



James E. Blair, President

June 2012

Dear Colleague;

The first quarter saw the market grow, employment improve, foreign markets stabilize, the EU finance processes align, oil costs drop and the kernels of optimism were planted. The second quarter faces a shifting political landscape. The American primary process selected the front runners and foreign elections emerged; some with certainty and others not so clear. The work of the European Union financial stabilization efforts were thrown back into turmoil and financial performance has returned to volatility.

Organizations are challenged to manage risks within these uncertainties. The upside opportunities of investment are met with the downside risks and the landscape shifts daily. The political decisions in Europe will determine the sustainability of the EU economic support. The political direction of the United States will be determined in 4 short months. Decision leaders can get stuck with unhealthy fear, and a shared top-level governance framework with focus on proactive risk management is the best course of action. **A well prepared organization has the confidence to take risk!**

Small to mid-size organizations are facing a most significant risk – that being a clear strategy for the future. Many private and/or family-owned organizations have not initiated the personal planning to develop a vision and prepare for the future 3-5 years out. Frequent questions involve the exit plan, succession, preparing for an optimum outcome and governance if an owner is no longer engaged. These are important risk management issues and *[Integrated Risk Management Solutions](#)* can help.

At mid-year - what's new?

The number of data breaches reported to the Privacy Rights Clearing House has increased 37% year-year involving more than 44.7 million records (8 million plus per month). Linked-In suffered 6.5 million compromised account passwords. Zappos suffered a breach of 24 million records. Others including Universities and hospitals have become ripe hacking targets. Advanced Persistent Threats (APT) are the breaches perpetrated by hacktivist software that searches for holes in your systems non-stop. If at first the intrusion fails, it continues until successful - no human talent needed.

Industry experts forecast that 90% of all IT hardware is infected with malware that enables intrusions to from APT systems. Advanced Persistent Response (APR) capability is being developed and we are moving toward “full-on” machine to machine combat mode. While the systems clash, the real risk is the daily human interaction with IT systems.



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The most effective response is risk management policy, education on use of the network and technology, and intensified monitoring of system performance, firewall attacks and human behavior (like complex passwords and acceptable use). When employees believe that the data held in a computer is as valuable as a brick of gold, data security will be more certain.

CFO Magazine Reports impressions of Financial Officers about emerging 2012 risks that include:

1. Financial Volatility - Global
2. Failing State Governments - US
3. Cyber-Security - Global
4. Chinese Hard Economic Landing - Global
5. Oil Price Shock - Global
6. Regional Instability - Global

Your organization has little influence over many of these risks, but you do have much control over how the organization anticipates and responds. Strong organizational governance over operational risks is the major tool and *Integrated Risk Management Solutions* will work with you to gain a Strategic Advantage in the market place. With the enormity of risks that can directly impact your organization's performance, perfecting the skills to anticipate, identify and respond to risks is a key to long term success. The response and recovery skills you deploy are the most reliable tools available.

As a result of the March 2011 tsunami, the Fukushima nuclear disaster and the repetitive damage from flood and wind, Asian risk experts now forecast a 7X return on investments in prevention and preparedness. Also, "World Risk Day" is June 26th. This is a movement within insurance and consulting industries to bring attention to Integrated Risk Management - the topic of these Colleague letters. We do appreciate the marketing assistance and you can find more information at www.worldriskday.com.

A *Well Risk Managed* organization engages all team members in a risk-centric culture that anticipates risk taking ahead of the marketplace. "Managing Risk Wins"!

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.
- 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!