

Next Generation RMIS: Revolutionizing Risk Management

Introduction

Picture this - one day a water pipe bursts in your home and causes property damage. At the same time, a delivery person happens to be dropping off a package and they slip and fall and get hurt. This results in having to deal with construction contractors, doctors, hospitals, insurance companies, and possibly attorneys. There are medical bills, property repair expenses, claims made against insurance policies, and insurance reimbursements to keep track of.

It can be a daunting task managing all these details. Questions come up, such as “how did this happen?” or “who is at fault?” and “how do we avoid this in the future?” An unfortunate situation like this can cause unexpected financial hardship if your savings or insurance coverage is inadequate to cover the losses.

Now, envision an international hotel chain that has thousands of properties, fleets of vehicles, thousands of employees, and a large, complicated supply chain. The hotels host millions of customers each year. Their assets are worth billions of dollars. Incidents occur at their properties, too, resulting in claims, losses, and insurance details with much greater complexity and impact. They have teams of people to handle these incidents and the details of managing insurance coverage, tracking claims, and dealing with uncovered losses.

Likewise, companies with complex operations in other industries such as retail, energy, manufacturing, and healthcare also contend with the challenges of trying to track and manage these complex details.

Limitations and Challenges of Traditional RMIS

For years, organizations have relied on traditional risk management information systems (RMIS) to track and manage incidents, insurance, claims, and losses. However, the capabilities of typical RMIS solutions available today have not evolved much over the last decade to meet the changing needs of business.

Traditional RMIS comes with limitations that include:

- **Manual data entry** which is tedious and error-prone and often creates bottlenecks that hinder effectiveness
- **Limited data analysis** that does not provide needed insights and instead leads to reactive risk management
- **Siloed data sources** that don't integrate across different systems, creating fragmented teams and processes with a limited view of the overall risk landscape

RMIS should be a strategic solution used for much more than simply tracking details. Today's RMIS must help your organization not only organize these details so you can act most effectively, but also help you understand the relationships between these details and provide insights into how to improve controls, reduce risks, incidents, and losses, and minimize costs and exposure for your company.

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Delivering Value with Strategic RMIS

Risks today are more complex than ever with ever greater implications for your organization if they are not managed proactively and correctly. Risks can also be expensive in terms of cost and impacts to your company's strategy, reputation, and objectives.

RMIS should be leveraged as a strategic tool that enables your organization to:

- **Prioritize and focus on your highest priorities**

Teams, budgets, and time are all limited commodities but not all risks, incidents, or loss types have the same potential for impact. Effective prioritization enables you to focus your efforts on the incident types, locations, risks, or other factors that could pose the greatest threat, incur the largest expense, or have the biggest impact on your business.

To prioritize effectively, consider using the results of business impact analyses (BIA) that are likely already being performed in your organization by your business resilience team. The BIA is used to identify the most critical processes and dependencies. Those incidents, risks, or controls that relate to your business processes of the highest importance should also be considered the highest priority in terms of attention and improvement.

- **Improve control effectiveness to reduce the impacts of risks, incidents and losses**

Incidents, disruptions, and losses are indicators that controls, or other measures may not be operating as intended or were never put into place. An integral part of mitigating risk is implementing the right control structure and ensuring it is effective through validation and testing. Preventive controls that proactively reduce the likelihood of incidents, disruptions, and losses are typically better than reactive controls because they can reduce impact of incidents.

Boards and executives establish risk appetite and tolerance measures so that the organization has guardrails to work within and that operating and financial results are predictable as a result. It is vital to internal and external stakeholders that the organization manages residual risks within those boundaries.

- **Reduce the total cost of risk**

A primary goal of effective risk management is to reduce the total cost of risk (TCOR). Insurance, controls, losses, regulatory fines, resources, and other costs can be exorbitant and as risks become more complex and successive, these costs increase. A vital goal of risk management is to drive costs down. Strategic RMIS can have a positive impact on business outcomes by focusing on effective prioritization, improving the control environment, and reducing TCOR.

Risks are more diverse and less predictable than ever, with greater consequences. Your risk management efforts must evolve as well.

The combination of data points can provide risk managers with broader and deeper context that drives different insights and enable executives to take more strategic and proactive steps to mitigate unknown risks.

Implementing an Effective RMIS Strategy

The risk management landscape is undergoing a seismic shift as the volume and variety of risks continue to increase. Risks are also more diverse and less predictable than ever, with greater consequences. Your risk management efforts must evolve as well. One method is by evolving your data strategy.

Data Strategy

While data analytics drives the timely insights you need to be agile and proactive, the challenge is harnessing the necessary data. Organizations generate more data today than ever, growing 3x in volume over just the past five years from 41 to 149 zettabytes. This can create opportunities for risk managers to gain more context, rationale, and direction to make risk management decisions. However, it requires the right approach to uncover critical insights hidden inside this vast store of data.

RMIS strategy should include data analytics that can help identify:

- Incident types that are low value at risk and can be managed with lower cost, standardized treatments.
- Incident types that are high value at risk and can be managed with individualized treatments.
- Correct amounts and types of insurance coverage, since excess insurance coverage wastes money and inadequate insurance coverage exposes the company to unplanned losses.
- Incident types that are the most impactful and costly and which controls, including insurance, should be implemented to mitigate their impacts or to avoid incidents in the future.

Organizations must appropriately identify relevant regulatory changes, develop action plans with timelines, and assign roles and responsibilities to fulfill such plans. Post-implementation, management and the board should evaluate the effectiveness of changes made and establish repeatable processes going forward.

