



James E. Blair, President

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Dear Colleague:

The Cost of Risk Skyrocketed!

The year of 2022 delivered the highest cost increase in decades. The number and magnitude of catastrophic damage incidents exceeded anything in the past. Inflation and supply chain pinches increased the cost of recovery. Cyber breaches set new records along with the exceedingly high claims, recovery costs, business interruption, and nuclear judgements. And insurance premiums increased from 10%-61% depending on the market. Cyber presented the largest change (61%) due to massive increases in incidents, larger than expected recovery costs along with litigation and regulatory penalties. Many clients can't find reasonable cyber coverage into the new year.

Two weather mega-disasters costing over \$20 billion each hit Earth in 2022. Hurricane Ian in Florida and the east coast could eventually cost \$290 billion (total cost estimate – insurance covers 40%, and sadly, only 20% of the population has insurance in this part of the country). The second is the European drought and heat wave damage throughout much of the year and will cost more than \$50 billion. BIG NUMBERS! And consider that citizens, businesses, and the government will pay about 60% of these costs. Florida has had to establish a new insurance backstop plan to encourage insurers to continue providing service in the state. Colorado may face similar challenges due to wildfire costs. Climate change is now “real”. The US average temperature is 2.5 degrees higher than 50 years ago and the frequency of billion-dollar disasters is now every 3 weeks.

Sustainability and Stability – Thinking Forward

The numbers and frequency of disasters is shocking! And insurance is not a good answer. Think of costs that insurance doesn't cover: e.g., business interruption from COVID-19, delays from supply chain disruptions, lost revenue caused by supplier failure, operations costs caused by software and/or cyber crashes, product recall costs and lost revenue, and more. And the reputation and personality of your business hinges on reliable operations – meeting your customer's expectations every day.

So, engaging your entire team in *thinking forward* about things that can disrupt or interrupt your workflow is a leadership imperative. Your employees and leaders are the daily risk professionals who monitor operations and deliveries, and first notice when something isn't running smoothly. Ensuring your support for their risk-based approach to the work is a most critical leadership practice. Not only is risk-based thinking imperative every hour of every day, but constantly a key component to strategic planning and operations effectiveness. Your next new initiative and/or product should be examined from everyone's viewpoint to *think forward* about what might not work as well as expected and enable creative ways to notice, respond and recover in an agile and nimble manner to ensure stable operations every day.



Sustainability is a new watchword in the minds of investors and regulators (SEC and FTC). Regulators are scratching hard to find ways to measure organizational sustainability. It starts with corporate commitment and then flows to the strategic plan and operational design. A heavy dose of risk management and governance is required to prove the commitment and ensure successful performance. Sustainability planning is not expensive nor time consuming. It is thoughtful planning and practice broadly shared throughout the organization. Sustainability is the long-term goal while stability is the everyday result of quality risk management. Everyone is a sustainability partner engaged in their part of the business.

A timely example is that product recall items reached a 20 year high through the first 3 quarters of the year. More than 1.22 billion items (units) were recalled this year with the largest increase from medical devices at a 411% increase. Other items increasingly recalled include units with product contamination - foods, drugs and baby formula, dysfunctional electric vehicles, and compliance related issues. Why did the items get to market without the suppliers noticing the potential defects? Were the employees encouraged to *think forward* with a risk-based mindset committed to produce a sustainable product?

Ransomware Wins Again!

Ransomware delivered through technology and social engineering resulting in \$1.2 billion in payments and accounted for \$6.9 billion in losses. This form of cyber-breach has every CIO's attention and plans for 2023 spending include systems, recovery mechanisms, cloud backup, vulnerability management, software upgrades, incident detection, access security (multi-factor authentication), 3rd party exposures, and training. According to Forrester the forecast is in the \$188 billion range, up 11.3%.

Small to mid-sized businesses are particularly susceptible to ransomware attacks. They typically don't have IT teams and rely on 3rd party vendors. Sadly only 58% conduct tabletop exercises to test incident detection, response systems, and backup processes - it is a very wise investment of time engaging all involved in the operations. In 2022, the average loss from a Ransomware/cyber breach ranged from \$250K to \$1MM.

Ransomware and cyberbreaches will account for about \$10.5 trillion in crimes against the public in 2025. The FBI estimates the cost impact of \$20MM per minute. The solution is that everyone becomes a Risk/Cyber Prevention Pro.

These are the Risk Management principles foundational to the work of [Integrated Risk Management Solutions, LLC](#). We help you prepare and deliver trusted and responsive products/services. 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 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.

2022 Global Risks Defined by:

World Economic Forum

- Climate Action Failure
- Extreme Weather
- Social Cohesion Erosion
- Livelihood Crises
- Debt Crisis
- Human Environmental Damage
- Geoeconomics Confrontation
- Cybersecurity Failure
- Biodiversity Loss
- Asset Bubble Burst

Executive Opinion Survey*

- Pandemic-Related Regulations
 - Succession & Talent Retention
 - Pandemic-Related Market Drop
 - Technology Skills Void
 - Economic Conditions/Inflation
 - Increased Labor Costs
 - Resistance to Change
 - Failure to Deploy “Big Data”
 - Cyber Threats
 - DEI Outpaces Performance
- * Protiviti -ERM Initiative

Manage Your Risks Well!

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