James E. Blair, President

October 2011

Dear Colleague;

Major risk events continue at an extraordinary pace. At least 8 Black Swan level crises have occurred to date in 2011. The most dramatic include the Japanese earthquake and tsunami, the global impact of Arab Spring and the agonizing struggle with the global economy. Compounding these risk events is the enormity of attacks on information systems, with more than 1MM accounts being hacked daily (Sony has spent more than $170MM recovering from the April Play Station attack). These are events we never saw coming, nor could anticipate. Since "systems" could not forecast such events, "Well Risk Managed Organizations" are called upon to respond with effective crisis management processes. Less than 40% of the costs are covered by insurance.

The Compliance management solution is inadequate! Emerging regulations drive a fear-based belief that "if we just have enough policies and auditors" all will be well. Compliance-centric management is rear-looking and unfortunately confuses forward-looking anticipatory risk management. Consider the $2.3 billion fraud at UBS. How a lower level trader could mask such enormous trades in one of the most compliance-centric business sectors and in one of the most regulated parts of the world is a hard question. Simply, however, it is because compliance-centric focus is about the past rather than anticipating the future.

A risk-based approach asks the question "what could happen", and it applies to all elements of the enterprise from strategy to operations and change. It applies to the global landscape and engages everyone from top management and the board to all employees and partners. 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"!

The greatest benefit from an Integrated Risk Management approach is "strength". Integrated risk management provides organizations the confidence to tackle tough initiatives – to take on new projects, products and operations. They do so by asking "what could happen", and planning accordingly. Scenario planning that considers unexpected events is one of the most powerful activities an organization can undertake to strengthen and prepare for risk.

If the auto industry had scenario planned for a major disruption to the global supply chain like the Japanese earthquake/tsunami the companies might have prepared for parts shortages through alternative inventory, distributed suppliers and reduced dependence on single geographic areas of the world.

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Similarly, shipping companies now facing the uncertainty of piracy on the open seas, terrorism threats and emerging enforcement of regulations by the TSA and immigration officials might examine shipping routes, alternative suppliers, and scenario planning about the impact of regulations. Strength comes when the question "what could happen" is part of the innovation, planning and preparedness culture.

An emerging trend: Private Equity Groups and a limited number of corporate Directors are beginning to push management toward hiring Risk Officers. Whether compliance or proactive risk driven, these initiatives are positive. The problem - job candidates don't exist! Industry does not yet develop risk leadership and therefore recruiters have no stable of resources.

Executive Coaching by Integrated Risk Management Solutions is the answer!

We help high potential executives with strong backgrounds in operations, finance and corporate development/governance develop a strong understanding of strategic and operating risks, the "total cost" of risk and leadership of the silo based risk programs within their organizations. Coupled with a deep understanding of risk finance alternatives (internal and external), Risk Executives are minted!

These Executives turn risk management into a cash-flow producer!

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.
- 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.

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