



James E. Blair, President

September 2012

Dear Colleague;

During the mid-points of the year we experienced a flattening of business growth, lethargic employment, unstable foreign markets, frozen US public policy-making and rancorous political turmoil. The optimism of the first and second quarters dimmed with increasing uncertainty about continued financing, unclear government policy, unpredictable tax rates and the 2013 federal budget “fiscal cliff” which funds such a large portion of the economy. Add to this, the uncertain political landscape, shifting business environment, perpetual threats to information security and upheaval in foreign countries, and it becomes very clear that you operate in world of “risk”.

The stock market, however, is more optimistic. Investors are diligently working to recover, seizing every opportunity to take the upmost advantages of risk. Those willing to explore opportunities across the globe and dig deep to find upside are profiting in the seams of uncertainty. Capitalism and risk taking can deliver reward!

Risk brings opportunity and challenge. Organizations benefit from well-developed strategy based upon understanding the risks of the market place, their competitors, employees, suppliers and public policy. Rather than getting stuck in fear which drives reticence, top performers are engaging their thought leaders in synergistic alignment of the very best resources across the enterprise to command internal and external operations and market opportunities. Proactive, team oriented exploration of risk results in confidently executed operations. The process is called “governance”.

At end of 3rd quarter - what’s new?

Data breaches are impacting 1 million records per day. Organizational costs from a breach average \$5.5MM to cover assessment and repair of systems, communications and reconciliation with victim account holders, stakeholder management, reporting to authorities, long term management of threats, regulatory penalties and legal costs and judgments. Threats come from hacktivists, fraudsters, crackers, saboteurs and foreign governments. More than 70% of all data breaches are at the hands of employees and third-party suppliers. The origins include human mistakes, unattended open internet links/ports and unethical actions. Personal and financial information stored by universities, banks and hospitals continues to be a ripe hacking target.



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The solution is clear organizational policies and education about the value of enterprise data. Deployment of an “all eyes on” approach where every employee and vendor is vigilantly watching for potential data leaks and misuse is the least expensive and most effective risk mitigation strategy possible. All the company’s firewalls and intrusion detection systems cannot be as effective as a knowledgeable and vigilant employee user base.

Social media and employee use of personal communications devices behind enterprise firewalls is an emerging source of risk. Reputations can be damaged in hours and organizational information can be disclosed in seconds with the touch of a button. Until employees and vendors treat information with the same value as gold, protection of data will continue to be casual. The entire value of an enterprise can reside on a single flash drive and all the technology in the world cannot control potential disclosure. Only users can control information security risk and *Integrated Risk Management Solutions* provides consulting services to develop clear policy, education and response.

Perhaps the newest risk is the effectiveness of organizational responses to crisis. We have witnessed poorly thought-out public responses from leaders at Penn State and authorities responding to the July Aurora, Colorado Theater shooting. The tendency for leaders to speak publically without facts is a pronounced risk. You will be better served to reflect on the impact to citizens and victims and be patient in responding to media questions until facts are known. Even then, relying upon a trained public spokesperson equipped with an approved script is a wise move.

Risks are dynamic and multi-dimensional. They emerge from the least expected places, often from inside the enterprise. Your best tool is a strong cross-functional governance process that engages top leaders in understanding risks, opportunities and strategy. Risk becomes your best friend and arduous enemy. *Integrated Risk Management Solutions* will work with you to gain a Strategic Advantage in the market place.

“Managing Risk Wins”!

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

Sincerely yours,

Attachment

Manage Your Risks Well!



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.
- As a result of the March 2011 tsunami, the Fukushima nuclear disaster and the repetitive incidence of flood and wind damage, Asian risk experts forecast a 7X return on investments in prevention and preparedness initiatives in that region.
- In 2012, 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!