Integrated Risk Management Solutions, LLC

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Dear Colleague

2021 - Opportunities!

The year 2020 presented about as much unexpected risk as we have ever witnessed. Unlike years of war, terrorism, famine, depression, and economic downfall, we were immersed in the immediate impacts of uncontrolled disease, loss of human life, unknown medical treatments, overburdened health care systems, work restrictions limiting access to businesses, shortages, domestic terrorism and severe economic loss. As we all remember where we were on 9/11/2001, most will remember where they were on March 11, 2020.

Each business leader was confronted with downward shock to business, immediate loss of employees, remote work adaptations and new approaches to the business model. Those with business interruption plans in place, along with those nimble and agile enough to adapt on the fly not only survived but thrived! This advisory emphasizes the value of adaptability and the benefits to your business reputation.

First though is an examination of the Global view of organizational risk. Annually, the World Economic Forum (WEF), along with key business leaders, forecasts the major risks facing the global population. Many of you have expressed appreciation for this listing which is found on page 3. You will see some surprises this year that reflect the lasting impacts of the 2020 disease disaster and its lingering impact into 2021. The WEF forecasts that the disease (COVID-19) is number one, and business/risk leaders agree that it is numbers 1-3.

The disease risks impact economic growth, unpredictable regulations, employment, disillusionment, and diminished social cohesion and cultural development. The old standbys include extreme weather, cyber security, digital skills shortage, and privacy/information security – all subjects of these Client Advisories. These forecasts serve notice that major and dynamic risk challenges are ahead and justify the best Risk Governance practices possible.

Reputational Risks Grow!

Your organization can spend years building its Reputation based upon reliability, trust, honesty, delivering what you promise, reasonable pricing and instant response when something goes wrong. It is constant focus on your customer, the community, your employees and increasingly the environment. For as long it takes to build a good Reputation and brand, it can be lost in hours, minutes, and days. Target suffered damage to its long-standing quality reputation when a cyber-attack disrupted operations across its network, and then the follow-on damage from stolen customer credit cards. Wells Fargo's quality reputation has not recovered from the customer account scandal in 2016. Economic losses to operations and stock valuation for both companies have been in the hundreds of millions.

The two crashes of the popular Boeing 737 Max have resulted in lost earnings in the $19 billion range, lost customers, and reduced stock valuation exceeding $50 billion. The pandemic compounded the company's losses, but the damage to the company's Reputation is perhaps unmeasurable. With the engine failure in Denver last week, I suspect that all of us will a bit weary the next time we fly a Boeing jet.

Risk Management is a heavy player in the development and protection of your business Reputation. It starts with strategic and risk-oriented planning that musters all resources to vision products and services that meet market demand, integrates thoughtful talent to serve customers, anticipates risks to operations, prepares agile response to the unknown, and practices table-top exercises to role play response (the results are always amazing).

Where was Risk Management in the development of the Texas power grid and the Oldsmar, Florida water system? These two recent examples of extreme operational failure highlight the absence of effective management of operational risk, and preparation to protect the organization, its customers, and its Reputation. The power grid failed because planners "assumed" the climate in the state would not change so dramatically and the entire construction and energy sectors built accordingly (estimated costs $18 billion). The water system did not protect the digital operating controls or deploy system monitoring procedures. Both entities face enormous litigation with accusations about failure to protect the public's health and safety. Within a year neither will operate in the form prior to these incidents – 7 Texas Power board members resigned this week.

With regard to Reputation, the public can be quite forgiving of damage caused by natural events such as hurricanes, tornados, earthquakes, floods, wildfires and snowstorms if organizations proactively react and respond. We seem to appreciate the good effort to recover. Organizations that practice Risk Management governance, preparation and response most often WIN! When supported by an effective and transparent public communications plan, businesses wind up on top rather than the bottom.

Cyber-Risks Explode!

The Solar Winds breach impacted at least 18,000 customers and most Federal agencies. The damage will require a rebuild of all the systems – billions! The company's Reputation may never recover. The bad guys prowled around the networks for a year before being discovered. Solar Winds stock price down 12-15%.

Guideware forecasts a major cloud hack in 2021. Be Prepared!

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,

Attachment

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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.
- 80% 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.

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

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