Integrated Risk Management Solutions, LLC

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Dear Colleague;

Are You One of 75% of Executives Who See Increasing Risks?

The Target and now E-Bay debacles reinforce the magnitude of mismanaged risk. They serve as a timely warning about the imperative to establish a Culture and Governance process to manage your organization's risks. Your business, employees, customers, suppliers and stakeholders expect a Well Risk Managed Organization and most studies/ surveys indicate a significant gap between expectations and performance. While local and global risks are growing, their dynamics and impacts increasing, and the frequency is out of control, the time is now to energize your teams to become:

"All Eyes-On-All-The-Time" Risk Managers.

The lesson from Target and E-Bay, along with hundreds of hospitals, Universities and other businesses, is the need for an effective Risk Governance structure that identifies and prioritizes organizational risks, aligns mitigation programs, measures results and proactively discovers emerging risks. These organizations all suffered cyber-attacks and were aware of the malware implanted in their systems. They took no effective action because 1) the culture was one of sales rather than risk response and 2) top management failed to emphasize that everyday risk is part of the business. This cost the Target CEO and CIO their jobs.

A good friend is the CEO of a local bank. He shares with me that "one of my most important jobs is to be ever-paranoid". He lives this principle and therefore is the company's Chief Risk Executive. While noble, CEOs need help and such assistance can come from sharing the Risk Management duties with the senior team and all employees. A "Tone At The Top" will cascade throughout the organization and will significantly enhance the company's competitiveness along with strengthening employees and supply chains.

Failure to innovate and take risk is the ultimate in risk avoidance. The number 1 risk for any organization is Not Taking It! The whole point is to enthusiastically embrace and take risk. The strength to do so and to be effective comes from 1) planning for risk, 2) painting scenarios and 3) prioritizing mitigation initiatives based upon the level of material impact. These steps applied with rhythmic consistency launches your business to new heights.

Integrated Risk Management Solutions provides the Risk Management Advisory services to help you strengthen your business.

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The risks associated with information (data) are highlighted by the major cyber-breach situations. The foundation for your business includes the assets of infrastructure, product, sales and people. An often unnamed asset is "information" including intellectual property, customer and supplier data, trade-secrets, financial data and employee information. We tend to inventory and understand the "hard" assets. However, perhaps the most important asset is information and the risks associated with loss or compromise are often overlooked.

Information in all forms and locations should be inventoried and prioritized. Data can reside in multiple places, including with suppliers and service providers and, if you don't know where it is, providing security and management is nearly impossible. The spider-web of system connections is complex – the data stored and utilized across that system is mind-boggling. An inventory is the precursor of effective information management and security.

If you are one of the 75% of executives who worry about increasing risks you are likely concentrating on major issues of 1) Information Security, 2) the effectiveness of your strategy, 3) the reliability of technology, 4) the supply chain, 5) capability gaps of your employees, and 6) the unknown. There are no boundaries and you consciously take risk to generate cash. The winners in the risk-taking game are those who anticipate, plan for and prepare to take risk better than anyone else. Strategic risk-taking differentiates competitors.

In the first quarter 2014, Reuters reports that global natural disasters caused $20 billion in economic losses. Insurance may cover approximately $7 billion – 35%.

Insurance is not the solution!

The art of Risk Management involves judgment and human engagement. Risk Governance is powerful because it engages the key disciplines across the organization to focus on the organization's risks. The processes of measuring materiality, prioritizing and measuring risk mitigation are best supported by effective Risk Governance along with an "All Eyes-On-All-The Time" risk culture and agile response.

When the unexpected occurs, the governance process deploys the 3 R's of crisis management – early Recognition, Response and Recovery.

The independent advice provided by *Integrated Risk Management Solutions* will help you take risk wisely and with the strength of planning and preparedness.

I look forward to your thoughts and questions – please contact us.

Manage Your Risks Well,

Attachment

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 <u>impactful cash flow improvement</u>.

<u>2014 Global Risks Defined by:</u>

<u>World Economic Forum</u>
- 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>U.S. Business Leaders*</u>
- 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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