Integrated Risk Management Solutions, LLC

James E. Blair, President

December 2013

Dear Colleague;

Planning Mitigates Risk!

As the year comes to an end your attention naturally focuses on the New Year 2014. Perhaps you feel relieved that a topsy-turvy year is behind you and, if fortunate, your business did not suffer damage, disruption or loss from risk in 2013.

The Western states experienced unexpected damage from wild fires and floods. The Eastern states suffered unexpected rains, wind, tornados and flood (and the ongoing impact of Nov. 2012 hurricane Sandy). Every part of the world is facing stressed water supplies, untested energy supplies and new geo-political landscapes; uncertainty surrounds us. Conscientious planning is the master tool available to anticipate and manage these types of risk situations.

As our team works with clients (for profit and not-for-profit) a common finding is the absence of planning for the succession of the organization. Succession includes 1) the planning for human talent to grow, 2) the planning for replacement of the owner and/or key leaders and 3) the planning for the financial future of the organization. Any one of these issues can impact the success or failure of a business and more often than not little planning has been done.

Business risk is heightened because the organization is not clear about its future. Planning for the adequacy of human talent, the chain of command during times of change, and the clarity of financial plans during transition is a business imperative that is too often ignored. Quick thoughts on each of the succession planning steps are:

1. Planning for human talent with the anticipation of growth and change involves identification of people who possess the skill and interpersonal characteristics to sustain and grow the enterprise. Where talent is not available, planning enables the internal development or acquisition from other sources.
2. Planning for the replacement of the owner/key leader is good business. The unexpected loss of a key person puts the organization’s reputation and operational performance at risk. Defining “who” is prepared to lead the organization is one of the most important decisions a company can make. Supporting successors through a risk governance structure is wise.
3. Planning for the financial succession of the organization is an imperative. What happens when the owner departs? Does the organization continue to operate; does ownership transition to the family, new buyers or creditors; what happens to employees, suppliers and vendors? A serious “white board” conversation is needed, often with help from an independent advisor.

Succession planning 1) engages your leaders in proactive thinking focused on growth and the future, 2) confirms your confidence in the team, and 3) reinforces the value of risk assessment and risk mitigation.

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

Planning the financial future of the business engenders long-term confidence and care about the well-being of the team members dedicated to your operations.

Cyber Risk Affects Everyone!

The year can't end, nor the New Year begin without recognizing the crush of data that confirms the risks to your business and personal well-being from the cyber-world. During 2013, the number of information breaches increased by 25% over 2012. More than 75% of breaches originated within the business and/or trusted partner and supplier network. Internal proprietary information (Intellectual Property) is at greater risk of loss than ever before. The supply/service chain IS the Achilles heel with access often directly through the organization's firewall. Unfettered use of Personal Digital Devices (aka BYOD) within the proprietary landscape of the organization is a recipe for breach.

As the head of the National Security Administration stated "there are two kinds of companies: those that know they have been hacked and those that don't know…" We are approaching 100% of all organizations experiencing an information breach and compromise each year. The data is undeniable and the solutions include:

1. Establishing an interdepartmental risk governance team charged with monitoring information security and initiating policies and procedures to protect the organization internally and externally.
2. Engagement of all employees, vendors and partners in a common approach to managing systems and information. Sharing emerging threats with all employees on a weekly basis engages the "all eyes on" approach to monitoring information systems.
3. Given the new reality that information will be compromised or stolen, the organization should establish a Recognition, Response and Recovery (3 R's) set of procedures for immediate, and rehearsed, deployment within a 1-hour, 8-hour and 24-hour time sequence following a breach.
4. Deployment of clear policies that govern use of Personal Digital Devices by employees, vendors and suppliers.
5. Deployment of Operations Assurance processes that rhythmically verify and confirm that actual operational activity matches expectations.

The independent advice provided by *Integrated Risk Management Solutions* will help you develop these planning processes.

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

Sincerely yours,

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 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.

Manage Your Risks Well!

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