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## for a New RMIS

by Ritza Vaughn

**W**hen most people enter a department store such as Macy's or Bloomingdale's, they anticipate a day of shopping, not mulling over the intricacies of insurance and risk management. But to Ann Schnure, director of self-insurance and claims at Federated Department Stores (FDS), millions of square footage of retail and merchandising space translates into critical claims and risk management issues.

As one of the nation's leading department store retailers, Federated operates more than 450 stores in thirty-four states under the names Bloomingdale's, The Bon Marché, Burdines, Goldsmith's, Lazarus, Macy's and Rich's-Macy's.

Since the early 1990s, the company has covered its general liability and workers' compensation claims through a self-insured, self-administered program. In 2001, FDS decided that it needed a new claims administration system to update some of the critical processes and procedures in their claims department. The department was using an old, limited product. Although it had been cutting-edge when it was implemented, it could no longer effectively manage

an electronic claims workflow and information exchange between different systems. The claims department had turned to building labor-intensive workarounds when the task of finding a new system fell to Schnure. She had to find the system to meet her company's needs, but wanted to avoid a lengthy request for proposal (RFP) process.

### A Shopping List of Features

Federated was looking for a system to handle multiple workers' compensation states that also could be customized to handle disability claims. Since Federated had always been progressive in implementing state-of-the-art technology, it wanted to select a system that could adapt to changing times and have long-lasting benefits.

"If it made good business sense, we didn't mind investing in the IT infrastructure up front. That always has been our approach to technology in claims and risk management—have systems in place to control the data so that it can be analyzed later, and have systems to control the

claims process to carefully monitor losses along the way," Schnure explains.

"When we first decided to go to a self-insurance model, we approached a vendor that had a paperless claims administration product. We made this decision and investment relatively early because we recognized the long-term benefits and advantages to our claims operations. That system worked for ten years."

When Schnure's team went shopping for a claims system the second time around, they utilized this same forward-looking philosophy, and had a specific list of features and functions they were looking for:

*Paperless claims system.* Since FDS had been using a paperless claims process since 1991, the new system would likewise need to have this feature.

*Electronic data interfaces.* One of the main reasons FDS needed a new system was to leverage the power of electronic data interfaces to easily exchange information with its partners and other internal applications.

*Sophisticated reporting.* Another benefit that the prior system could not deliver was specific reports that the risk management team needed. It was important to have "as of" reporting with snapshots of financial data for analysis, trending and actuarial projection. They needed a system that would allow anyone to generate ad hoc reports with ease.

*Automated forms and letters.* FDS wanted a module that would automatically generate custom letters and state mandated workers' compensation forms, with data fields automatically populated from the claims system.

### **Shopping at the RIMS Exhibit Hall**

Schnure saw the 2001 RIMS conference as a perfect opportunity to meet various vendors and obtain a comprehensive overview of the claims administration market in one convenient location. In anticipation of the conference, her team looked over the exhibit directory and determined which companies they wanted to meet.

"We were interested in twelve ven-

## ***Creating a Short List of Qualified Vendors***

Requests for proposals can total one hundred pages and the process—from development, distribution, review and evaluation—takes up to a year to complete. It is no wonder risk managers dread the laborious task of selecting a new information technology system. It is a project that requires large investments of time and resources, even before a penny is spent on the application. There are ways, however, to efficiently narrow the universe of vendors to a strategic short list of qualified providers. Here are some tips to abbreviate the process:

- Select a strong leader who can serve as the project advocate, helping to drive the evaluation and selection process.
- Identify the key decision makers that will form a small, effective committee, dedicated to making decisions that are right for all users.
- Develop a complete list of system needs both from a business and IT perspective. Start by having each group clearly articulate system specifications and compile these requirements into a centralized document. This may be in the form of an RFP, or it could be just a list of needs and wants.
- Utilize an exhibit venue, like the RIMS conference, to arrange for product demos in one location. These initial demos will allow you to quickly eliminate systems that do not meet your requirements.

dors that were exhibiting," she says. "We didn't make appointments in advance. That way, if the system didn't have the minimal requirements we were looking for, we could simply move on."

At the conference in Atlanta, Schnure discovered that every vendor's application had unique features. Some were stronger in specific modules, but weaker in other areas.

"A major stumbling block for many of the vendors was our paperless claims process," says Schnure. "Some of the vendors were very honest, and said their system wouldn't work. Others said they could develop something for us, but quite frankly, we didn't want a vendor to make special accommodations. We wanted a system that contained most of our vision coming off-the-shelf. Otherwise, we knew from experience that customizations could give us problems with future upgrades."

### **Headquarter Demos**

By the time they returned home, Schnure's team had whittled down their initial list of vendors from twelve companies to five. They had completed a significant portion of their vendor

research and developed a cursory list of the pros and cons for each system.

"We were getting ready to send out RFPs, but, instead, we invited each company to our Cincinnati headquarters to provide an in-depth product demonstration," Schnure says. "Each demo lasted two to four hours, and in the end, the RIMS conference and the in-person demos saved us an enormous amount of time and resources."

### **Checking Twice**

After the demonstrations, the list of five had been narrowed down to just two companies. Schnure did not leave any stone unturned. In the reference-checking process, she requested contacts from other self-insured companies.

