Integrated Risk Management Solutions, LLC

James E. Blair, President

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Dear Colleague;

The 2015 Global Risks!

The economic impact of multi-country conflicts and/or the collapse of a country are the two highest global risks identified by the World Economic Organization forum held in Davos, Switzerland in January. Executives interviewed as part of the forum identified Fiscal and/or Liquidity crises as their top risk concerns. The top 20 risks identified by these global thinkers (see attached) are closely interconnected and provide insight into issues that directly impact your operations.

For your business, the global supply chain and foreign customers are at risk and require attention from the key leaders in the organization. Organizations of all sizes are impacted by disruptions to the intricate chain of service and product providers we all depend upon; not-least-of-which is your company's sensitive information in the cloud.

Operational Risks Damage Business

The average cost of a data breach is now $5.9 million according to Ponemon Institute, and an additional $3.2 million will be lost revenue, reputation and diminished good will. Small organizations are easy targets for the "bad guys" who are located in Iran, Syria, China and other eastern European countries. These "guys" don't care who you are or what your business is. They are just scanning for open ports of entry into your systems. They will figure out what to do with your data once they are in! Gartner recently reported that malware has been planted in virtually every hard drive and flash drive delivered from manufacturers in the past 2 years. The bad stuff is embedded in the hardware!

More instructive is the growing $250 million cost to Target for the data breach 15 months ago (only 25% covered by insurance). Anthem lost 80,000 personal records at the end of the year and the financial costs have only begun to be tabulated. And, the Federal Cyber-Pros are warning about hackers breaching public systems including the region electrical power infrastructure, water and energy pipelines, air-traffic control and the mechanical operating systems in your manufacturing facilities. Manufacturing Digital Controls (MDC's) and Supervisory Control and Data Acquisition (SCADA) systems are used in all operating systems, security systems, building controls, electrical controls and communications systems; and all are digitally controlled by software applications.

Risks for data breach are inherent in the operating systems of your suppliers, service partners, product providers and customers. Everything with your organization's identity on it is now more fragile than ever before. You must understand every element of the supply/service chain and utilize your resources to assure performance at every level. The "All-Eyes-On" concept clearly pays off when everyone anticipates risks every day. When recognized, the risks are reported immediately!

P.O. Box 334 Littleton, CO 80160-0034 jeblair@integratedrisksolutions.com
303-795-9754 (O) 303-734-1814 (F) 303-886-8450 (C)
www.integratedrisksolutions.com

Imagine a major corporate initiative worth $10 million. It would require a plan, budget, resources and top level approval (maybe even the Board of Directors). It would get careful scrutiny at every step to assure optimum returns. Now, understand that the same $10 million decision can be made by an operations clerk, manager or IT administrator who "clicks" on an infected computer icon which is "new". The money is spent and the only return is disruption and damage.

You Can't Run From It – Or Insure It – Guess You Should Manage It!

We can parade horrible situations all day long and they only serve to stimulate awareness about the risk associated with NOT managing your risks. Seventy percent of organization's risks are operational and not insurable. Disruptions in the supply chain, theft of inventory, fraud, mismanagement of supplier performance, inadequate confirmation of invoices and unethical business deals all deliver risks; to the cost and revenue sides of the business.

The solution is proactive recognition and management of risks. Your organization's founding principle is taking risk to generate cash. Managing risk optimizes cash.

The Risk Manager job is larger than one person. It is everyone's job when supported by a Risk Aware culture governed by a top-level Executive Risk Management Team. The Risk Governance Team is comprised of the top managers who report to the CEO. They assess the organization's risks that can impact the business by a "material" impact amount, evaluate existing mitigation programs, prioritize risk initiatives and empower champions to innovate new solutions. The Risk Governance Team operates on the 90-90 principle (a 90 minute meeting every 90 days) that focuses only on risk. It costs nothing and generates a culture of Risk Awareness from top to bottom.

Managing organizational risks requires a nimble approach accomplished by top-level Risk Governance that prioritizes risks, aligns mitigation, measures results and discovers emerging conditions. A Risk Management culture engages everyone as "All-Eyes-On" stewards. *Integrated Risk Management Solutions* provides the 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 2014, 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.
- 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.

2015 Global Risks Defined by:

World Economic Forum

- Interstate conflict
- State collapse or crisis
- Unemployment/underemployment
- Spread of infectious disease
- Profound social/political instability
- Cyber-attacks – Data theft
- Extreme weather event(s)
- Terrorist attack
- Failure of national governance
- Fiscal crisis

Executive Opinion Survey*

- Fiscal crisis – key economies
- Liquidity crisis
- Oil price shock
- Infrastructure neglect
- Water crisis
- Organized crime escalation
- Terrorist attack
- Profound political instability
- Large scale cyber-attacks
- Violent interstate conflict

**WEO Survey January 2015*

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