Integrated Risk Management Solutions, LLC

James E. Blair, President

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Dear Colleague;

Compliance as a Valued Market Imperative!

No-one on the planet likes rules! Rules and regulations feel like constraints on creativity and proactive business progress. However, the global solution to any problem seems to be new rules and regulations. Businesses of all size are challenged to understand and operate under increasingly complex rules that govern financials, products, transportation, order fulfillment, employment, safety, health, environment, behavior and rapidly growing information security. Our clients increasingly feel like Compliance is becoming their purpose.

Shouldn't we be more focused on meeting customer's expectations? And then the expectations of owners/shareholders? The temptation might be to focus on expectations of regulators ahead of customers and owners. The risks of operating in the market where the priorities of customers, owners and regulators become unbalanced are real and we offer some perspective.

Remember "we take risk to generate cash – we spend cash when risk is not managed". Compliance does not generate cash – inadequate compliance spends cash. Further, Compliance is "what happened yesterday" – Risk Management is "what may happen today and tomorrow". So, how can these two factors co-exist?

Proactive Risk Management treats Compliance as a Market Imperative, equally valued with Customers and Owners (shareholders). Risk-based performance serves:

1. The Customer with products and services that exceed their expectations.
2. The Owners with return on investment from effective operational performance and financial management that exceed expectations.
3. The Regulator with performance, products and integrity that exceeds expectations.

Viewing Compliance with regulations as a Market Imperative changes the Risk Paradigm. The priorities become providing 1) products and services, 2) financial performance and 3) Regulatory Compliance better than anyone else. If we fail, the customer gets their money back! It becomes part of your brand:

"Managing Risk better than Competitors"

We have experiences with the proactive delivery of Compliance programs that improved customer service and financial performance. The deployment of proactive Risk Management governance structures that engage the C-suite and Board levels delivered performance exceeding customer, owner and regulator expectations.

Let *Integrated Risk Management Solutions* tell you about it!

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World Economic Forum Risk Priorities 2018

The World Economic Forum met in Davos, Switzerland for its annual assessment of global financial and operational risk. It is intriguing to see the world's most talented government leaders and educators come together to evaluate and project the major risks facing the global population. The risk priorities are listed on the attached Risk Highlights and little changed from 2017, other than ranking.

Notable from government and educational leaders are the top 4 Risks of Extreme weather events, Natural disasters, Failure of climate-change mitigation/adaptation and Water crisis. These Risks offer little opportunity for more effective management. Risk Management resources are faced with the imperative of planning and preparation to effectively Recognize, Respond and then Recover (3 "R's").

Business executives forecast a more manageable set of Risks, including Un/under employment, Fiscal crisis, Failure of national governance, Energy stock prices, Cyber and Terrorist attacks and Interstate conflict. These examples lend themselves to proactive Risk Management that enables prioritization of material risks, allocation of resources to assess and develop mitigation strategies, measurement of progress and nimble adjustment to changed circumstances while preparing to deploy the 3 "R's" when needed. World business leaders do understand the benefits of Managing Risk!

Potential Future Shocks - WEF experts did outline the potential for the truly unexpected. Consider the following 10 potential Future Shock Risks:

1. Food Supply crisis
2. Algorithms that lock the internet
3. End of global trade as we know it
4. Democracy buckles
5. Extinction of fish
6. Global financial crisis
7. The rise of inequity
8. War without rules (cyber)
9. Who we are?
10. The breakup of the internet

These risks lend themselves to improved Risk Management governance and action on the part of country and global leaders. Business leaders appear to comprehend the opportunity to improve.

Cyber incidents remain out of control. Cyber-breaches increased 45% and hacks were higher by 122% over 2016, costing more than $400 billion. Forecasters estimate the global costs could reach $6 trillion by 2020. These Risks are manageable under the stewardship of a top-level Risk Management Governance process (C-suite & Board).

Integrated Risk Management Solutions provides Advisory services to help strengthen your business. I look forward to your thoughts and questions – please contact us.

Manage Your Risks Well,

Attachment

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Managing Risk = Cash Flow

Typical returns are 4:1 ROI and significant cash flow improvement

Risk is anything that impacts cash flow! Successful companies manage risk more effectively than competitors. By practicing a "Risk Awareness" culture that engages every level of the business in prevention-centric behavior, cash flow is improved.

