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ERM and ACORD Standards — The Perfect Fit

Data and information — the most crucial assets for any corporation and especially for risk managers. The three keys to data have been, and will remain, quality, availability, and consistency. With the recent emphasis on financial solvency and accountability, a new fourth key has emerged – transparency. The problem most risk managers face is that due to a lack of standards, data can vary between systems and between business partners, such as TPAs, carriers, and brokers, which delays the delivery of data and complicates their interpretation.

As a risk manager, you know that this is the essential information on which you manage risk, track experience, and make educated decisions on risk transfer and loss prevention. You need data to calculate and report loss reserves that may have a material effect on your company's financial statements. Data and information are crucial for both your company's financial and operational risk management.

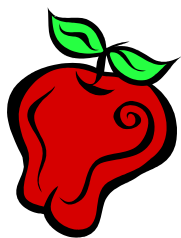
Data standards are the best way to ensure that the data shared by business partners is both useful and available real time. Standards are used on many levels. First, there are common industry agreements for data names and definitions. This is an arena where ACORD standards have played an active role for years. The second layer is a standardized messaging structure that allows solution providers, carriers, and brokers to organize data elements into logical data sets for such things as new business, renewals, placement, first or subsequent notices of loss, loss runs, and quotes and share them electronically in a standardized way.

Benchmarking Data

Both ACORD and RIMS recognize that data is a vital corporate asset. Even if a company is managing data effectively, it cannot control outside forces and other circumstances that can impact the quality of the data. For example, what will happen to a company's ability to benchmark and provide a long-term view if it...

- Changes a TPA, broker, or carrier?
- Goes through mergers or acquisitions?
- Purchases a new RMIS system?

If any or all of these things happen, the risk manager will see how essential standards are. They show how inconsistent data elements can be across systems, solution providers, and subsidiaries.



Premiums are one example. Do some of your systems include taxes and surcharges while others don't? Another example is incurred losses. Do they include or exclude allocated loss adjustment expense? If different systems are handling these elements in different ways, then you are not comparing apples to apples.

This is where standards are a vital tool in using and leveraging data for improved enterprise risk management.

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THIS ISSUE'S CONTRIBUTOR

Beth Grossman is the Assistant Vice President of Industry & Government Affairs for ACORD and is a member of the RIMS TAC. She can be reached at BGROSSMAN@acord.org.

CONTACT TAC

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

- **Jeff Stolle**, TAC Chair and RIMSTech Advisory Board, jrstolle@aep.com
- **Patty Born**, RIMSTech Advisory Board, patricia.born@csun.edu
- **Bob Henderson**, RIMSTech Advisory Board, robert.j.henderson@marsh.com
- **Angus Rhodes**, RIMSTech Advisory Board, angus.rhodes@aon.co.uk
- **Michael Scott**, RIMSTech Advisory Board, michael_scott@admworld.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.

This does not mean standards would force all of the insurance value chain participants to calculate and store their premium and loss data in the same way. Instead, standards form the basis on which a risk manager can build unique business rules and form a competitive advantage. Standardized data naming and definitions help risk managers communicate with partners and between systems. But they do not change how business is done.

Imagine if everyone agreed to data names and definitions for premium elements that clearly identify that taxes and surcharges are included or excluded, with agreed upon code lists to identify whether it is gross, net, earned, or unearned. It would create more meaningful industry data over time. Imagine how you could benchmark data so much more easily. The big picture would stay clear.

Data Standards

Data standards can drastically improve the flow and quality of data among internal systems and among trading partners. The insurance industry has witnessed it through the ACORD data standards. The necessity of standards is an area where ACORD and the RIMS Technology Advisory Council (TAC) have both been working.

Since 2000, RIMS has been leading an effort to bring data standards to the risk management community. RIMS funded a study by the University of Georgia on the proliferation of data standards from the worker's compensation commissioners and boards and bureaus, carriers, motor vehicle departments, and others. This research supported the belief that there was a need for specific industry data standards.

In fact, RIMS TAC has encouraged members to use standards language in RFPs. That information is available at www.rims.org in the [Resource Library](#). This initiative moves forward today, now focusing on educating and driving implementation of the standards.

Standards in ERM

It is through this experience with ACORD that RIMS recognizes those same standards would be vital to Enterprise Risk Management (ERM).

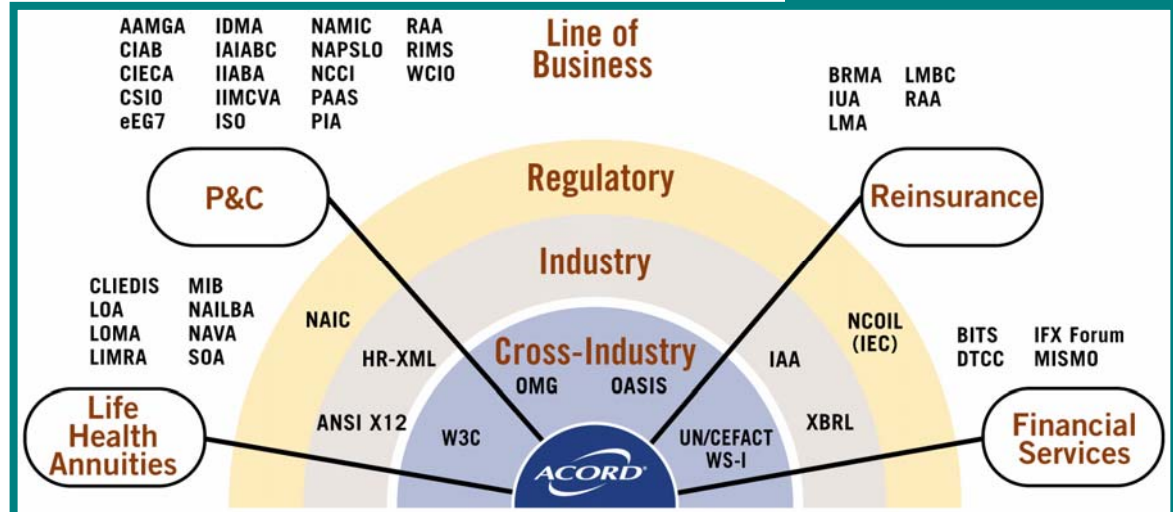
According to the Insurance Data Management Association, in their value propositions document (see www.idma.org), "Documented, controlled data management processes help to give weight to the assertion of validity of data being used." That's important in the Sarbanes-Oxley world where management is directly responsible for the establishment and maintenance of internal controls over financial reporting. A presentation at the IDMA's 2005 Annual Conference defines the benefits of data transparency as:

- Allowing for the development of clear, standardized, comparable information
- Allowing data users to assess the health of the systems using the data
- Promoting better controls
- Improving operational and financial performance

Across industries and organizations, there is recognition of the value of data and information. It is a vital component for risk managers and is the basis of decision-making. As RIMS moves forward on their ERM initiative, ACORD standards are there to support the effort by providing the data communication foundation on which the insurance industry functions. By taking advantage of this wealth of knowledge, and the strong foundation already used by the insurance industry, utilizing ACORD standards for ERM will move risk managers one step closer to a solution.

About ACORD

Based in New York and London, ACORD (www.acord.org) is a global, nonprofit insurance association whose mission is to facilitate the development and use of standards for the insurance, reinsurance, and related financial services industries.



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