Integrated Risk Management Solutions, LLC

James E. Blair, President

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Dear Colleague;

Our Clients are Telling Us!

We work with clients large and small, public and private in all business sectors, and non-profit organizations. We help clients understand the risks inherent in their operations, their business environments, their infrastructure including third party dependencies and the risks associated with strategy and governance.

As clients identify and prioritize their unique risks, several are emerging as common. This letter outlines the Top 5 Risks identified by our clients and some of the reasons for their assessment.

The Top 5 Risks

1. Reputation Risk– You and your teams work hard to build the business and its reputation. Building and perfecting the reputation is becoming THE risk of greatest concern. Clients identify risks to reputation stemming from:
    a. Poor performance of products and/or people. Customers quickly know when they are not receiving expected products and/or service levels.
    b. Customers that are difficult to work with, delay requests, criticize unreasonably, withhold or misstate information, mistreat your employees and spread untimely messages to peer/industry groups.
    c. Deals that fail, including potential partnerships, mergers, restructures and acquisitions. These can result from less-than-honest or incomplete representations by owners, investors, representatives and brokers.
    d. Suppliers and partners pose major risk as reliance increases on third parties as integral parts of the supply/service chain.
    e. Insufficient or ill-timed communications in forms of advertising, press releases, corporate statements and/or litigation.
2. Cyber Risk – With organizational data breaches being disclosed daily, Information Security is perhaps the most rapidly emerging risk for your business. Your Information Systems are more fragile than ever and are now susceptible to compromise from within and from outside sources. Attackers don't target your operations – they simply "scan" to find unintended openings. This results in:
    a. Loss of, or disruption to, systems that support your corporate administration and digitally controlled field operations.
    b. Theft or contamination of proprietary corporate data and potentially Customer Private Information.
    c. Compromise of information provided to/from supplies and or trusted partners.
    d. Dependence on third party suppliers exponentially increasing the risk of intrusion through their systems and connections.

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3. Behavior Risk – People and Human Talent present increasing risks. As the economy recovers, growth is challenging the hiring process. Identification of qualified and quality talent is an increasing risk, including:
   a. Adequacy of trained/experienced candidates, particularly with technical skills.
   b. Demonstrated ethical and service oriented behavior. Screening is more critical.
   c. Training and communications programs that improve technical skills, team work and customer relationship building emerge as a business imperative.
   d. The Millennial generation expects to work in a creative and energized environment with frequent change, growth and recognition. Baby Boomer and Generation X managers must adapt.
4. Business Disruption Risk – With the wide dynamics of the infrastructure, cyber-threats, people challenges, operational systems, climate and the unknown, your business can be disrupted at any time. The imperative for planning and preparedness has never been more important and demands:
   a. A Business Interruption Plan (BIP) that includes the **3 R's** of **R**ecognition, **R**esponse and **R**ecovery. Escalation and decision authority, corporate governance, and internal/external communications processes must be practiced.
   b. Enabling technology where people can work virtually. Planning should clarify when and how this alternative is deployed. Resolution of how the supply/service chain will operate virtually is a key component.
   c. Incident communications that utilize all forms of social media to message with customers, employees, suppliers and the public.
5. Cash Flow Risk – Cash planning is an increasing risk, both on the revenue and cost sides, including:
   a. Over-dependence upon large or concentrated sources of revenue where the loss of a single customer risks a disproportionate impact. Diversification of revenue sources becomes a key risk mitigation strategy.
   b. The importance of banking relationships increases with preparation for disruptions and the unexpected situations outlined in this letter.
   c. Management of Receivables and Payables has always been important, but with an increasing risk environment, cash flows in and out of the organization can be susceptible to disruption just like supplies/services.

Managing these top 5 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.

2014 Global Risks Defined by:

World Economic Forum

- Fiscal Crisis in Key Economies
- High (un/under) employment
- Water crisis
- Severe income disparity
- Climate change
- Extreme weather events
- Global governance failure
- Food crisis
- Failure major finance institution
- Profound political/social instability

U.S. Business Leaders*

- Business disruption
- Supply Chain
- Natural catastrophes
- Cyber incidents
- Reputation damage
- Environmental issues
- Talent shortages
- Global pandemic
- Food/water/Energy shortages
- Regulation

**Allianz Risk Barometer January 14, 2014*

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