"We did conference calls and checked very thoroughly on what these clients liked and disliked," she says. "We checked on each company's level of service and support and asked what they wanted to see changed. We spent a good hour or two talking to each reference."

The IT department was also intensely involved in the selection process, making sure the application

would work with what the company already had in place. For instance, the systems manager made sure the prospective application would work with an Oracle database, InfoMaker and Crystal Reports.

"The systems manager and I were about a 50-50 team in making the final decision, and were really well complemented to select the system," Schnure says.

"We also were under tremendous pressure to present a sound business case to our vice president of risk management, Tim Schwirtz. We prepared a proposal with the specific reasons we required a new claims system; the specific benefits we would obtain; the savings we would experience, and even drill-down details on the administrative head count it would affect. As a result, we had looked closely and critically at the specific benefit breakdown between the two remaining competitors."

### **The Decision to Control their Destiny**

Schnure realized that the two vendors were very different and saw that there was a business case for both products.

One was a task-oriented system that charged every time the company used the application. "It would eliminate our need to support the IT infrastructure," Schnure says. "We would run the application off their server, and it would not utilize our internal IT resources. However, we also saw this model as a big disadvantage to our specific needs and corporate philosophy. We wanted to have control and make direct modifications if necessary."

The other vendor was Valley Oak Systems (VOS), a company perceived as predominantly focused on the California workers' compensation market. "We knew that Valley Oak had expanded to national capability, and in all honesty, California drives one of the most complex workers' compensation markets in the country," says Schnure. "When we looked at their system, we realized that Valley Oak's feature, initially built for California, really could be used in any state."

## ***IT Checklist for New Claims Systems***

**P**urchasing a new claims system often involves two critical groups—the business users and the IT department that will support the system. Both of these groups will have specific needs and requirements. An IT department should consider this checklist of common items:

- Will the claims system work with the existing platform, infrastructure and database?
- Is the application architecture progressive?
- Can the claims system interface with other departmental applications, such as HR and accounts payable?
- What types of system-support options are available?
- Is the vendor a good partner? Do they have a client-focused culture and service-oriented philosophy?

### **Data Conversion**

By February 2002, Federated signed an agreement to license VOS Portal. After some initial planning, Schnure's department began work with the Valley Oak implementation team to jump-start the data conversion process in May 2002. They were under a tight deadline.

"We had to go live with the system either before our 2002 holiday season, or after," says Schnure. "A huge portion of our claims activity occurs during the busy holiday season. If we didn't have the system ready to go by November, we would be forced to push the implementation back until February 2003."

She knew that data conversions were typically a nightmare. With their prior system, they had performed a product upgrade only to discover the system had a bug that corrupted their data. Having gone through this experience, Schnure's team wanted to make sure that the conversion and implementation went forward without a hitch.

"Our main strategy was to test, test and test," Schnure says. "My IT counterpart played a huge role in this process. Valley Oak had a well thought-out implementation process, which included a protocol for verifying data integrity and system functionality. During the conversion, we had about one-third of our staff involved in making sure the data was solid. As a result, we

went live on October 15, 2002—an extremely short conversion time."

### **Immediate Workflow Benefits**

Once the new claims administration system went live, the adjusters were the first to experience immediate workflow benefits.

"The adjusters noticed that a lot of thought had been put into the usability of the system," says Schnure. "For instance, in the prior system, the general liability and workers' compensation modules both looked the same. This made it awkward to know which module you were in.

"[With the new system] the general liability and workers' comp modules looked different, so adjusters knew they were operating in different lines and intuitively knew the claims needed to be handled differently."

The new system also allowed adjusters to work on more than one claim at a time. "From the adjusters' viewpoint, this alone was a tremendous workflow benefit."

In addition to these immediate usability benefits, the new system has other advantages.

With automated correspondence and state forms, instead of creating a letter from scratch, printing it, and then scanning it into the system, FDS is now able to run an automated correspondence template. The letter is part of the trackable claims file. This

results in huge clerical savings.

Previously, FDS had two people manually entering the workers' compensation medical bills into the claims system. The new system provides an electronic data interface with Federated's bill review vendor, so they can electronically import the medical payments, eliminating the need for data entry.

In order to monitor the claims process, FDS also set up business rules that triggered automatic responses to generate a notepad entry, or set a reserve amount on a claim. These rules allow for consistency in claims handling and reduced the possibility of unnecessary losses.

The inclusion of an automated explanation of benefit (EOB) within the check-writing interface is another improvement. At one time, FDS produced and mailed their EOBs and checks

from two different locations. Payers then had to manually match payments to EOBs, and often called FDS to ask which EOB went with which check. Now, the EOB appears on the check stub, eliminating work for the claims department, reducing provider calls and improving provider relations.

### **Future Improvements**

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Now that the new system has been implemented, Schnure and her team are getting ready to make further improvements and enhancements to the claims operations.

They are in the process of rolling out Web-enabled claims reporting. Managers will be able to submit a claims report through the company's intranet, which connects all 450 stores.

In addition, FDS is linking its claims system to its gift card center. If

a customer sustains an injury on the premises, in addition to the medical care those individuals receive, FDS will also be able to automatically generate a gift card to its stores.

"We're thrilled to have a system that works well within our paperless claims process," says Schnure. "As an off-the-shelf package, it was not only close to our initial vision, but in some ways it has exceeded it."



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