



James E. Blair, President

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Dear Colleague;

### **World Leaders Forecast Risk**

Catastrophic events including extreme weather, natural disasters and climate change were the highest risks to economic progress outlined by top level thinkers from across the globe at the World Economic Forum (WEF) in Davos, Switzerland. Business executives identified the uncertainties of political instability that can threaten global trade systems and economic growth as their top concerns. Please see details in the attachment.

Both sets of risk resonate with the narrative in our Client Advisories about 1) the imperative of anticipating Risk and Risk Impact and 2) the urgency for organizations to establish Risk Governance processes that embrace Business Interruption Preparedness. The key take-away from the WEF work is that we live in a world of increasing risk with unending change that delivers new and expanded challenges to business planning and operational performance.

Economic leaders prioritized risks from uncontrollable sources (weather, climate, natural) as the highest concern, while business leaders highlighted risk from more controllable sources (geopolitical, trade systems and recession). The 360° view brings more challenges than one mind can comprehend, ergo the need for Governance that engages leaders from all siloes in your organization.

### **What's New?**

While the business Risks we intentionally take multiply and mutate, and increase in velocity and magnitude, your organizations leaders are increasingly challenged to anticipate and prepare for the day that things don't go well. That day, external Risk occurs disrupting operations, delaying customer services or product delivery, contaminating products and damaging facilities and/or people.

Supply chain disruptions are occurring regularly, and the dynamics grow with the long reach enabled by global providers connected by the internet. Interestingly, the WEF and business leaders prioritized cyber-risks as items 5 and 6, respectively. Not that the majority of organization have likely been attacked or breached by cyber bad-guys (88% during the past 2 years), it's just that other uncontrollable Risks are more threatening in 2019. The Information Systems industry is responding to the ever-present and sophisticated "Dark Side", and some progress is occurring. However, Microsoft reports a 250% increase in phishing attempts during the past year. More than 80% of breaches to your Information Systems are accomplished by an employee or vendor accidentally clicking on a bad link or attachment embedded in an email. The bad guys never give up



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and never stop creating new approaches to get into your business. Google provided a free phishing test in January which you and your team might consider. It can be found at <https://phishingquiz.withgoogle.com/>. We encourage you to try it.

### **Operating in a Risky World**

The lesson from the WEF is global recognition of the increasing uncontrollable risks that are disruptive to the world economy, and the future of business success. The fact that leaders now predict greater impact from natural disasters and weather than Information Security breaches is astounding and reflects the depth and breadth of cost and disruption to human life. The antidote is preparedness and Business Interruption Planning which empowers organizations to Recognize, Respond and Recover from just about anything.

The stakes are growing from another factor - that is the Risk impact and liability escalating upward to C-leaders and Boards of Directors. Courtesy of the litigation bar Directors and C-leaders, as well as suppliers and vendors, are now on the radar screen for large fines and law suits. When a cyber-breach occurs the affected organization carries the burden of all 14 Expensive Steps to Recover (June 2016 Client Advisory - see [https://img1.wsimg.com/blobby/go/6a331cfd-7e30-4109-a24d-e4cbd1af6fe9/downloads/1cdlfrb4v\\_415826.pdf](https://img1.wsimg.com/blobby/go/6a331cfd-7e30-4109-a24d-e4cbd1af6fe9/downloads/1cdlfrb4v_415826.pdf)), but may also face increasing litigation against the Board, Officers and then reaching into the Supply Chain, Information Systems vendors and even clients (yes; clients who can misuse a system, damaging others). The expanded costs grow to all involved.

Nothing gets Risk leader attention like a cyber-breach. Not only does it take an average of 269 days to discover a breach, but the eventual costs average \$150 per record involved (Poneman 2018). The math gets large quickly and these averages don't include the costs associated with business disruption, reputation damage, cash flow impairment, refunds and credits and fines from inadequate disclosure and reporting. The inter-dependencies built into Information System operations expand the Risks to your business. The best Risk mitigation strategy is to ensure that all members of the Supply/Service Chain operate as if they are your team members. You set the expectations, and then deploy operations assurance procedures to confirm actual performance.

Risk Management discipline is a big deal! While we can't mitigate every risk (particularly natural disasters) preparedness and Response planning through scenario exercises is an investment well made. Proactive Risk Management and Governance is the key solution. [\*Integrated Risk Management Solutions\*](#) provides Advisory services to help strengthen your business. 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.
- 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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