Non-Normalized Data

When I asked ChatGPT a simple question “**what should I do this weekend?**” It simply responded, “**it depends.**”

I then provided some details: “**I live in Denver, and I like sports and history. What should I do on Friday?**” It replied with a suggestion to attend a sporting event and read a history text. Better, but still not particularly helpful.

I then gave ChatGPT even more details: “**I’m an active person, I like basketball, military**

history, and concerts.” It replied that Michael Jordan is performing a concert of military ballads from the 1800s- a far more focused response.

Traditional predictive models often drive incorrect insights because they are limited by the same old data. One misconception about data analysis is that the deeper the dataset is, the better. For example, 500,000 claims provide better insights than 100,000 claims would provide. This may sound valid but, in fact, they are the same data points.

We can be too focused on depth of datasets rather than breadth. We need to add more details rather than more of the same data. In this age of emerging technologies, there is a hidden treasure trove of data called “non-normalized data” that lies untouched. It is the data you thought you did not want. It is the data that contains seemingly irrelevant details that, when combined, could paint a much more insightful picture.

For example, while your RMS today might show you current weather statistics, consider incorporating historical weather patterns that show changes over time. When correlated with your entire loss history, this can give you valuable insights. This could enable a risk manager to analyze data on property exposure. When overlaid with historical climate trends, it might reveal areas more susceptible to natural disasters.

Imagine weather data alongside past claims experiences or traffic patterns overlaid with auto accident statistics. These seemingly unrelated data, when brought together, can unveil hidden correlations and risk patterns. The combination of data points can provide risk managers with broader and deeper context that drives different insights and enable executives to take more strategic and proactive steps to mitigate unknown risks.

APIs

APIs allow for intelligent connections between separate systems with seemingly disparate datasets, yet when the data is imported into the RMS and correlated it can provide new insights. For example, APIs can pull in weather patterns, auto patterns, safety recall notices, demographics, and more. When combined with your incidents, claims, and loss events data, you now have breadth and depth to your data. You can then use artificial intelligence (AI) to interrogate data patterns that provide insights that suggest actions and next steps you might have never considered before.

Artificial Intelligence

According to a recent Gartner survey, (Gartner, *Generative AI Security and Risk Management Strategies*, April 2023), only 31% of risk management leaders are currently leveraging artificial intelligence (AI) in their risk management programs. AI can perform various functions from mundane to complex. For example, AI can act as an intelligent assistant, automating tedious data tasks and minimizing errors which frees up valuable time for risk managers to focus on other strategic initiatives. Conversely, advanced AI analytics can dive deeper into your data, identifying hidden patterns and relationships, allowing you to locate and anticipate risks before they materialize. AI empowers true

predictive modeling, interrogating all your data to proactively identify potential threats.

Supporting Governance, Risk and Compliance

Governance, risk and compliance (GRC) is the art and science of integrating a consistent approach to managing risk and compliance across an organization's three "lines of defense," consisting of:

- **First Line:** Business units
- **Second Line:** Risk, compliance, third-party risk, IT and security risk, ESG management, and other teams
- **Third Line:** Internal Audit

GRC provides a common, organized **governance** framework that includes policy statements, rules, control standards, service level agreements, and regulatory guidance across all lines.

It also drives a common **risk management** approach across enterprise and operational risk, audit, third-party risk, IT risk teams, and business units that might be separately identifying, assessing, mitigating, and monitoring risks. Risk processes, appetites, and thresholds established by the board and executives can be consistently applied, evaluated, and monitored.

In addition, GRC enables a common approach to **compliance** across the company. Often, business units, compliance teams, internal audit, and others implement controls to mitigate risks. Yet, these controls can be redundant, or control gaps might exist if these teams are not working with one control library linked to the risks they are designed to mitigate. With frequent changes to internal policies and procedures and external regulations, it is critical that these standards are correctly interpreted and consistently applied, enabling existing or new controls to be implemented effectively to comply and reduce risks.

Finally, GRC is a strategic enabler that supports the organization's strategic and operating objectives and drives real business results by reducing risks, driving down TCOR, and ensuring the organization is compliant. RMIS can be utilized to effectively

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Leveraging the Combined Power of RMIS and GRC

RMIS should be an instrumental part of your organization's overall GRC strategy and program. While RMIS may be a more operational solution, RMIS and GRC share common attributes that lend themselves to integration and efficiencies.

- Both RMIS and GRC incorporate risk management and mitigation.
- Both RMIS and GRC incorporate elements of compliance as controls are influenced and evaluated.
- Loss events are tracked in both RMIS and GRC, which can be an indicator of poor controls.
- Claims management is usually managed in a RMIS, but the results can inform the organization's control environment and regulatory compliance and be considered in data analytics approaches discussed earlier.
- RMIS and GRC both integrate with other systems and data sources to increase efficiency, agility, and outcomes.

The risk management landscape is undergoing a seismic shift as the volume and variety of risks continue to increase. Organizations are looking for ways to effectively improve processes, mitigate risks and reduce the total cost of risk management and compliance. RMIS should be an instrumental part of your organization's overall GRC program to help you gain insights, act more effectively, build stronger controls, and reduce impacts and exposure to your organization.

About Archer

Archer is a pioneer in risk management delivering solutions for the heroes tasked with helping their organization deal with uncertainty. We enable better decision making with a technology platform to manage all types of risk. With more than 20 years of experience, Archer is solely dedicated to helping organizations manage risk, ensure compliance and meet emerging challenges such as ESG and operational resilience. Working with the largest pure risk management community globally with more than 1,200 customers of all sizes and industries, we help our customers not by building a wall around their business but by building a bridge to their next opportunity.

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