Integrated Risk Management Solutions, LLC

James E. Blair, President

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Dear Colleague;

A Time of Chaos!

The last half of 2019 has delivered challenges to managing risk beyond our wildest dreams. The combination of human caused risk, natural disasters, the cyber-world, geo-political influences and the advent of serious regulation provide a risk-environment I'm not sure we have experienced before. This year the US has suffered 385 mass shootings during the first 335 days (1.15 shootings per day), Ransomware attacks have increased 6-fold, 5,200 cyber-attacks have breached 7.9 billion records including 40 million healthcare records (3X the number in 2018), a cyber-breach occurs every 14 seconds (impacting 120MM people) and at an average cost of $4.6MM, trade wars with international partners have disrupted supply chains and placed increased costs on business and consumers, the US government is under perpetual political attack and of course we are witnesses to a presidential impeachment. And, the effects of climate change and natural disasters increase now and into the future. The business environment is "Chaotic" at best.

On the plus side it appears that BREXIT will finally be achieved, the US-Mexico-Canada Agreement on trade will be approved, the first phase of a US-China trade agreement is in sight, the economy continues to grow and it appears that the holiday shopping season is positive. Balancing the negative risk with proactive risk-taking is the magic that will propel your business forward into 2020.

The Lifecycle of Managing Risk

The Lifecycle of Risk stretches from strategy through implementation and then to response when performance is interrupted by events beyond your control. The best Risk Management Governance processes anticipate organizational and environmental risks to initiate new products and services, and then continuously improve processes and performance. A major byproduct of effective Risk Management is agile and nimble Response and Recovery capability. When intellect and resources are deployed to achieve a successful outcome, effective Risk Management anticipates the dynamics of pitfalls and prepares alternative scenarios that respond to keep operations on track.

As Ransomware and cyber-attacks are exploding in size and scope ($4.4 billion YTD), business and community leaders are discovering that the cost of Recognition, Response and Recovery is relatively minor compared to the cost of business interruption, revenue loss and negative impact on reputation (average 279 days from detection to containment). The cities of Baltimore and New Orleans will suffer a cash flow impact 5-10X the cost of the repair of their computer systems. Merck is seeking to recover $1.3 billion from insurers to cover the impact on global cash flow from the Ransomware attack of 2017. This case demonstrates the frailty of insurance coverage for complex information systems. The coverage of today is likely not the coverage needed for tomorrow.

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Organizational Preparedness for a risk incident has never been more important. Your business performance will be significantly strengthened by a planned and proactive Business Interruption Process (BIP). I use the word Process rather than Plan to emphasize the importance of actionable steps versus a binder that sits on the shelf. *Integrated Risk Management Solutions* is actively working with clients to conduct Table-Top exercises that bring together the operations, technical, IT, information service providers and financial resources to walk through a cyber-attack from Recognition through Recovery. It is amazing what the client and providers learn from a 90-minute investment in BIP. Please consider how we can help you and your team.

Regulation Marches Forward

Given the enormous number of cyber-attacks and data breaches across the globe, regulators at the state and national levels are developing expansive regulations to protect consumer data. Internationally the gold standard is the General Data Protection Regulation (GDPR) promulgated by the European Union. New York state has implemented the; 1) New York Department of Financial Services Cybersecurity Regulations (NYCRR) and 2) the Stop Hacks and Improve Electronic Data Security Act (SHIELD). Federally the medical industry is bound by the Health Insurance Portability and Accountability Act (HIPAA). The finance industry is governed by the; 1) Gramm-Leach-Bliley Act (GLBA) and 2) FinCEN requirements to Know Your Customer (KYC) in order to identify Money Laundering Activities. The new California Consumer Protection Act (CCPA) becomes effective January 1, 2020. More states on the way!

All have a common theme; 1) businesses must inventory the data they have and what it is used for (including where it is stored), 2) methods and processes for data protection must be documented and auditable, 3) consumers must be notified of items 1 and 2, and be provided the opportunity to opt-out of any use or sale of their information, 4) processes for data protection must be defined and auditable, 5) customers have the right to "be forgotten", and 6) if these principles fail consumers are provided the right to litigate for damages and seek regulatory oversight including fines and penalties. Facebook and Google have each received fines in the EU totaling $57MM each - British Airlines $237MM and Marriott $127MM. The CCPA provides penalties at maximum of $750 per customer record (imagine the price for 10,000 customer records). This is serious and effective Risk Management is an imperative.

This is 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 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.

2019 Global Risks Defined by:

World Economic Forum

- Extreme weather events
- Failure of climate-change mitigation & adaptation
- Natural disasters
- Cyber attacks
- Water crisis
- Bio-diversity – loss of ecosystem
- Man-made environment disasters
- Critical information infrastructure breakdown
- Large scale involuntary migration
- Interstate conflict

Executive Opinion Survey*

- Recession risks
- Threats to Global Trade Systems
- Global Political instability
- New Competitors
- Declining trust in political institutions
- Cyber security
- Currency volatility
- Rising interest rates
- Uncertainty in corporate tax policies
- Income inequity

* WEO Survey 2019

Manage Your Risks Well!

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