Key Risk Management Facts:

- Companies spend between 7 - 10% of revenue on risk-related costs, including:

- Safety	- Security	- Information Security	- Health & Wellness
- Absence*	- Theft	- Fraud Prevention	- Revenue Inefficiency
- Audit	- Compliance	- Investigations	- Settlements
- Claims	- Insurance	- Crisis Management	- Emergency Response

  * Incidental absence can increase the costs of employee health and wellness programs by 2X.

- Risk costs are incurred in multiple corporate silos hiding the "Total Cost of Risk."
- 75% of company information system risks come from employees and trusted vendors.
- FM Global, a world-wide property insurance and engineering firm, recently estimated that company earnings volatility can be reduced by 50% through effective Risk Management prevention and preparedness programs.
- Companies that manage risks effectively will receive the best insurance prices and maximize the option to *self-insure*.
- Enterprise-wide Risk Management is a complete vision of company risk. A strong Risk Management culture helps a company respond well to unforeseeable events.
- Documented and tested Business Interruption/Scenario Plans sustain key operations during an emergency and improve company survival by 70%.
- Uncertainty and financial pressure renew the need to manage risk. These pressures have always been present, but the magnitude and visibility is at an all-time high.
- Third party vendor transactions often result in 10% or greater errors and inaccurate billing.
- Sarbanes-Oxley, Dodd-Frank and compliance audits only test transactional controls – operational controls are "the source" of risk – **Operations Assurance is the key!**
- Regular Operations Assurance reviews can improve revenue efficiency by up to 20%.
- Synergy from a holistic focus on risk, cost/revenue efficiency, loss reduction, underperforming vendors and fraud produce impactful cash flow improvement.

2018 Global Risks Defined by:

World Economic Forum

- Extreme weather events
- Natural disasters
- Failure of climate-change mitigation & adaptation
- Water crisis
- Cyber attacks
- Food crisis
- Bio-diversity – loss of ecosystem
- Large scale involuntary migration
- Man-made environment disasters
- Interstate conflict

Executive Opinion Survey*

- Un/under employment
- Fiscal crisis
- Failure of national governance
- Energy stock prices
- Profound social instability
- Failure of financial mechanisms
- Failure of critical infrastructures
- Cyber attacks
- Interstate conflict
- Terrorist attacks

* WEO Survey 2018

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14 Steps Required to Respond to a Breach

With everything invested in the health and resiliency of your information systems, preparations should be made for the day you must respond to an information breach. These preparations and plans should be under the stewardship of a Risk Management Governance Council which we have presented in most Client Advisories from *Integrated Risk Management Solutions, LLC*.

Please consider all 14 response action steps:

1. Breach Detection – Application level detection is critical to detect within hours.
2. Forensic Analysis – What, where, by whom, and who is impacted - 1-3 days.
3. Repair – The level of damage and the fixes needed to get back online within your Business Interruption Plan – 2-4 days.
4. Identification of Parties affected – Customers, vendors, employees, shareholders; – 5-10 days.
5. Legal Protection – Establish an Attorney-Client Privilege protocol to protect the details of your investigation and action steps (anticipates longer-term litigation).
6. Communications Plan – Pre-prepared communications for internal and external stakeholders – 1-3 days.
7. Notify Regulators – 48 States require notification of the Attorney General and the affected parties within a "reasonable" period – 30-45 days.
8. Notify Parties – Initiate a paper mailing notification of affected parties. Establish an 800# call center to respond to inquiries. This process took 12 months for the U.S. Office of Personnel Management breach (24 million individuals).
9. Credit Monitoring – Offer services to affected parties as a matter of client relations.
10. Identity Repair – Offer services to affected parties as a matter of client relations.
11. PCI Analysis and Repair of Systems – The Credit Card providers oversee your credit card processing and will expect thorough reports of the findings in item 2 and 3. Expect heavy fines and penalties.
12. Regulatory Examination and Fines – Prepare with legal counsel for fairly heavy handed regulatory penalties.
13. Litigation – Insurers are hesitant to write many cyber-policies because of the unknown and lengthy "tail" liabilities that will accrue over 5-10 years.
14. Reputation Recovery – Your organization's name will be on the news and internet. You can't hide from an information breach. Reputation Recovery starts with the Communications Plan listed in item 6. Chipotle is spending $100 million or more to recover their brand reputation following the health scare from E. Coli.

The damage from information breaches is serious. Ponemon estimates the cost per record breached (to pay for the 14 steps) is now $201, and average total cost per incident at $5.85 million. On the other hand, Risk Management is not expensive! The Governance process amplifies "Native Organizational Intelligence" in a manner that strengthens the business and its constituents.

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