Integrated Risk Management Solutions, LLC

James E. Blair, President

March 2014

Dear Colleague;

$ 5 to 18 billion Loss From "One" Unmanaged Risk!

Target will suffer financial impact of at least $5 billion in first 6 months of the December 2013 data breach that compromised roughly 150 million credit/debit cards of their holiday shopping customers. Consider the unanticipated costs of a) identifying the root cause, b) repair, c) customer notification, d) card replacement ($240 million), e) impact on partner banking institutions and f) disruption of supply chains. Additionally, $450 million in lost net income, $1.2 billion in lost revenue and a stock price drop of $5-7/share (632 million shares approximates $3.2-4.5 billion in lost stock value). Insurance may cover $40-50 million of these losses. Litigation with banks, customers, class action parties and regulators is just beginning.

The source of this situation may reside with a vendor; an inconsequential provider of heating and air conditioning services. Target simply established a digital connection with the vendor to accommodate billing and payments. The data breach "bot" was likely planted through this connection and it was timed to launch during the busy holiday season. These bots can be in your system for an average of 14 months before "igniting". Additionally, Target's IT professionals trumpeted warnings to upper management in mid-late summer. Whether ignored or not, the adequacy of the recognition and governance processes are rightfully in question.

Target states that they have a large cyber security department in place. Target did, however, miss the 3 R's of crisis management – Recognition, Response and Recovery, likely due to insufficient attention to Risk Management. Target overlooked the opportunity to deploy the most effective Risk Management mechanism - All Eyes On - All the Time! This most basic mitigation approach when supported by a seamless connection with Senior Risk governance may well have thwarted this cyber threat, and at a minimum, more nimbly managed the crisis.

Early year surveys indicate that neither Target nor your businesses are immune to cyber-breach risks. The tendency is to deploy more technology and engage more outside help. We encourage you to first examine your internal governance, Risk Management culture and processes, and perhaps deploy the All Eyes On – All the Time approach supported by a Risk governance process.

Scenario Planning and Information Security Risk services provided by *Integrated Risk Management Solutions* help you prepare for these situations.

Information Security is Every Team Member's Business!

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Ten (10) Key Global Risks

Respected organizations across the globe are wrestling with risk issues and engaging leaders and top thinkers in best practices for identification, response and mitigation. Most notable is the work of the World Economic Forum at its January meeting in Davos, Switzerland. World leaders were vocal about major risk to global economies and continental stability. The top 10 risks identified at the Forum have many similarities to the top 10 risks vocalized by U.S. Business leaders below:

World Economic Forum	**U.S. Business Leaders***
Fiscal Crisis in Key Economies	Business disruption
High (un/under) employment	Supply Chain
Water crisis	Natural catastrophes
Severe income disparity	Cyber incidents
Climate change	Reputation damage
Extreme weather events	Environmental issues
Global governance failure	Talent shortages
Food crisis	Global pandemic
Failure major finance institution	Food/water/Energy shortages
Profound political/social instability	Regulation

* Allianz Risk Barometer January 14, 2014

These lists are highly intertwined. Business disruptions can originate from fiscal crisis, extreme weather events, geopolitical upheaval, political/social instability and natural resources limitations. Global governance failure can originate from supply chain disruptions (energy, food and water), pandemic and talent shortages.

There are no boundaries to risk. You consciously take risk to generate business and cash. The winners in risk-taking endeavors are those who anticipate, plan for and prepare to take risk better than anyone else. Strategic risk-taking differentiates competitors from one another.

In 2013 global natural disasters caused $192 billion in economic losses. Insurance covered approximately $45 billion – 23%. Insurance is not the solution!

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.

Sincerely yours,

Attachment

Manage Your Risks Well!

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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 operational reviews can improve revenue efficiency by up to 20% of revenue.
- Bottom Line: Synergy from a holistic focus on risk reduction, cost/revenue efficiency, operational loss reduction, underperforming 3rd party vendors and fraud often produce one of the most impactful cash flow opportunities available.

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