



James E. Blair, President

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Dear Colleague;

Risk and Reinvention!

Two powerful words that grew out of the political campaigns of 2012.

Integration and Governance!

The powerful concepts that enable effective management of risk.

The New Year challenges each of us to take on new risk – in our businesses and personal lives. The past few years have literally kicked progress to the curb and many continue to choose sitting on the side line. Risk takers, however, will forge ahead into territory where risk can be rewarded.

Heavy messages? Yes! But, realistic with the right tools and risk based processes.

Past Advisories have spent a lot of time reminding you of the important reasons to proactively manage risks. With all the good reasons stated, practical application may seem fuzzy. This Quarterly Advisory is dedicated to the straight forward actions that support you becoming a **Well Risk Managed Organization!**

Determining your organization's risk is a logical, no hocus-pocus process. Senior management engages in a disciplined, facilitated session with an *Integrated Risk Management Solutions* advisor to identify the organization's risks and quantify the root causes, cash impact, probability and sequence. The session, called "Five Smart People in a Room™", determines the material risks and prioritizes mitigation actions that will minimize the impact.

This is one-two day activity that establishes the cash impacting risks and assesses the organization's ability to effectively mitigate and respond. The magic is a disciplined work session with one of our risk professionals who facilitate the discussion about the organization and business sector's risks.

The next step identifies the risk mitigation programs currently in place, aligns work efforts across departmental silos and begins measuring performance – **Integration!** The actions are cascaded throughout the organization and quarterly sessions are held with the facilitator to measure results, confirm impacts on risk preparedness and anticipate new and emerging risks. This quarterly session takes 90 minutes – It's called **Governance!**



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The risk world continues to spin. More than 65% of business owners now fear attacks from cyber-criminals. Organization supply chains are at increasing risk for cyber-theft and losses that emerge from limited risk mitigation plans. A small disruption ripples throughout industry partners and causes significant delay and costs down-stream. The art of diligent monitoring and early warning, combined with nimble response, now separates the successful organizations from second place.

The U.S. Administration has initiated 2 powerful Executive Orders. The orders signed February 12 are the “Executive Order on Improving Critical Infrastructure Cybersecurity” and the second is “the Presidential Policy Directive on Critical Infrastructure Security and Resilience.” These orders establish broad-based Executive department actions designed to streamline work processes between the federal agencies and with industry managed critical infrastructure, including the power grids, utilities, telecommunications, the internet, water supply, transportation, defense, air-traffic and emergency preparedness.

The Administration understands the need for an integrated and well governed Risk Management program for critical infrastructure that supports every element of personal and corporate operations. It will take time and plenty of patience. While these elephants dance, you can initiate similar integrated Risk Management for your organization and begin seizing the benefits now!

Integrated Risk Management Solutions will work with you to gain a Strategic Advantage.

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.”
- 70% 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 2013, 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!