Integrated Risk Management Solutions, LLC

James E. Blair, President

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Dear Colleague;

Operational Risk Management is the practical and financially beneficial approach to manage the risk of your business. All the emphasis on ERM and GRC systems, Sarbanes compliance, BASEL implementation, regulations from the SEC and the Fed, and controls on management compensation do not guarantee the practical operational performance of an enterprise. The management of risks directly impacts cash flow by reducing costs, improving reliability and increasing revenue.

Previous letters have highlighted impending regulatory requirements that will impose risk management practice – what a poor way to convince our colleagues of the value in practicing logical, practical and operationally focused risk management! Every manager and officer understands the value of cash flow – risks are taken to increase revenue – risks disrupt business processes and service delivery, increasing costs and impacting customers. Regulation or not you will benefit from Operational Risk Management (ORM)!

Business risk occurs in all operations, including purchasing, design, inventory management, safety, security, information management, sales, billing and delivery. The back office functions of payroll, accounting, data management, network security, privacy and compliance all bare measurable risks, many of which are overlooked or presumed to be in compliance with regulations. Effective risk management cascades a "tone from the top" that includes expectations about attention to detail, vigilant protection of assets, commitment to quality performance and high expectations for 3rd party vendor deliverables.

<u>Most risk is operational and can be managed</u>

As congressional hearings dig into the root causes of the financial melt-down we hear about elaborate risk management protocols and control processes. The dynamics of the market and vigilant pursuit of profit may have blinded decision makers who organically believe in the power of financial gain through capitalism. The root of the financial crisis, and of all risk management, is inattention to operational detail, market forces and insufficient governance. Businesses must understand the sources of major risks and how they evolve. Data and analytic systems help, but nothing replaces good judgment, operations review and governance across the silos. Among our clients most risk is operational and often not insurable.

Integrated Risk Management Solutions has been the consistent advocate of ORM for more than a decade. Others are now articulating the value to business operations and the investment community*. Influence from regulators, the risk and insurance industry, management consultants, corporate directors, educators and C-level leaders all leads toward the Enterprise-wide ORM core of our approach – "Cash Flow based practice".

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We enable organizations to 1) establish C-suite led risk assessment, 2) deploy risk resources more effectively, 3) align and resolve issues across silos, 4) measure results, 5) holistically assess emerging risks and 6) drive cash flow from improved operations. The approximate 7-10% of revenue that businesses spend on siloed risk functions can become a value added resource focused on cash flow opportunities, capturing the synergies from ORM.

Managing Operational Risks starts with a Risk Management Governance Council comprised of the C-Suite Executives who report to the CEO. ***Integrated Risk Management Solutions, LLC*** helps by facilitating the establishment of this critical management function. We enable company leaders to understand the "total cost of risk", determine efficient management alternatives and refine risk transfer options (including self-insurance).

Insurers and risk management professionals are making progress in understanding ORM. The ***Integrated Risk Management Solutions, LLC*** team provides services to help you deploy risk resources more effectively and with an intense focus on improved cash flow (see attached). Please visit our website at www.integratedrisksolutions.com for more information and follow our blog at blog.intergratedrisksolutions.com. We look forward to your thoughts and questions.

Sincerely yours,

Attachment

* Article published in May 4, 2010 San Francisco Chronicle - Operational Risk: A Must-Know For Investors
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Enterprise-wide Risk Management Stimulates Success

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 2010, 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.
- Those companies that establish awareness among top management that their job is to take risks intelligently 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 systems 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 controls reviews, which can improve revenue efficiency by up to 20% of revenue.
- Documented and tested Business Interruption/Resiliency Plans sustain key operations during an emergency and improve Company survival by 70%.
- Synergy from a common focus on risk reduction, cost/revenue efficiency, operational reductions in losses, underperforming 3rd party vendors and fraud often produce one of the most impactful cash flow opportunities available.

Integrated Risk Management Solutions, LLC offers consulting and coaching services enabling the deployment of cash flow-centric risk management cultures and programs. The results include:

- Establishment of an executive governance structure,
- Determination of key earnings impacting corporate risks,
- Alignment of risk program priorities, and
- Performance based measurement of risk related initiatives and programs.

Manage Your Risks Well!

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