.

More aggressive risk managers will use the Internet to post program opportunities and solicit commercial markets to respond directly. Such risk managers will identify for themselves the optimal sources of coverage, electing to engage the broker only if additional services add value.

◊ *Benchmarking*—With the rapid

expansion of risk, risk managers often need more than their own loss information to assess and model risk. To date, risk managers have been extremely frustrated by their very limited access to the external loss statistics that will enable them to assess and benchmark risks. For this larger pool of information, a risk manager must be able to access vast experience statistics for insurable risks while also collecting and consolidating internal loss information captured by organizational accounting systems. When this capability is finally created, risk managers will most likely use the Internet for access.

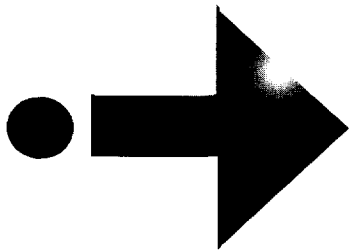
☞ *Networking*—The Internet provides

ble outcomes. The ability to deliver the right information, at the right time, to the right people, is perhaps the most significant way we can manage risk effectively. That means technology must become part of the risk management plan.

If risk managers' service providers are not likely to offer useful technology tools, where can risk managers look? Other risk managers are probably the best starting point. Being able to view a risk management Web site or RMIS and to ask questions about the implementation process is ideal. Beyond the first-hand view of a system's capabilities, receiving an account of the pitfalls of setting up a

Second, we have a long way to go with RMIS technology. These systems are vital to every risk management operation, but we must press providers to advance them beyond their basic claims-tracking function. Risk managers need to collectively articulate the added features they need from the RMIS. They also need to force the issue with the insurance markets to eliminate the ridiculous inefficiencies created by inconsistent data standards used within the industry.

Third, the RMIS alone is not enough to support the expanded risk assessment disciplines that will underlie broad-bandwidth risk management. To develop a complete view of



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new opportunities for enhanced networking among risk management professionals, making this technology a natural focus for professional associations such as RIMS.

Taking Critical Steps

There are undoubtedly readers who by this point have dismissed this message because it doesn't fit with their view of the world. Individuals whose organizations are not using the Internet may believe it is irrelevant to risk management today. There is little doubt, however, that within a few years, the Internet will be almost as important in risk management as the telephone. It is important that risk managers begin to build new information technology into their risk management practices now rather than struggling to catch up later.

It is critical, in fact, that risk managers recognize the importance of information technology to the success of risk management and build it into their programs. Risk, by definition, is uncertainty. The solution to managing uncertainty is to obtain better knowledge about choices and possi-

system is very valuable.

Several companies have recognized the lack of technology-based products and services available to risk managers and are offering new solutions. Some offer the standard claims-oriented database package for an RMIS, while a handful of other providers go beyond claims to attach premium transaction tracking models and other functional enhancements. The easiest way to evaluate these offerings is to diligently visit the demo booths at the RIMS Annual Conference & Exhibition.

Future Directions

Risk managers need to keep a few key points in mind as they explore technology options:

First, despite the recent investments in technology by insurers and brokers, remember that these systems are not designed to benefit the customer directly. Until service providers create solutions that deliver value, don't look in their direction for new risk management information tools. Maintain healthy skepticism toward these solutions; in most cases, they are designed to create dependence.

how risk affects organizations, RIMS members must work together to devise standard definitions of organizational risk, along with supporting accounting protocols that can be implemented to capture the organization's cost of risk. A truly complete picture of organizational risk will require the merger of loss information from the RMIS, the accounting system and external sources.

Fourth, risk managers should consider Internet/intranet technology as the preferred vehicle for delivering the vast amounts of information inherent in the risk management process. Well-designed Web sites can put risk management procedures and services at a manager's fingertips. More impressively, a strategic Web site can convey important information about the organization's risks and provide guidance on how effective risk management can improve business processes.

By bringing together the very best in risk management communications and content, the Web site holds unprecedented promise as the killer application that can give risk management higher visibility and credibility. RM