Integrated Risk Management Solutions, LLC

James E. Blair, President

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Dear Colleague;

As the 4th quarter ends businesses encounter the "two faces" of risk. One is the risk of doing nothing – the wait and see approach. The second is the risk of taking action, which requires navigating the unknown. Both risk avoidance and risk taking require the best risk management governance and employee engagement possible. Failure to engage your very best talent in risk-based thinking likely relegates the organization to mediocrity.

The challenges of 2011 are second only to the recovery from the Great Depression. Private and public leaders have demonstrated far too much hesitancy and limited risk taking. The U.S. and world economies are seeking leadership and fortitude, which is based on effective risk management. An organization that understands its risks and prepares accordingly operates from a platform of strength, particularly compared to competitors.

Organizational risks continue to emerge at increasing velocity and magnitude. Events in the current quarter include 1) the EU financial crisis significantly dampened U.S. economic recovery and 2) amazingly Iran appears to have safely landed an American drone aircraft by "hacking" the GPS guidance system. Daily reports of data breaches in all industries and public sector organizations are reaching enormous proportions. With the U.S. Chamber of Commerce disclosure of a breach of its proprietary systems by Chinese hackers, cyber warfare and information theft has taken on a new meaning! Technology alone is not the solution; risk awareness, risk governance and human decision making, combined with technology, is.

However, less than 50% of companies have top level risk leadership with defined enterprise-wide responsibilities. Less than 13% of Boards of Directors have established Risk Management Committees. The reluctance stems from a belief that risk management is a bureaucratic hindrance to quick decision making. Proactive risk management anticipates and encourages scenario thinking that strengthens business decision processes. Through the creation of a risk-based culture across all silos and management levels every employee and supplier contributes awareness of risk – the U.S. Department of Homeland Security has established the slogan "See Something – Say Something". It is likely the most effective approach to fighting terrorism and proactively managing risk.

Emerging 2012 risks include:

1. The fragile global supply chain – GM, Toyota and Intel have each lowered their revenue projections by $1billion as a result of the disruptions from the Thailand floods. Shareholder and reputation damage is immeasurable.

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

2. The "new normal" is more frequent risk events and surprise. The solution is well prepared and nimble leadership response and recovery. *Integrated Risk Management Solutions* helps you scenario plan and prepare for risk events.

3. The intensity and breadth of data security breaches. All organizations that utilize and store personal information about clients and customers are at risk from "hacktivists" and run-of-the-mill thieves. The emerging National Health Data System raises the ante along with new SEC rules for public disclosure of material cyber risks and associated governance. More than 2/3 of data breaches are traced back to inadequate policy and employee misuse.

4. Compliance-centric solutions imposed by regulations of Sarbanes and now Dodd-Frank, including the whistle-blower compensation program that will now subject organizations to new levels of regulatory and reputational risk.

5. Health care cost increases continue to sky rocket. You likely pay significant attention to Workers Compensation costs and can proactively impact results. However, you may feel helpless in controlling health benefit costs. Risk management approaches to health care and wellness are available. Contact *Integrated Risk Management Solutions.*

6. Inability to find talented workers. It's time to turn on the lights again and grow the business - talent is available. However, investment in human development may need to become a time-honored solution.

7. Inaction – the wait and see approach is stalling investment and growth. Your business may be left at the starting line while others move forward, diminishing valuations and future opportunities.

8. Risk management leadership talent doesn't exist. It has never been developed and the need is emerging. Contact *Integrated Risk Management Solutions*.

The year 2012 is one of recovery and opportunity. A Well Risk Managed organization engages all team members in a risk-centric culture that anticipates risk taking better than the marketplace. "Managing Risk Wins"!

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

Sincerely yours,

Attachment

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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.
- In 2011, 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!

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