

January 2008

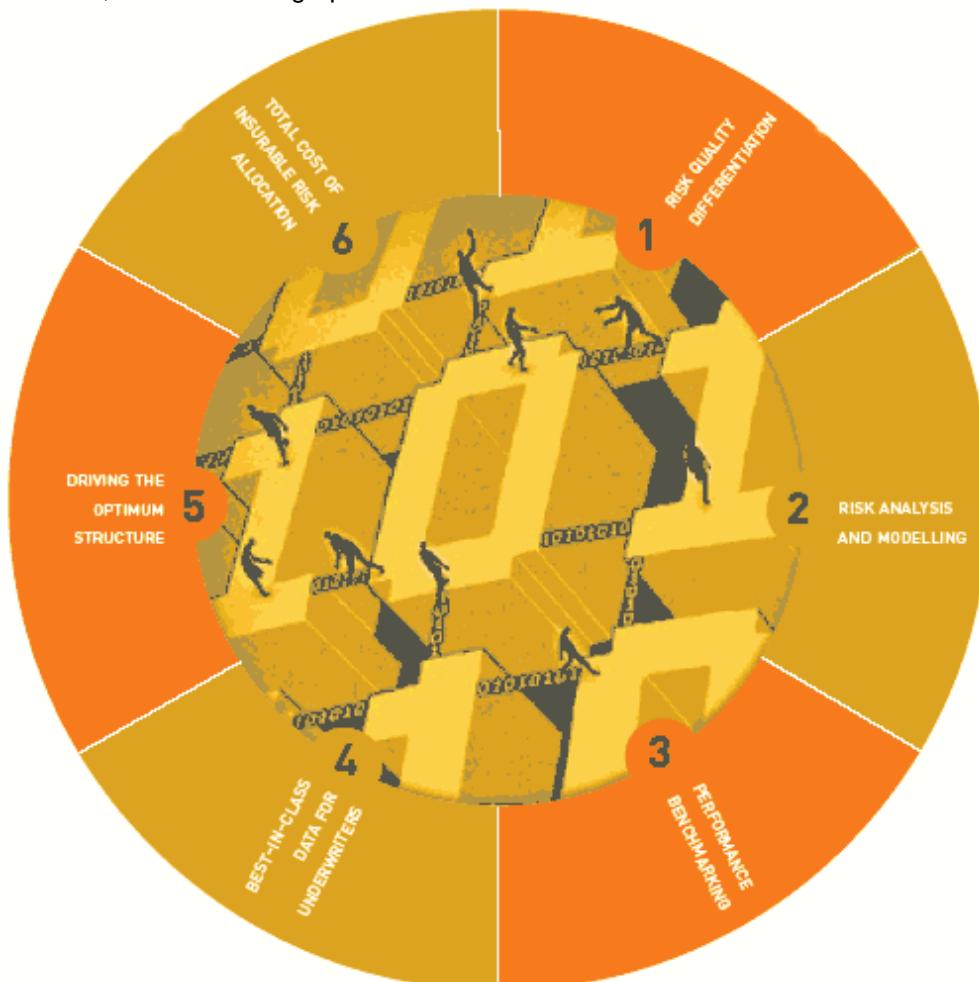
Six Ways to Make Your Data Work For You

With more sophisticated data capture and data mining systems, companies can now analyze their key performance metrics in an unprecedented manner. But how can the risk management community gain competitive advantage from this wealth of data? This article explores how to use your data to not only protect but also enhance your return on investment (ROI).

Over recent years many businesses have faced a relentless push to capture ever-increasing amounts of risk and exposure data. This has been driven by a number of pressures that include:

- greater business and financial regulation
- external corporate governance
- internal management and performance measurement
- enhanced financial control
- the evolution of knowledge management
- a broadening focus on insurance and risk management

Companies invest extraordinary amounts of capital to grow their businesses. By accessing the insurance markets, they seek to protect their balance sheets (and hence their vast investments) against adverse events. In turn, this protects their ROI as the uninsured loss of a key asset would eliminate its potential ROI. There are six critical differentiators that can deliver enhanced value from the wealth of data now being collected, as seen in the graph below.



RIMSTech Bulletins are published periodically by the Technology Advisory Council (TAC) to outline technology issues of interest to risk managers. They are not intended to endorse specific products or services. RIMS provides the information in these bulletins as a benefit and service to its members. RIMS makes no representations about the accuracy or suitability of the information for any purposes.

THIS ISSUE'S CONTRIBUTOR

Oliver Schofield is the Executive Director, GPG Property at Aon. He can be reached at oliver.schofield@aon.co.uk.

1. Risk quality differentiation is a well-recognized part of structuring a risk-management program, whether by trying to establish that your facilities are better protected, your products better tested or your staff better trained. While all of these are influential, perhaps the most important aspect of risk differentiation lies in understanding what the insurance market considers to be the biggest risk factors at any stage in the insurance cycle. Research* clearly shows the difference of opinion between what buyers and insurers consider to be critical risk issues. Nearly one-third of all buyers rate business interruption as their biggest risk headache, while only 10% of insurers rank it as their primary concern. More startlingly perhaps is the gap between the 68% of insurers and 8% of buyers that list natural catastrophes as their number-one risk. Shrewd buyers know the difference between their needs and the markets' needs and are providing tailored data to differentiate themselves from their peers.

2. Risk analysis and modeling are certainly not new, but the combination of all available modeling techniques using quantitative and qualitative data is a significant step forward. Used together, capital-based risk modeling, loss forecasting and analysis, and technical pricing models help drive optimal program structures that blend the best priced external capital (insurance) with the most efficient internal capital (retention).

3. Performance benchmarking allows buyers to measure their existing insurance and risk management programs against others of a similar size, industry sector, and/or geographic profile. Buyers can also assess prevailing positive or negative trends in areas such as rates, deductibles, capacity and coverage, and prepare strategies and arguments to counter or capitalize on them. A further benefit is that benchmarking market appetite across particular industries (in terms of capacity and preferred attachment points) enables buyers to find the best return for their premium spend and achieve the most effective total cost of insurable risk.

4. Best-in-class data for underwriters has become a requirement of buyers and risk management information systems play an important role in collating the necessary data. Presenting it in the most effective way yet as simple-to-use as possible is key to transmitting vast quantities of quality information to underwriters.

5. Driving the optimum structure requires robust accurate data outputs from risk exposure analyses, risk modeling and benchmarking. These outputs help determine the efficiency boundary between risk transfer and retention: all companies take risks – it is the nature of being in business – but the most successful companies take risk where they get the best return. An optimal efficiency boundary combines best risk management control with the most beneficial price and cover from the market.

6. Total cost of insurable risk allocation is a scientific and behavioral exercise. Both require quality data to manage and influence results and behavior across the company in a fair, flexible and transparent manner.

* Aon 2006 Asian and European Market Reports

Data is clearly integral to an effective risk management process. If used more advantageously risk data can manage, protect and enhance ROI.

CONTACT TAC

If you have an idea for a RIMSTech Bulletin or have comments you want to share, e-mail any of the following individuals:

- **Shirley Galioto**, TAC Chair and RIMSTech Advisory Board, shirley.a.galioto@us.hsbc.com
- **Angus Rhodes**, RIMSTech Advisory Board, angus.rhodes@aon.co.uk
- **Andrew Berry**, RIMSTech Advisory Board, andrew.berry@newportrisk.com
- **Meg McGeady**, RIMS, mmcgeady@rims.org

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