Integrated Risk Management Solutions, LLC

James E. Blair, President

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Dear Colleague;

Can our global risk get any crazier? In the short 9 months of 2018 the magnitude, frequency and velocity of risk situations seems almost out of control. I am frankly amazed that our colleagues continue focused on the business fundamentals which appear to define the spirited stock market and solid quarterly performance.

Consider the sizable impacts of risks and losses including: 1) Total global disasters (including hurricane Florence - $50 billion) in the range of $100 billon, 2) major cyber breaches of transportation companies Maersk and FedEx with costs in excess of $600 MM, 3) the Equifax breach of 150 MM citizens and with costs of $150 - $250 MM, and 4) total global costs of cyber-crime in the range of $600 billion (headed toward $1 trillion by 2020).

Compound these measurable losses by the international impacts of trade-tensions with Russia, Korea, Canada, Mexico and the EU, the EU General Data Protection Regulation (GDPR), and the 50th state Cyber/Privacy Protection regulation, with California exceeding the most stringent requirements on organizations. The increased presence of Work Place violence and sexual harassment is shocking, and yet, is a real drag on the positive business culture you need. The added rancor of US politics doesn't help either, and "you are trying to run a business!"

Practice

These factors are mostly out of business leaders control. So, how do you plan for an uncertain future, when the current state seems uncertain? Our rhythmic answer is to understand the risks that attach to your business and prepare mitigation strategies as best you can. Engage your smart team in regular discussions about the operational risks taken every day and prepare to respond as a group in a nimble and focused manner. Think of the incidents that can upset your operations, draft plans and PRACTICE Response! Incidentally, a recent study of C-suite leaders indicated that 90% believe that response plans are in place – only 17% actually practice. We have work to do!

Planning and practice may feel like adding weights in your pockets. Not so! Planning for risks can be part of the normal business planning processes. Your teams are forecasting the future and products/services to meet new needs. As the planning is proceeding, encourage all to anticipate what may not work as planned (that's the risk part). Then encourage creative thinking about how those incidents can be anticipated and mitigated. Keep track and document – you will be amazed at the improved product development and rollout. Dinner's on me if you don't see the change.

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Duty of Care!

Employers are accountable for the health and safety of employees, customers and suppliers who operate on company facilities while performing company work. This includes business travel, working spaces, parking lots, hotels, tools and equipment, the air supply, water, waste facilities, manufacturing lines, shipping centers and more. The bottom line is that employers must provide safe and secure work environments.

A major challenge is work place violence in the form of sexual harassment, bullying, insufficient cyber-security policies and procedures, physical security, inadequate attention to supervisory skills (that enable employees to discretely report concerns and expect management action), active killers and terrorist attacks. Often the Duty of Care expectations are assigned to HR and do not receive adequate attention of the C-suite and Board. This is a major risk factor that should be rhythmically addressed by a Risk Management Governance Council.

Within the notion of Duty of Care is the physical well being of everyone who participates in your business. Most have not contemplated the human safety risks and physical perils associated with cyber-breaches. Imagine a hacker captures control of your manufacturing facility and disables all fire response systems. They ignite a fire through overheating a generator. The buildings and equipment are in peril and all human life is at risk. The Duty of Care expectations will lay at the front door of the CEO and Board. So, the bad guys can steal your data and potentially burn down the operation and harm employees.

Scenario Planning for incidents like this, along with floods, hurricanes, wild fires, earthquakes, geo-political foreign government actions and failures in the supply chain is urgently relevant to the success of your operations. Regular and rhythmic governance discussions by the C-leaders is the best investment to anticipate, prepare for and PRACTICE the nimble thinking required to Recognize and Respond to incidents of any kind. This time of year, it is what head football coaches and staffs do every weekend.

With this background we all have work to do. Safety and Security is hard work! All the investment in hardware and software cannot achieve what employee attention, awareness, and action can. A single employee or supplier can undo all the investment in systems. People are the only solution to People-caused risks! Solid governance and leadership is the "glue" that holds this proposition together.

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

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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."
- 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

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