

## Data Standards – What’s it all about and why should I care?

The subject of data standards has been receiving considerable attention in the insurance industry, including from the RIMS Technology Advisory Council. Yet data standards have not been widely implemented in the industry and in many areas there is a lack of understanding about the subject and the importance of data standards to the risk manager. This bulletin provides a basic primer on the subject

### The Business Problem: Data Interchange

Recognize these problems?

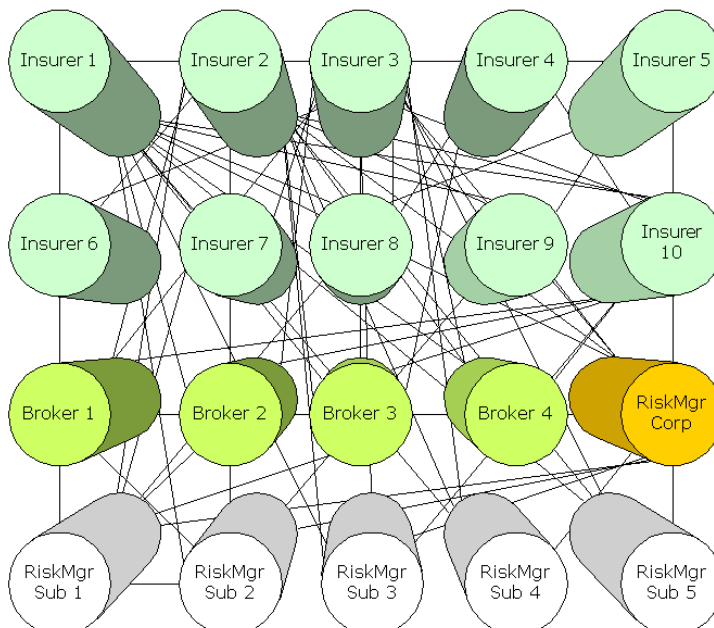
- Insurance company expense ratios running at more than 30% of premiums
- Insurance policies issued as late as six months after coverage has incepted
- Errors in documentation leading to rework
- Loss adjustment expenses at 15-20% of claims costs
- Inconsistent loss run information leading to time spent normalizing data
- Multiple insurance application and submission formats
- Poor customer service

All of these problems exist in our industry and are caused in whole or in part by the inability of our computer systems to exchange data electronically. Instead data is re-keyed at different points in the industry, creating redundancy, delays and errors.

### Technology Approaches to Data Interchange

The ability of computer systems to exchange data electronically involves the mapping of data fields between the systems in question. While there have been some efforts focused on a universal system for mapping, historically most data interchange efforts have required a custom one-to-one mapping, as shown below:

#### EDI Without a Data Standard



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Instead of this individual mapping, current standards-based data interchange activities focus on the use of a common technology language called eXtensible Markup Language (XML). This is a platform independent programming language that wraps around data elements to make them recognizable by different computer systems. With advances in communication and security protocols this XML coded data (XML messages) is typically sent between systems via the web. In other words you map once – to the standard – rather than multiple times to each individual computer system.

This standardized method of data interchange has the potential to greatly increase systems connectivity and ease the flow of data between business partners. However, before we can realize that potential, a common XML vocabulary needs to be developed.

In the insurance industry, the task of developing that common vocabulary or dictionary rests with ACORD. Most people are familiar with ACORD's work in standardizing paper forms including middle market applications and certificate of insurance forms. Since the late 1990s ACORD has also been the body creating XML data standards throughout the global insurance industry. This responsibility extends to all sectors and is structured into three programs: Life and Annuity, Property & Casualty and Reinsurance. Working groups and sub-committees within each program develop XML dictionaries and business messages. Version 1.0 of ACORD's P&C XML was approved in 2001 with an updated version (1.2), including a loss run data standard, approved last year. There are currently 14 P&C working groups looking at enhancements to the P&C XML data dictionary and schema<sup>1</sup> in areas such as certificates of insurance, commercial lines - energy, and exposure reporting.

### Data Standards Adoption

Electronic data interchange aided by the use of XML and data standards has significant benefits for risk managers

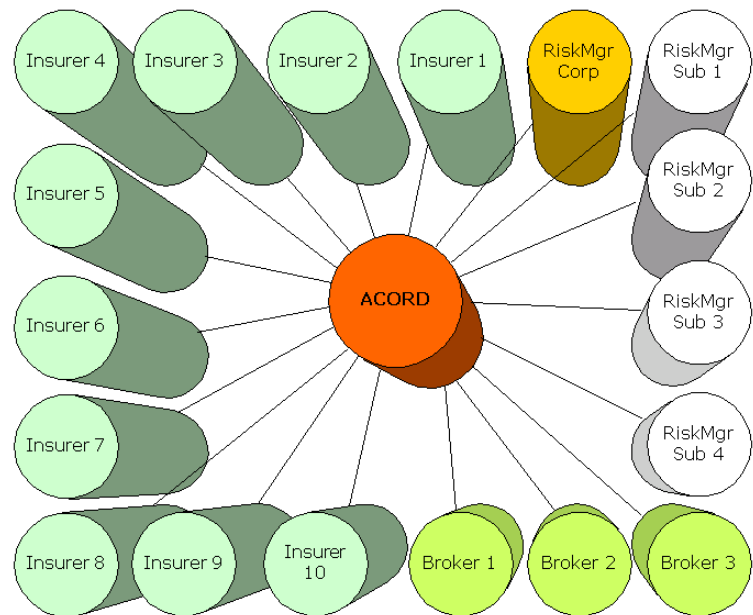
- It removes redundant processes, lowering expense costs including the expense components of premiums.
- It enables transportability of data between vendors and the consistent compilation of data from different vendor sources
- It provides better and faster access to risk data enabling better decision-making by risk managers and underwriters

Standards have been developed and technologies exist to be able to send and receive XML messages. Yet few companies have made the technology investment to be able to implement the standards. As buyers of insurance and risk management services, risk managers can heavily influence adoption of these standards by requiring ACORD XML compliant data from their vendors and making that a criterion for vendor selection and performance evaluation.



<sup>1</sup> ACORD XML does not use a flat dictionary, but one structured into hierarchical elements. The schema refers to the sections and sub-section of the standard.

### EDI with the ACORD XML Data Standard



### Data Standards versus Data Consistency

The data standards initiative does not necessarily imply consistency in the use of data. It is focused on developing a dictionary and schema to aid in data interchange. It does not stipulate the format in which data elements are used or presented.

However, there is clearly a link between data standards and data consistency.

- The greater the consistency in the data used in the industry, the fewer data elements need to be reflected in the XML data dictionary.
- Connectivity of systems will ease the task of integrating data into prescribed formats. For example, the recently approved loss run standard does not mean that all insurers who comply with the standard will supply loss runs in exactly the same format. However, with the right technology, selected data from any ACORD XML compliant loss runs could be pulled into a standard format providing for a consistent view of historical data, no matter the insurer. Furthermore the format could be specific to the risk management user, not an industry standard format.

### Additional Resources

Most information about the use of XML data standards in the insurance industry can be obtained from ACORD at <<http://www.acord.org>>, with relevant information under ACORD Publications and Brochures and Case Studies.

See also the recent report "ACORD XML Standards in US Insurance", published by Celent, October 9, 2002. Available at <<http://www.celent.com>>.