



James E. Blair, President

December 2018

Dear Colleague;

In this Holiday season, and with the increasing risks facing your business, we wish you and your teams the Happiest of Christmas and New Year. It has been a tough year that presented risks at an increasing frequency and magnitude; accumulating into something north of an average \$3 MM loss per incident. The best gift you can receive, and give is the art of proactively managing organizational risk! It is lasting and recurring. Here is why it is so important as the New Year begins:

### **Trust and Loyalty**

The 21<sup>st</sup> Century customer/client expects a lot. Not only do they want a quality product and a great price, but they equally expect grade A service, top notch customer contact and response, zero defects and the highest quality. Quality! – meaning that the product works, is reliable, simple to operate, meets expectations, is easy to integrate into their systems, is serviceable and efficient. The 21<sup>st</sup> Century customer/client expects products and services in which they have **Trust**; and when delivered they grant you **Loyalty**.

These customer/clients assume that you will deliver what is promised on a consistent and reliable basis – no excuses. So, with hurricanes, earthquakes, fires (wild fires), snow storms, tornados, floods, train wrecks, refinery explosions, work stoppages, power outages, internet disruptions and cyber-crime how do you have a chance to meet your customer's expectations? The answer is either luck, or hard-core planning, anticipation and exceptional Risk Management. In short, they expect you to anticipate and mitigate the disruptions that could cause a missed commitment. Those who practice proactive Risk Management distinguish themselves from competitors.

Natural disasters are hard to predict and mitigate. Human-caused disruptions continue to grow with more than 70% of service interruptions the result of error, inattention, inadequate policies/procedures and/or intentional miss-conduct. The solution to these human challenges is straightforward, but challenging. Fundamentally, all processes must be thoroughly developed with a keen eye on the risks that surround each, including the interrelated flow between processes. Documentation is an imperative and employees must be trained with rhythmic discipline. Actual operations must be assured through measurement, observation and review. The same practice must apply to all third-party suppliers in the supply/service chain. Attention to detail is an imperative.

With successful implementation of these Risk Management based actions disruptions can still occur. The final leg of proactive Risk Management is preparation to respond to Business Interruptions.



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In order to meet 21st Century customer/client expectations, organizations must develop and practice Business Interruption Plans that can Recognize, Respond and Recover when operations are disrupted for any reason. Scenario planning will assist leaders develop the skills to monitor operations and respond to minimize the impact of unanticipated situations on the customer/client. The “bottom line” is that if the best Risk Management practice still is unable to guarantee continuous service delivery, then the key measure of success is the speed of Recovery and return to normal.

Business leaders usually appreciate time to consider situations, facts and data, and alternatives. When an operational disruption occurs, time is not our friend. Proactive Risk Management anticipates the unexpected, implements key monitoring schemes that measure the assurance of operations (Recognition), insists on immediate notification when a disruption occurs, deploys the organization’s Business Interruption Plan (Respond), initiates internal and external communications, secures the operational environment and begins trouble shooting and Recovery. Inclusion of every element of the impacted operations chain is imperative (including the supply chain). Every employee is accounted for if the disruption includes physical damage (customer/clients as well). The entire process is under the direct supervision of the Risk Management Executive Council.

The 21<sup>st</sup> Century customer/client will recognize excellence in Response and Recovery.

Proactive Risk Management confirms **Trust and Loyalty**.

Pundits report the daily uncertainties and speculate on the challenges ahead in 2019. A certainty is that operational risks will continue to grow. Daily we see reports of new information breaches and hacks. Ransomware attacks are at an all-time high – in majority, the result of an employee or vendor clicking on and infected e-mail. Cities are major targets since hackers know they might get paid, but more importantly they know the expansive community disruption that can be caused if the information systems are locked up. Cambridge Centre for Risk Studies estimates a potential \$320 billion annual liability from 279 largest global cities from natural and cyber disruptions.

This Risk Management discipline is a big deal! A single employee, supplier or hacker can undo all the investment in products and systems. People are the only solution to People-caused risks! Proactive Risk Management and Governance is the key solution.

Integrated Risk Management Solutions provides Advisory services to help strengthen your business. I look forward to your thoughts and questions – please contact us.

Manage Your Risks Well,

Attachment

**Risk Management is Every Team Member’s Business**



## 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.”
- 75% of company information system risks come from employees and trusted vendors.
- FM Global, a world-wide property insurance and engineering firm, recently estimated that company earnings volatility can be reduced by 50% through effective Risk Management prevention and preparedness programs.
- 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, Dodd-Frank and compliance audits only test transactional controls – operational controls are “the source” of risk – **Operations Assurance is the key!**
- Regular Operations Assurance reviews can improve revenue efficiency by up to 20%.
- Synergy from a holistic focus on risk, cost/revenue efficiency, loss reduction, underperforming vendors and fraud produce impactful cash flow improvement.

### 2018 Global Risks Defined by:

#### World Economic Forum

- Extreme weather events
- Natural disasters
- Failure of climate-change mitigation & adaptation
- Water crisis
- Cyber attacks
- Food crisis
- Bio-diversity – loss of ecosystem
- Large scale involuntary migration
- Man-made environment disasters
- Interstate conflict

#### Executive Opinion Survey\*

- Un/under employment
- Fiscal crisis
- Failure of national governance
- Energy stock prices
- Profound social instability
- Failure of financial mechanisms
- Failure of critical infrastructures
- Cyber attacks
- Interstate conflict
- Terrorist attacks

\* WEO Survey 2018

### Manage Your Risks Well!