James E. Blair, President

April 2011

Dear Colleague;

Notable risk events have emerged across the globe since our last update. At least 5 events of enormous magnitude have occurred just in the first quarter of 2011, including:

1. The Japan earthquake and tsunami which has taken thousands of lives, spread radioactive particles across the earth and seriously disrupted the world supply chain for many products and services;
2. The unexpected political uprisings in Egypt, Libya and other middle-Eastern countries have taken lives and disrupted global oil supplies driving consumer prices upward;
3. The number and magnitude of information breaches has grown more than 20% from the same period last year, including the compromise of more than 4 million customer accounts in the month of March, and then capped by the April 1, Epislon breach impacting multi-millions more;
4. The economic crisis in Europe originated with about 1/3 of the EU countries and has forced financial support ranging toward $1 trillion. Jobs have been lost and global wealth damaged, and
5. The U.S. economy re-emerges ever-so-slowly looking for solid footing and sustainability. Uncertainty is a two-way risk – conservatism may sacrifice opportunity and optimism may result in unexpected loss.

Was your business ready for these compound crises? A recent Denver Business Journal "Pulse" suggests not – only 16% of readers indicated being very prepared for a major disaster. The fragile nature of the global supply chain emerges as a major 2011 risk!

The magnitude and number of these examples re-enforces the need for proactive risk planning and mitigation preparedness. Organizations are able to deal with large magnitude disasters when prepared with 1) risk scenario plans, 2) quality risk governance processes, and 3) nimble response capacity. Reliance upon insurance protection as your risk plan is not a solution.

The force of the March 11 Japan earthquakes was virtually beyond the scope of even black swan event thinking. While we can rationalize the possibilities, few could imagine the magnitude of the quake, the size of the tsunami wave or the overall devastation to the north-eastern quadrant of a country. The risk truth is "bad stuff happens" and the challenge is how well human talent and systems respond and recover.

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Similarly, the waves of attack on the information systems of global organizations are enormous. Data system hackers are unleashing software on major computer systems at an increasing rate and with remarkable sophistication.

Organizations now experience data breaches impacting more than one million victims a month. In addition to the significant costs of system forensics/recovery, client notification/credit repair and reputational damage, the state and federal regulators are now applying penalties in the $100's of thousands.

Our January 28 Client update outlined the information security imperatives for businesses and non-profits that accumulate and hold Client Personal Information (CPI).

You will find our risk based solution at:
http://www.integratedrisksolutions.com/uploads/Red_Flags_CPI_client_letter_1.28.11.pdf

It's a big deal and we encourage you to consider action!

The Dodd-Frank Act of 2010 is now in effect and includes requirements for shareholder "Say on Pay". The first instance of a shareholder vote disapproving a proposed corporate compensation plan occurred in January. The company directors are scrambling to comprehend the impact of a "no" vote and the risks flow both ways for the shareholders.

Management and board directors are challenged as never before to respond and recover from yesterday's losses and anticipate tomorrow's risks. While a myriad of software programs can help track and diagnose risks, nothing replaces the holistic judgment of seasoned leaders across the silos of an organization (we call it Quality Risk Governance). Risk teams are empowered to manage upward to decision makers, downward to operational teams and outward to peers.

When every eye develops the ability to scan for risk and be prepared to respond, the result is cash flow.

I look forward to your thoughts and questions.

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."
- In 2011, companies that manage risks effectively will receive the best insurance prices and maximize the option to self-insure.
- Private companies seem to have weathered the current economic storm because of personal wealth protection – risk tolerance is lower sustaining overall quality performance.
- Enterprise-wide Risk Management is a complete vision of company risk. A strong risk management culture helps a company respond well to unforeseeable events.
- Companies that expect top management to take risks wisely are faring much better.
- Uncertainty and financial pressure renews the need to manage risk. These pressures have always been present, but the magnitude is currently greater.
- 70% of company information system risks come from employees and trusted vendors.
- Third party vendor transactions often result in 10% or greater errors and inaccurate billing.
- Sarbanes-Oxley tests transactional controls – operational controls are "the source" of risk.
- Competitive performance is improved through regular operational reviews, which can improve revenue efficiency by up to 20% of revenue.
- Documented and tested Business Interruption/Scenario Plans sustain key operations during an emergency and improve Company survival by 70%.
- 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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