

July 2005

M & A and RMIS: FINE WINE OR SOUR GRAPES?

In the ever-changing corporate world, companies are faced with the prospect of mergers and acquisitions to achieve cost efficiencies, increased profits, and increased market share. This poses a dilemma for the Risk Manager - integrating differing risk management data platforms into a combined single platform while maintaining, and perhaps improving, data integrity.

Why integrate your data? It creates ease of access to all data. It enables you to present consolidated underwriting submissions and produce loss triangles. Larger volumes of quality data produce more statistically significant analyses. For smaller quantities of data, consolidation may be cost and time prohibitive; however, in most corporate situations there is clear value in integrating claims, property, and policy data under one RMIS platform.

Once a merger has taken place and the due diligence is complete, the Risk Manager should begin the process of evaluating different RMIS options. Various alternatives may suit the Risk Manager's needs (e.g., internal IT-built systems, user-built spreadsheets and databases, "off the shelf" RMIS software, customized RMIS software). The Risk Manager may choose to integrate data into one of the company's existing RMIS, the acquired company's RMIS, or opt for a totally new RMIS.

Where to Start?

When selecting a RMIS, the following comparisons should be made:

- **Technology** - Which RMIS has more valuable capabilities to appropriately meet risk management needs for the combined organization? How current is the technology?
- **Reporting and Data Extraction Capabilities** - Can quality reports be easily created? Does the RMIS have ad hoc reporting capabilities? Can reports be exported to other programs such as spreadsheets for further manipulation?
- **Flexibility/Adaptability** - Can the RMIS be customized? Can the RMIS expand for future additional data?
- **Ease of Use and Maintenance** - Is the RMIS user-friendly? What internal (IT) or external (RMIS or software vendor) support is available (i.e., project management or consultancy)?
- **Quality and Quantity of Data in Existing RMIS** - Which RMIS has better data integrity? How much data is in each RMIS, taking into consideration the additional costs of moving larger quantities of data? Is the data still relevant?
- **Data Security** - Data security and confidentiality are increasingly important in light of HIPAA, Sarbanes-Oxley, and other laws/regulations referencing data protection. Customer and employee information needs to be protected.
- **Cost** - What are the ongoing costs of using each RMIS? The Risk Manager needs to know all costs involved from both internal and external sources.

Your RMIS is the foundation for valuable risk management data and its selection should be given the appropriate attention.



Project Plan

The Risk Manager now must bring all the data together on the selected RMIS. How does one combine merlot, cabernet, zinfandel, and pinot noir grapes to come up with fine wine instead of sour grapes? How much easier the task would be if all carriers, brokers, and TPAs utilized identical and consistent data standards (i.e., ACORD standards for first notice of loss and loss runs).

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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.

Unfortunately, the Risk Manager is faced with variations in how data is collected, stored, and presented. Until the industry adopts standardization, the following are some of the hurdles in the path to assuring quality integration:

- **Identify data available from carriers and third party administrators** - What data can be provided to be extracted into the RMIS? There may be valuable information available that you aren't currently capturing.
- **Determine depth and amount of data to be captured** - How many years of data should be retained? What information would you like to capture?
- **Re-evaluate selected RMIS** - Make sure your selected RMIS is still the right choice. Is your RMIS capable of retaining the data you selected? Is there a need for customization, and if so, at what cost?
- **Project and future costs/considerations:**
 - Data tapes and hard-copy loss runs
 - RMIS customization costs
 - Internal IT support costs (servers, man hours)
 - RMIS vendor costs (annual fees, service hours, storage costs)
 - Software/hardware upgrade costs
 - Legacy system costs
 - Personnel costs

Once the Risk Manager has determined the final configuration of the RMIS, integration can proceed.

Integration Phase / Data Integrity

The RMIS integration includes the following steps:

- Develop a project plan (internal/external roles and responsibilities, timelines).
- Identify data sources and initiate data requests. Coordinate data tapes or EDI feeds. If using custom software, your RMIS vendor is likely to handle this task.
- Secure current loss runs.
- Map/classify the data. Once again, due to the insurance industry's lack of data standards, mapping of the carrier/TPA data to your RMIS is not an easy task. Carriers/TPAs organize their data in different ways. Some have four different ways to classify a 'slip and fall', while others may have twelve. The task is to get all 'slip and falls' from the carriers/TPAs classified in the appropriate category in your RMIS. Mapping also involves making sure the fields in the carrier/TPA systems flow to the corresponding fields in your RMIS. You are normally assisted in this process by your vendor or internal IT. However, it is wise to be an active participant in how the data will be presented in the RMIS.
- Pre-Integration Reconciliation. Perform a financial and quantity reconciliation on all current and legacy data making sure the RMIS data matches hard-copy loss runs. Identify and resolve any variances prior to combining the data. This provides the basis for the post-integration reconciliation. Remember, "Garbage in = Garbage out". Do not underestimate the importance of reconciliation.

Integrate the Data to the New Single Platform

The Risk Manager, IT staff, or RMIS vendor can now bring all of the various data sources together into your chosen RMIS. This process can be time consuming if there are numerous data sources.

Post-Integration Reconciliation

Create reports. Do the parts equal the whole? If segmented, do the parts equal their pre-integration quantities and values (i.e., individual carrier/TPA basis, line of business, etc.)? Resolve any variances. Does the data make sense?

Finally...

Once your integration is complete, you should have a useful single platform Risk Management tool at your disposal. Combining multiple RMIS onto a single platform poses many challenges. However, if a methodical approach is taken, success can be achieved and data integrity is maintained or improved. If you handle the grapes properly, you'll produce fine wine and not sour grapes!

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