



James E. Blair, President

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Dear Colleague

World Leaders Focus on Risk

Top leaders of nations, institutions, universities and business once again gathered at the 15th World Economic Forum in Davos Switzerland in late January and prioritized global risks that capture the attention of every risk taker and risk manager world-wide. The summary of the top 10 global risks identified by national government/education leaders and the business leaders is on page 3.

Key changes from the priorities of 2019 identified by government and education leaders reflect intense concern over the environment. The top 4 risks relate to extreme weather, failure of initiatives to improve climate, increasing natural disasters and continued damage to the ecosystems. All are long-term risks generated from the world we live in and that are producing short-term consequences as of this advisory. Top business leaders prioritize fiscal crises, cyber-attacks, employment and energy price shocks as the top 4 demanding attention this year. All are near-term risks generated by people.

The COVID-19 virus is driving fiscal and energy price shocks, which are priority items 1 and 4 of business leaders. Both were unexpected at all levels and global preparedness is being tested. Now is the time to PREPARE scenarios that can nimbly respond to ANY challenge! Plug into the CDC and state/local health advisories and take actions to protect your people and processes.

Failure of governance is common to both constituencies and this is the subject often emphasized in these Advisories. The management of risk can only be effective through top-level organizational governance that crosses all silos, prioritizes risk and mitigation plans, resolves differences and measures outcomes. It is heartening that global leaders recognize this imperative (priority 7 and 5, respectively). After all, the management of risk (as well as operations, people, finance and customer service) is a team sport engaging everyone in the organization and on this planet.

Of immediate concern is the explosion of cyber-attacks on every institution and business and in every country world-wide. The internet has become a most valuable tool for life and commerce, but also a most available tool for misuse. The number 8 global risk by both constituencies is the failure of infrastructure, including information, transportation, production and finance. We see nation states experimenting with disconnection from the global internet in order to disrupt world commerce, information flow and freedom; and to isolate their citizens from the outside world for propaganda purposes and control.

It is a Challenging World!

Government and education leaders paint a tough picture of the planet at risk of being able to physically support the future. We business leaders are challenged to develop environmental and social changes that meaningfully improve the climate and health of



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the planet while optimizing production and earnings. The evolving term is Environmental Social Governance (ESG) and top investors and economic change leaders are advocating Board and C-suite ESG programs as a path toward long-term health and sustainable value creation (Warren Buffet, Jamie Diman and Larry Fink). The value of ESG companies has grown 18% more over the past 10 years than non-ESG.

Corporate Boards and C-Suites are expected to drive new and growing businesses serving all stakeholders (versus only shareholders), suppliers, customers and society. The best minds must establish priorities, confirm the business culture, engage all members of the organization (including suppliers), anticipate material risks and embrace preparedness. This is Risk Management Governance!

The Cost of Risk is Increasing

Everyone is experiencing 6 – 25% increases in insurance costs in 2020. The magnitude of natural disasters is extraordinary with losses reaching \$232 billion in 2019. Cyber losses, including business disruption, will top \$1 trillion globally in 2020. Nuclear verdicts are being handed out by courts in cases involving human misconduct and class-actions. Fraud and Foreign Corrupt Practices Act cases are skyrocketing, and litigation related to Cyber and Privacy cases is only beginning. Insurers in the Cyber/Privacy market will bankrupt at some point. The damage caused by Cyber bad guys is enormous.

Risk Management Governance is one of the best investments you can make in 2020.

Organizational Preparedness

As Ransomware and Cyber-attacks explode in size and scope (\$6 billion YTD), and with 948 governmental entities attacked at a \$21.7MM average cost each, business and community leaders are discovering that the cost of Recognition, Response and Recovery systems and processes is minor compared to the cost of IT system rebuild, data recovery, business interruption, revenue loss and diminished reputation.

A best investment is a Cyber-Risk Management team that includes leaders from Risk, Finance, Audit, Operations, Communications and IT. [Integrated Risk Management Solutions](#) is actively supporting clients to develop team plans, employee education (only 38% are trained), practice for incidents and accountability to management demonstrating preparedness of Cyber incidents.

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



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!

January 2020