



James E. Blair, President

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Dear Colleague:

The Cost of Risk is Skyrocketing!

Insurance costs continue a 5-year upward trend, with price increases in the 8-12% range and cyber in the upper 20% range. Insurers are also reducing coverage packages and requiring higher deductibles. Jury awards for all kinds of claims including COVID-19 related personal injuries, deaths and business interruption losses have gone “nuclear,” costing insurers and businesses historic levels of payment. The 8 named hurricanes that landed in the south and east this year carry an estimated cost of \$6.1 billion in insured losses (a total loss in the range of \$15 billion). Imagine that 100% of homes in Louisiana have suffered damage and at least 2 major insurance carriers have failed. With nuclear awards for cyber-attacks and business interruption, more may fail in the future.

Businesses have also encountered significant increases in operations cost. The backlog from supply chain disruptions and labor shortages are compounded by a 40-year high rate of inflation. The auto industry expects a \$110 billion impact from chip shortages caused by inadequate supply and significant increases in demand as the economy returns to pre-pandemic levels. Recall the cost impact from the 2011 typhoon flooding in Thailand that shut down factory provision of hard drives (disrupting both computer and automobile manufacturing): impact about \$100 billion.

Reliance on insurance coverage to respond to the real risks of operating a business is becoming a “risk in itself”. Taking control of your risks through governance, mitigation and response planning is the better course of action.

2021 & 2022 Theme – Resilience!

The challenges of cost pressure, supply chains, global health, transportation, talent, technology, politics, regulation, cyber-breaches, ransomware, infrastructure failure, internet disruptions, work force reliability and world leadership make forecasting emerging risk increasingly elusive. During this 24-month period of time, business leaders have and must continue to be far more creative in responding to sudden changes in the operating and public sphere. Decisions about operating locations, office/no office, travel, employee satisfaction, performance, productivity, offshore/onshore, fund raising, research, marketing and more drive leader creativity and anticipation to new levels. Our experience to date confirms that innovative solutions and agile actions produce continued success. Businesses are practicing Resilience actions and should be proud of the accomplishments of their teams and leaders. It appears that the stock market is proud of you as well.

The three R’s – Recognize, Respond and Recover remain fundamental Risk Management principles. Leaders are being challenged by more than one major risk at a time, and nimble reaction and agile action meets the challenges of each day.



The network and cyber world continue to march through complex and risky constellations. No matter the creativity applied to protecting your business operations, data gathered and generated, transactions processed and supply operations, the bad guys lurk and pounce on every opportunity to penetrate your systems, disrupt and steal. Major cyber breaches have interrupted operations of Colonial Pipeline, JBS Holdings, Kaseya, Microsoft, Solar Winds, Blackbaud, Cambridge Analytica/Facebook and AWS. All are supply chain service providers and the attacks on their systems impact the customers they serve. Being prepared to protect your systems is important – being prepared to operate when your major service provider is out of service is Risk Preparedness and Resilience at the next level. Lloyds estimates that a major disruption of the internet could result in costs exceeding \$14 billion. The top 10 global cyber-attacks of 2021 compromised more than 7.7 billion accounts (virtually 1 account for every living human on earth). When anticipating operating risk, be sure to include the reliability of third-party suppliers that are integral to your business operations. Prepare for the day they can't deliver.

Take Risk Better than Others!

We advocate for businesses taking as much risk as they can stand – operate with gusto and prepare to succeed as if unexpected circumstances will be recognized and mitigated. This principle has been tested during 2021 like no other. Risks that are local to global have impacted everyone, including our colleagues, partners, friends, neighbors, children and relatives. The concept of **ESG** – Environmental, Social and Governance has emerged as both public and private enterprises and policy makers increasingly recognize the importance of Climate Change, human impact on the sustainability of the globe, the pressure to improve operations to reduce climate impact and the imperative to improve the care of one another. All hinge on establishment of proactive Governance that guides decision making, strategic planning, operational excellence, anticipation of emerging risks and preparation for the unknown. These are the Risk Management principles foundational to the work of *Integrated Risk Management Solutions, LLC*.

A major emerging risk is the prospect of political influence and regulatory control of business and economic decisions. Any diminishment of democracy and freedom of economic choice is a new risk not experienced in the history of America. While other countries are plagued with government control, corruption and unexpected restrictions, the USA has stood as a beacon of ingenuity and competitive success. It is time to factor the prospect of politicized controls into the risk planning and preparedness processes.

Everything *Integrated Risk Management Solutions, LLC* represents is preparing you to deliver trusted and responsive products/services. I look forward to your thoughts and questions – please contact us.

Manage Your Risks Well,

A handwritten signature in black ink, appearing to read 'Jeblair'.

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 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 more nimbly respond 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.

2021 Global Risks Defined by:

World Economic Forum

- Infectious Diseases
- Livelihood crises
- Extreme weather events
- Cybersecurity failure
- Digital inequality
- Prolonged stagnation
- Terrorist attacks
- Youth disillusionment
- Social cohesion erosion
- Human environmental damage

Executive Opinion Survey*

- Pandemic caused regulations
 - Economic growth restrictions
 - Pandemic caused consumer demand
 - Digital skills shortage
 - Privacy & Information Security
 - Cyber-threats
 - Regulations impairing operating resilience
 - Succession and top-talent retention
 - Resistance to cultural changes
 - Competing with digital-born competitors
- * Protiviti & UCSU -ERM Initiative

Manage Your Risks Well!

January 2021