



James E. Blair, President

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Dear Colleague;

What a year of uncertainty, surprise and risk! The year 2012 delivered constant political uncertainty across the US and global constituents. Major business disruptions resulted from outages in country power grids, invasion of data systems, historic drought, cyber-war and Hurricanes Isaac and Sandy. The common risk was disruption to supply chains. Overall costs to industry and society are enormous and could exceed one-half trillion dollars; money that could otherwise be deployed for global development.

The combination of unexpected acts by Mother Nature, increasing human violence and more frequent Black Swan level events drive the imperative for nimble risk-based skills that anticipate and prepare for risk events. Risk management through “caution” is not the answer. Risk will happen and your business will be impacted. Practicing the skill set that anticipates new situations and quickly adapts is the key to success.

Many of our colleagues support businesses that continue to rely on the age-old tradition that “we are covered for that”. Reliance on insurance and the good will of claims adjustors is not a Risk Management strategy - witness the tragic loss and delayed recovery for the areas impacted by western wild fires and Hurricanes Isaac and Sandy. Insurance will at best provide 40-60% of replacement; and over a tortured 1-2 year period of time. Investment in prevention and preparedness has a far larger payoff.

As the global economy climbs out of this recession, leaders are beginning to embrace new opportunities. A clear lesson from this downturn is the need to plan forward with scenarios that 1) could generate risk if the results exceed plans and 2) could be risky if the results don't. This is straight forward planning approach that strengthens business processes in order to prepare for better or worse - and that can adapt quickly. Scenario planning is a proactive approach to business resilience/continuity and challenges leaders to consider response and recovery actions for both positive and negative outcomes.

How does this planning process play out? Consider the South Carolina Department of Revenue experience with a data breach of the state's tax payer data base. Almost 4 million personal accounts were “hacked” this fall exposing social security and credit card numbers.



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The information security program for the Department of Revenue was to discourage use of the internet by employees, with little attention paid to firewall protections, encryption of information or appropriate authorizations of users. The state will spend more than \$20MM in unbudgeted tax dollars on response and reconciliation – not planning and preparedness. Technology alone can't protect your data. It is time to deploy an integrated risk management based approach.

More than 50% of operational systems rely on third party suppliers that are linked together with digital technology. In addition to information data breaches, new challenges to the supply chain come from Mother Nature and inadequately designed electrical power grid systems. Industry cannot operate without the internet. The dependence on the web virtually trumps all other organizational risks. Scenario and risk management plans that enable operations during major internet outages are imperatives into 2013.

Organizations are most effective in planning and preparation through a holistic approach to risk that asks:

1. What are the material impacting risks?
2. What is in place to mitigate the risks and what are the costs?
3. How do the mitigation programs perform?
4. What is expected of the siloed disciplines that manage risk?
5. What is the plan if an incident or crisis occurs?
6. Where should we spend the next "risk dollar"?

The outcome is a nimble response capability that is effective in times of crisis and challenge. The risks of 2012 are a reminder that the opportunity for crisis is everywhere and no one can predict the timing, velocity or magnitude. Your best tool is a strong cross-functional governance process that manages risks, opportunities and strategy.

Risk is your best friend and arduous competitor.

*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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