*Integrated Risk Management Solutions, LLC*

James E. Blair, President

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Dear Colleague

## Business Interruption 2020!

Every organization globally has faced unprecedented interruptions to normal operations this year. Interruptions caused by fire, flood, hurricanes, earthquakes, tariffs, regulation changes, security breaches, valuation fluctuations, cyber-attacks, supply chain weakness, labor upset and disease (COVID-19) have delivered a plethora of unexpected challenges to originally well-conceived operational models. Daily challenges are thrown at us in what seems like an avalanche of interruptions, not least of which is reduced consumer demand for roughly everything except information and on-line commerce.

Many of our Client Advisories have recommended addressing the dynamics of the unknown through improved governance over the risk functions throughout the organization with an intentional focus on the anticipation of future risk that can impair operations. This Advisory emphasizes the reality that many material-impacting risks simply cannot be foreseen. The most immediate example is the COVID-19 virus outbreak that impacted daily lives and businesses within 30 days. Compound that with the immediately recognized insufficient supply of Personal Protective Equipment (PPE) and medical staff, and the world economy and death toll was/is out of control.

At every level of your business, enhancing preparedness to respond to interruptions may be the most important investment available. Risk governance enhances preparation through rhythmic attention to emerging disruptions and mitigation alternatives. The key is preparation of your organization and resources to be attentive to interruption indicators and then immediately responding to maintain operations. While all interruptions cannot be eliminated, enabling your teams to respond with a flexible, agile, and adaptable response is the best use of resources and talent.

## Deliver the Promise No Matter the Crisis!

The strongest measure of organizational success is the successful response to unexpected interruptions. Empowering every employee, supplier/vendor and resource to Recognize and Respond to an interruption in an effective and timely manner (before a customer notices) is the true success. Remember "Trust is at Stake" with customers, employees, investors and the supply chain.

A strong example of interruption response was displayed from March – August by Christopher Krebs, Director of the Federal Cybersecurity & Infrastructure Security Agency (CISA), within the Department of Homeland Security. On March 13 when the Corona Virus publicly exploded, Chris and his team of cybersecurity experts deployed a massive effort to understand the problems of supplying equipment, people and medical resources across the country to meet the demands of COVID-19 patients. The team mustered resources from every Federal emergency response organization and drew them together into a rhythmic and integrated governance team to identify and respond to

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interruptions in the supply/service chain, quickly and authoritatively resolve issues, and listen to suppliers and users to bring the power of the Federal Government to minimize Business Interruptions.

The Krebs team hosted twice-weekly teleconference calls inviting Risk, Safety, Security, supply chain and medical professionals to report shortages, identify problems and seek resolution in an immediate and timely manner. Calls generally included several hundred representatives from industry, health services, transportation, manufactures, importers and risk professionals who initiated problem identification and offered mitigation solutions. The outcome was an extraordinary demonstration of cooperation and collaboration. The integration of the siloed Federal resources, including the information systems that knit all functions together, shortened the supply chain problems of the summer. We face this challenge again with the distribution of virus vaccines in 2021.

A major lesson is the intricate and complex nature of supply chains on a global scale. Pieces and parts for masks, face shields, gloves, protective clothing layers, ventilators, tubes, needles, monitors, etc. come from all parts of the world and when one piece is not in sync the product is not deliverable. Supply Chain Risk Management (SCRM) is often overlooked, and the pandemic showcased the imperatives of effective Risk Governance and proactive management. Surprisingly, this collaborative approach to reducing Business Interruption was led by the IT and Infrastructure Security teams.

Everything *Integrated Risk Management Solutions, LLC* represents was demonstrated by the CISA teams Delivering the Promise no Matter the Crisis!

Note: Christopher Krebs also oversaw the information infrastructure supporting the Nov. 3 election, with extraordinary success. That success resulted in his termination by the President.

## Cyber-Risk Skyrockets!

The bad guys won't go away! Ransomware is in the lead for costly cyber-risk, with payouts averaging $234,000 per incident in the 3rd Q 2020 (plus the cost or repair and recovery). With 78MM incidents to date the total is up 178% from last year. Small to mid-size organizations are the prime target and hackers are successfully planting ransomware through phishing with employees and vendors. Remember the imperative of policies and training, and then timely response.

Next Quarter Focus – Reputational Risks Grow in 2021!

These thoughts are the heart of *Integrated Risk Management Solutions, LLC*. 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 in multiple silos hiding the "Total Cost of Risk" and measurable ROI.
- 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 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.

**2020 Global Risks Defined by:**

**World Economic Forum**

- Extreme weather
- Climate action failure
- Natural disasters
- Bio-diversity – loss of ecosystem
- Man-made environment disasters
- Cyber attacks
- Global governance failure
- Interstate conflict
- Information infrastructure breakdown
- Fiscal crises

**Executive Opinion Survey***

- Fiscal crises
- Cyber attacks
- Unemployment/under employment
- Energy price shock
- Failure of national governance
- Profound social instability
- Data fraud or theft
- Interstate conflict
- Critical infrastructure failure
- Asset bubble

  * WEO Survey 2020

***Manage Your Risks Well!***

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