Integrated Risk Management Solutions, LLC

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Dear Colleague;

Risk Governance is Everything!

Governance provides the best management of the growing array of risks facing your organization. Risks are increasing in Frequency, Velocity, Magnitude and Interdependence. The World Economic Forum in January 2016 again formalized Global Risks that weigh on government, academic and business leaders (see attached). While risk service vendors may offer alternatives such as compliance, audit, technology and insurance no "silver bullet product" solution exists.

Operational risks evolve daily. The impact is increasing at an alarming rate and your organization's reputation, client base, revenue stream, intellectual property, value and employee base is under siege from global hackers and thieves who utilize violence and physical, personal and digital tricks to compromise operations.

Organizations currently spend between 7-10% of revenue on risk functions deployed in multiple departments and often with no return for the investment. Risk Governance is now a business imperative that transforms these siloed functions into a holistic model focused on risk priorities, mitigation initiatives, measured performance, alignment and anticipation of emerging risks.

Our clients are strengthening their organizations through a Risk Governance process that brings together the 5 top leaders who report to the CEO every 90 days (for 90 minutes) to act upon RISK and proactively initiate actions that protect and advance the business! Governance is provided by a Risk Management Executive Council (RMEC).

Risks Are Everywhere

Material impacting risks lurk in every part of your organization, including employees, vendors, supply chain, clients, partners, investors, facilities, operational functions, finance, regulators, information technology, trade secret information, and miss-alignment across silos. One of the most significant risks is the insufficient level of engagement by the entire team. In order to proactively manage risk every team member must practice Risk Awareness daily. Team members are expected to take risk to generate business and then manage risk to minimize losses.

Last quarter's Risk Advisory mentioned Active Shooter risks. The news is regularly filled with reports of gun violence in business settings. Twenty two (22) of the most recent 23 shooting incidents occurred in businesses. Often a former employee, the shooter 1) demonstrated noticeably poor behavior including complaints about someone, 2) verbalized threats, 3) became withdrawn and distanced, and 4) often ignored their personal hygiene. We humans are forgiving and have become tolerant of such questionable behavior. A culture of "blind trust" is no longer acceptable.

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Employees will adjust to the new culture through the leadership of a Risk Governance process. Organizational policy and training will engage an "All Eyes On" behavior to protect the business, its clients and employees. In addition to the "Run, Hide, Fight" techniques of dealing with an active shooter or threats of physical violence, organizations can undertake a culture change that no longer tolerates unacceptable behavior on the part of anyone.

The earlier that questionable behavior is recognized, reported and dealt with the safer your work environment and communities will be. This does not come easily and requires reinforcement and PRACTICE – both emotional and physical.

Cybercrime-As-A-Service

The Client Advisory is not complete until we discuss Cybercrime. The damage from security and information breaches is overwhelming. In 2015, more than 1 billion U.S. records were breached. Ponemon estimates the cost per record breached is now $201 and the organizational cost per incident averaging $5.85 million. The U.S. received 781 reports of data breaches, with 38% the result of a hack. The balance is attributed to employee and vendor error or intentional actions harmful to the business. The advent of cloud-based technology platforms improves the opportunities for Cybercrime-As-A-Service by drastically reducing the costs and increasing the market place for stolen information.

Under the leadership of a Risk Governance process, organizations can now take more aggressive steps to assess and manage information system security. The Department of Homeland Security (DHS) offers two cyber-security tools for use by organizations intent on understanding and improving their security footprint.

> Cyber-Security Evaluation Tool – Supporting cyber-self-assessments:
> https://ics-cert.us-cert.gov/Downloading-and-Installing-CSET
>
> Organizational Training on Cyber-Security Programs:
> https://ics-cert.us-cert.gov/Training-Available-Through-ICS-CERT

Risk Management is not expensive! The Governance process amplifies Native Organizational Intelligence in a manner that strengthens the business and its constituents.

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.
- 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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