Integrated Risk Management Solutions, LLC

James E. Blair, President

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Dear Colleague;

Reputation Risk – High Cost and Long Term

Chipotle, Target, Anthem Health, Home Depot, Takata, and Volkswagen are in the midst of costly and time consuming efforts to recover their Brand and Reputation due to crises involving health, ethical and/or cyber issues. Recovery will take years and be painfully lengthened by un-ending litigation. Business leaders are being distracted and unfortunately focused on the past rather than the future. Costs of recovery, rebuilding market share and lost capital value are in the billions. Target's data breach is nearing the 3-year mark and litigation will impair full recovery for 7 more years. Insurance has been exhausted and costs going forward are "out of pocket". It is a BIG DEAL!

Clients tell us their highest risk is loss of reputation. That's logical given the enormous investments made in their business, stakeholders and customers. A data breach, internal fraud, accounting misstatement, cyber-theft, regulatory investigation, accidents/injury, insufficient crisis response, food or product recall, disgruntled employee, agitated vendor or unhappy customer can result in public information that embarrasses your organization. Social media delivers damaging information in seconds and it can go "viral" minutes later. KPMG studies indicate that 20% of customers will no longer shop at businesses that suffer a credit card or data breach. How do you prepare and respond?

Most organizations will suffer a cyber-breach within the next year. Preparing for the inevitable "Reputation Attack" cannot be delayed. Risk Management planning must begin now!

Steps to Prepare for a Reputation Attack

1. Formulate a Risk Governance leadership team that leads cross-departmental holistic approaches to enterprise-wide risk.
2. Assess the risks that can cause a material impact on cash-flow. Develop scenario plans that anticipate reputation impacting situations. Think of the "un-thinkable".
3. Actively monitor external and internal news sources to enable early detection of threatening messages designed to impair the organization.
4. Prepare action response plans that can be deployed instantly, including external and internal communications.
5. Develop communications techniques that effectively present the organization's messages via social media.
6. Practice scenario plans and develop organizational "muscle memory" that enables agile and quick decision making and response. When social media messaging begins the company messaging must be quick and relevant. Only practice can prepare you!
7. Rhythmically freshen scenarios, plans and exercises at least annually.

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These preparations and plans should be under the stewardship of a Risk Management Governance Council which is the sweet spot of the services provided by *Integrated Risk Management Solutions*.

Volkswagen and Takata are the current celebrities of corporate reputational crises. Both are massively successful corporations with long histories; and both are now consumed with internal strife and reputational damage costing billions for years to come. One or both may not survive long term. Neither business had a Risk Management governance structure nor oversight by a Board of Directors Risk Committee empowered to review internal operations and with authority to resolve cross-departmental conflicts.

The lesson is that organizational risk can be effectively managed. The establishment of a Risk Governance process that identifies 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. This single action empowers the entire organization including all employees and vendors to conduct business with a Risk-Centric Eye that is always on the look-out for risk and risk mitigation opportunities. The native Organizational Intelligence of the business is amplified and results in a "Well Risk Managed Business".

Independent Opinion

McKinsey & Company released a study in July reporting the Insurance Industry's realization that "Transforming Enterprise Risk Management for Value in the Insurance Industry" is a next strategic imperative. The analysis concludes that insurers are in the early stages of adopting Integrated Risk Management into their core operations, and for all the reasons outlined in our Client Advisories. *Integrated Risk Management Solutions* has written the book on the processes outlined in the analysis. We would be happy to share our experience with your business.

To the extent that the industry does adopt holistic management of operational risks, new services to clients may also evolve. We commend the study for your review – at:

http://www.mckinsey.com/business-functions/risk/our-insights/transforming-enterprise-risk-management-for-value-in-the-insurance-industry?cid=other-eml-alt-mip-mck-oth-1608

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.

2016 Global Risks Defined by:

World Economic Forum

- Involuntary human migration
- Failure climate change mitigation
- Water crisis
- Profound social/political instability
- Cyber-attacks – Data theft
- Interstate conflicts
- Bio-diversity/eco-system collapse
- Energy price shock
- Extreme weather
- Major natural catastrophes

Executive Opinion Survey*

- Asset bubble, deflation
- Energy price shock
- Food/water crisis
- Involuntary human migration
- Social instability
- Natural catastrophe/weather
- Failure national governance
- Cyber-attacks
- Interstate conflicts
- Failure financial mechanics

**WEO Survey January 2016*

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