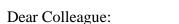
James E. Blair, President

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# **Risks From Within and Abroad!**

The 2025 World Economic Forum forecast for the first time in decades that the top global risk this year would be State Based Armed Conflict. And, this appears to be true – war in Israel and Gaza, Israel and Iran and the third year of the Ukrainian/Russian war. The risks associated with these "out of control" incidents centered in the middle of Asia impact the global economy and challenge the best planning by business leaders. The constant distraction of NATO and the EU imperils the best of us and certainly is not a magnet toward prosperity.

Domestically, the upheaval since January is a series of risks we've not encountered since the last World War. The administration's unleashing of Project 2025 has disrupted every form of everyday life and US business. Policy changes, uncertain tariff announcements, trade disruptions, surprise on-off transportation regulations, and ill-planned regulatory changes (while touted as improvements) disrupt American business following a period of certain prosperity. The risk rule of the day is "nimble and agile". The advent of mass-deportations of legitimate workers and family's imperials agriculture, construction, personal services, and manufacturing. The risks internal to the country are frustration and a "surprise a minute". The change manager in the white house can't seem to just relax.

The solution is active, focused, and nimble risk management governance processes where your leaders are on constant watch for change that might impact the business (positive and negative). Awareness of the resources that lend to growth and prosperity for your operations, and active recognition of changed circumstances that can impact the norm enables quick Recognition and Response to enable stable operations.

The political environment seems to be a struggle between democracy and autocracy. The administration is more than willing to announce policy changes overnight, with an apparent absence of judgement for which we have relied on congress to provide in the past. The smoothing effect is missing. Leading your business now requires a crystal ball and the best judgement your team can muster. It appears that the balance of the year will continue major uncertainty for your leadership teams. Contingency Planning has never been more important. Welcome to a World of Risk!

## **Global Perils Continue with Major Impacts**

Mother Nature isn't taking a break either. Global catastrophes have resulted in \$53 billion in insured losses (\$200 billion total). Lead by the 2025 California wildfires (\$38 billion insured losses - \$95 billion total), followed by multiple Severe Convective Storms (SCS) across the mid-west delivering tornado and hail damage with related flooding, and deadly earthquakes in Myanmar and China. Six storms cost \$1 billion or more in damage, making the first quarter of 2025 the costliest in history, with exception of the

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2011 Tohoku earthquake, tsunami, and Fukushima nuclear power plant meltdown in Japan (\$81 billion in insured losses). Sharing these instances and damage estimates with you is to remind us all of the magnitude and variety of physical risk the human race faces each day. Preparing for an earthquake is almost impossible, but preparing to Respond and Recover is indeed humanly possible. Every citizen and business bears a responsibility to anticipate and prepare for a bad day.

## **Cyber Threats A Daily Reality**

Cyber Threats now impact one in three businesses daily. The combination of Cyber, fraud, and theft are costing businesses an average of \$99 million per year. The prime targets are technology companies followed by insurance, financial services and fintech. Cybercrime losses were \$16 billion in 2024 as reported by the FBI. Ransomware attacks surged 126% 2025/2024, and the prime sources of attacks originate in Russia and China. Distributed Denial of Service (DDOS) attacks were up 358% over 2024, generally fueled by artificial intelligence and advancements in DDOS-as-a-service available for rent (Cloudflare reported mitigating 21 million attacks in the first quarter 2025 alone). Given the trends, the best Risk Solution is serious protection of your systems and deployment of Managed Security and Service Providers (MSSP). Diligent threat identification services are available, and we can provide you recommendations.

Cyber-attacks on industrial operations systems spiked 87% 23/24 raising havoc on manufacturers, logistics firms, utilities, hospitals, educational institutions, and financial firms. The bad guys have advanced their attack systems to now land on a victim and bore into the core of their computer systems (China's Volt Typhoon Hackers dwelled in the US Electric Grid for 300 days and developed access to the entire grid system). Clients are encouraged to concentrate recovery strategies toward **Resilience** that can provide protection on a longer horizon.

## **Supply Systems**

Every risk discussed in this Advisory directly impacts your Supply Chains and delivery systems. From domestic politics, global war, forced migration, trade wars and tariffs, natural disasters, and cyber threats, the reliability of your supply/delivery systems is at risk. Equally the threats to your business **Reputation** are great and deserve the best thinking about how to manage public and customer communications in times of threat. A conscientious development of contingency supplier relationships is well advised.

These are part of the Risk Management principles foundational to the work of <u>Integrated Risk Management Solutions</u>, <u>LLC</u>. We help you prepare and deliver trusted and responsive products/services, and people. I look forward to your thoughts and questions.

Manage Your Risks Well,

Attachment



## **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

- Risk costs are in multiple silos hiding the "Total Cost of Risk" and measurable ROI.
- 80% of company information system risks come from employees and trusted vendors.
- FM Global, a world-wide property insurance and engineering firm, estimates 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 more nimbly 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 are 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 produces <u>impactful cash flow improvement</u>.

## 2025 Global Risks Defined by:

## **World Economic Forum**

- State Based Armed Conflict
- Extreme Weather Events
- Geoeconomic Confrontation
- Misinformation-Disinformation
- Societal Polarization
- Economic Downturn
- Critical Change in Earth Systems
- Involuntary Migration
- Erosion of Human Rights
- Cyber Espionage/Warfare

## **Global Executive Opinion**

- Economic Downturn
- Inflation/Public Debt
- Extreme Weather Events
- Biodiversity Loss
- Armed Conflict
- Geoeconomic Confrontation
- Societal Polarization
- Chronic Health Conditions
- Involuntary Migration
- Cyber Insecurity

#### Manage Your Risks Well

January 2025

<sup>\*</sup> Incidental absence can increase the costs of employee health and wellness programs by 2X.