Integrated Risk Management Solutions, LLC

James E. Blair, President

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Dear Colleague;

Risk Management now Regulated!

As a result of the increasing and massive cyber-security breaches encountered globally, regulators have begun the process of formally requiring Risk Management based cyber-security, beginning with the financial services sectors.

Effective March 1, 2017 (now), the New York Department of Financial Services (NYDFS) is requiring all financial institutions doing business in the State of New York or using vendors that are located in New York to establish and maintain a risk-based cybersecurity program meeting "certain regulatory minimum standards". These include:
Within 1 year:

1. Appointing a Chief Information Security Officer (CISO) accountable to the board or senior management to formalize policies, procedures and reporting.
2. Conducting penetration testing and vulnerability assessments.
3. Performing and documenting risk assessments.
4. Deploying multi-factor authentication.
5. Conducting cybersecurity awareness training.

Within 18 months:

1. Establishing audit trails, application security and data retention policies and procedures.
2. Establishing monitoring of the activity of authorized users.
3. Deploying encryption of sensitive data.

Within 2 years:

1. Establishing these policies, methods and procedures with 3rd party suppliers.
2. Based upon the organization's risk assessment, these procedures may be guidelines or contractual protections.

The regulations provide organizations the opportunity to deploy risk-based assessments that include materiality tests, risk-based judgement and prioritization, risk mitigation decision making and periodic measurement of performance aligned with the business operations. The CISO is tasked with deploying and overseeing the policies, procedures and operations – and annual reporting to the board, owner or management team. The NYDFS must be notified of a cybersecurity "event" within 72 hours of the organization's discovery of the situation.

The requirements align with the Presidential Cyber-security executive order of Feb. 2013, and come as no surprise. The NYDFS regulations do, however, present a mature approach that includes 1) risk-based assessments, 2) risk governance, 3) risk prioritization, 4) monitoring and performance management, and 5) reporting. Detailed information can be found at: www.dfs.ny.gov/about/process/pr1702161.htm

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We expect that other states will follow NYDFS lead within months (California first and then eastern states). The world of Cyber-Risk and security is increasingly under the microscope and organizations that touch financial matters, Client Personal Information (CPI), health information, education records, etc. must either 1) formalize a well-governed Risk Management program or 2) plan to meet regulatory requirements designed to force a Risk Management structure. Regulation is never the best solution, but, if it is the only way – so be it!

Integrated Risk Management Solutions offers risk consulting and advisory services that can help! Our Client Advisories since 2008 have presented the smart reasons to deploy effective and well governed Risk Management practices.

Each year the World Economic Forum brings together the best financial, economic, government and organizational minds from around the globe. In January, the Forum met again and updated the top 10 risks expected in the new year. Weather, water and natural disasters top the list of major and material risks anticipated in 2017. These are followed by government and politically driven disputes, involuntary human migration, employment issues, infrastructure collapse, terrorism and cyber-security breaches. The majority of these risks are not insurable. The costs will be borne by government, business, citizens and faith organizations.

This world is not an easy place to operate and risks abound in every element of life and business. Organizations differentiate themselves based upon risk anticipation, preparedness and response. The winners are from the "risk aware" group. After all, we take risk to generate cash - inadequate management of risk costs cash.

Risk = Cash

The establishment of Risk Governance processes that identify material cash impacting risks to the business, prioritizes risk mitigation initiatives, measures results, and anticipates emerging risks is one of the most strategic improvements an organization can make. The native Organizational Intelligence of the business is amplified and produces a "Well Risk Managed Business".

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

Risk Management is Every Team Member's Business

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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.
- In 2016, 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.

2017 Global Risks Defined by:

World Economic Forum

- Extreme weather events
- Water crisis
- Natural disasters
- Failure of climate-change mitigation & adaptation
- Large scale involuntary migration
- Terrorist attacks
- Interstate conflict
- Un/under employment
- Cyber attacks
- Man-made environment disasters

Executive Opinion Survey*

- Un/under employment
- Energy price shock
- Fiscal crisis
- Failure of national governance
- Profound social instability
- Failure of financial mechanisms
- Terrorist attacks
- Failure of critical infrastructures
- Asset bubble
- Cyber attacks

* WEO Survey 2017

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