



James E. Blair, President

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Dear Colleague:

### **World Leaders Forecast Risk - 2023!**

In January leaders of global enterprises and governments met again in Davos Switzerland to evaluate the risks facing the world. This is the largest gathering of economic, industry, social, risk and government leaders each year who meet to assess the major risks facing humanity. Major risks of global warming and climate change are compounded this year by historic natural disasters, inflation, and the Russian war in Ukraine. All capping off the 3 years of the COVID pandemic. Please see table on page 3.

Leaders concluded that the number 1 risk to the world enterprises is Business Interruption. Why? Because Interruption accompanies every other risk category. We all initiate business to produce something, whether economic or government services. The costs associated with disruption are: 1) not planned and seldom budgeted, 2) escalating at an alarming rate, 3) disrupting to customers and suppliers, and 4) surprises to owners and officials. With limited resources of human talent, supply chains, digital system expertise, emergency response and money a Business Interruption impairs every element of the services continuum. Insurance covers 40% at best and business/government is stuck with the rest. Alarming – only 60% of organizations have a practiced Incident Response Plan.

The number 2 global business risk is cyber – the clash between digital miracles and evil actors who manipulate the internet and data systems to defraud organizations, threaten individuals, and steal private and intellectual property. The bad guys are well organized and funded for the purpose of profit. State actors are equally supported, but with the purpose to disrupt, mislead, destroy property, and commit acts of violence. Insurers are struggling under \$945 billion in cyber losses in 2022. The market is now unprofitable in the cyber sector by about 3% and the future is quite challenging. More than 60% of businesses can't afford cyber-coverage. The average cost of a breach is now about \$2.4 million. Every breach is a Business Interruption. Every sector is threatened.

Geopolitical tensions as demonstrated by Russia's invasion of Ukraine, are the number 3 global business risk. Not only the physical destruction of much infrastructure, homes and factories, but the damage to agriculture and transportation systems and loss of human life is beyond most comprehension. To date more than \$2.8 trillion in economic impact has resulted from the conflict and more than 8,000 civilian lives lost. The cost to rebuild Ukraine will exceed the impact to date by 2-4 times. This conflict highlights risk # 1: Business Interruption. I'm not sure any scholar anticipated the cost to food, energy, and manufacturing supply chains. To think of Ukraine as the "world's food basket" is astonishing. Millions are in food insecurity due to the war-caused destruction itself coupled with transportation system and digital supply chain disruption. Global interdependence has evolved over decades and is now suffering disruption in a matter of months. Who knew!



Climate change, or “the failure to mitigate climate change”, is number 4 among World Economic leaders. Somewhat amazing is that global leaders have been able to collaborate across more than 120 countries to 1) agree that the climate risks are real and 2) set firm goals for risk mitigation and limiting temperature increases and emissions. Most importantly, attention to air and water quality has driven industrial interests to dramatically innovate alternative sources of energy that power transportation, infrastructure, manufacturing, and lifestyles. Progress is underway.

Natural disasters, extreme weather and physical catastrophes rally to define the numbers 5 and 6 risk categories. In the 2 plus months of 2023, severe weather, snow, rain, wind and freezing cold have stressed populations across the world. Combined with energy disruptions from war and the elements, human suffering this winter has been devastating. With spring nearby, the human spirit to survive has been tested across many countries. The severe earthquakes in the middle east have torn Turkey and Afghanistan apart. Loss of life and infrastructure will be very hard and costly to replace – not to mention the length of time and stress on existing resources of materials and labor. At home, the environmental damages from “atmospheric rivers” of moisture and snow in the west and rail car derailments and tornados in the east are far reaching. All the good technology at our disposal cannot out-perform Risk Management: constant monitoring, maintenance, and quality operations. With inflation still raging, the cost to humanity will be huge. Opportunities for construction, engineering, management, and leadership talent will continue.

Energy and natural resources occupy numbers 7 and 8. Disruptions from geo-political conflict that directly impact one economy from another have not been experienced for several years. It’s amazing that Russia alone could cause so much devastation and then peripheral impact to others. Equally remarkable is the speedy response from Europeans, Canadians, and Americans to replenish energy supplies of natural and liquified gas resources (along with petroleum and coal reserves) to resupply energy curtailed by Russia. We have witnessed real-time international cooperation and support. Nothing like a good crisis to cause an international landscape shift in offshore supply chains.

People round out the balance of global leader risk assessments. Risk from involuntary migration, economic pressures for controlling costs and driving layoffs, and acute shortages of labor and skilled talent round out risk numbers 8-10. Business and organizational leaders are met with Risk Management challenges in 2023 that are dynamic, variable, and carry heavy price tags (if not well managed).

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,

A handwritten signature in black ink, appearing to read 'Jeb Blair'.

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.

### 2023 Global Risks Defined by:

#### World Economic Forum

- Cost of living crisis
- Natural disasters/extreme weather
- Geoeconomic confrontation
- Failure to mitigate climate change
- Erosion of social cohesion & societal polarization
- Large environmental incidents
- Failure climate change adaptation
- Cybercrime & cyber insecurity
- Natural resource crisis
- Large-scale involuntary migration

#### Executive Opinion Survey\*

- Business Interruption
- Cyber Incidents
- Ukraine Conflict & Geopolitical tension
- Failure of Digital Supply Chains
- Microeconomic concerns
- Energy crisis
- Regulatory changes
- Natural catastrophes
- Climate Change
- Shortage of skilled labor
- \* Protiviti -ERM Initiative

### Manage Your Risks Well!

January 2023