__Integrated Risk Management Solutions, LLC__

James E. Blair, President

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Dear Colleague:

__The Risk Landscape is Chaos!__

The first 2 Quarters of 2022 have delivered a risk landscape more challenging than we could have ever anticipated. The surprise of the Russian war on Ukraine caught the world flat-footed by the sudden global conflict and the major impacts on energy and food supplies; and positively, the rapid alignment of NATO allies aiding the besieged country. The Chinese battle with pandemic virus amplified global supply chain disruptions and dampened customer demand for imported products (China GDP growth could drop to 2.6% from a normal 5-6%). The global supply chain disruptions from the COVID-19 crisis and overrun ports and transportation infrastructure present businesses more challenges. And inflation – prices up 8.6% instigated by the supply restrictions and Fed interest rate increases. Hurricane and wildfire season is just beginning, and Domestic Terrorism is spiking with weekly mass-shootings. Oh, and drought, which puts this year's agriculture industry at compounding risk. To everyone's chagrin the stock market is reacting, with about 20% loss of investment value in the past 90 days.

<u>Chaos may be an understatement!</u>

On the plus side is continued economic growth and business health. Unemployment is at record lows, and monthly job creation exceeds 350,000. Wages are up and job openings are plentiful. Consumer demand is strong - only dampened by gasoline and commodities prices, with serious consequences for consumers and your business operations. Federal Recovery funds will begin delivering 4,900 funded projects starting in the 3rd quarter, and vaccines are rolling out for younger than 5-year-olds, along with the 4th booster for the rest of us. Fortunately, while cases of virus variants grow, hospitalizations and deaths remain low.

The major unknown is cyber-risk threaded throughout all of the challenges and positives outlined above. The cyber-bad guys are more creative than ever, and with the added ambitions of Russia and China, the internet, information and communications systems, data driven operational systems, privacy and intellectual property abuse have raised the potential losses beyond past forecasts (estimated cyber losses globally at $6.9 trillion, insurance costs up 60-120%, average cost is $5 MM per cyber-incident, ransomware attacks on a small business can shut down the entity in 3-7 business days, and business email compromises are up 65% with an annual U.S. cost of $43 billion).

<u>All this is our Risk Landscape</u>!

__Effective Risk Management is the Best Tool Kit__

The most important action is to view the array of risks with a clear eye supported by deployment of your management governance processes that produce alignment across the enterprise. The primary step is prioritization of risk, placement of risk mitigation resources and measurable deployment with the expectation of a return on investment.

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McKinsey produced a study finding that CEOs are discovering that effective management of Risk requires their personal involvement in leading the organization's Risk Management Governance processes.

Based on interviews with 1,000 CEOs, McKinsey concluded that only CEO influence and leadership can bring the silos together, establish a risk culture, cascade the imperative of risk awareness and action through the organization and pursue risk as a proactive technique to grow the business revenue while mitigating risks that generate unnecessary costs. The link to the study is: https://www.mckinsey.com/industries/financial-services/our-insights/the-ceos-risk-agenda-an-insurance-perspective?cid=other-eml-alt-mip-mck&hdpid=7dfd8e40-caab-406a-a810-28fd713a59cd&hctky=2248430&hlkid=8356501eafb343598dc84ff6a9a764d8

The study recommends that CEOs 1) conduct an annual comprehensive review of material risks, 2) optimize resources devoted to risk, 3) engage the Board and C-suite, 4) role model the risk culture and 5) focus on balancing risk-taking as a source of sustainable profitable growth. Establishment of a strong risk culture enables agility and nimble response to unexpected risk situations. The three R's – Recognize, Respond and Recover! Note – a close friend who served as CEO of a large bank mentioned one morning over breakfast that he alone needed to serve as the Chief Risk Officer. The organization continues to be very successful.

The study also emphasizes that risks are not equal. Risk analysis that determines the materiality impact (positive and negative) is imperative as a driver of setting priorities. Many risks must be absorbed or tolerated (the rationale for insurance), while more impactful risks are managed and mitigated with expectations of a return-on-investment. Everything is measured with the goal of optimizing the organization's performance.

Safety - Risk Management Podcast

A close partner of *Integrated Risk Management Solutions, LLC* called SOSPES produced a podcast titled "The Safety Pro Round Table Podcast" where I address the benefits of integrated management of organizational risk. Please feel free to watch at: https://bit.ly/39WB8Hc. We will also post on our website.

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,

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.
- 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.

2022 Global Risks Defined by:

World Economic Forum

- Climate Action Failure
- Extreme Weather
- Social Cohesion Erosion
- Livelihood Crises
- Debt Crisis
- Human Environmental Damage
- Geoeconomics Confrontation
- Cybersecurity Failure
- Biodiversity Loss
- Asset Bubble Burst

Executive Opinion Survey*

- Pandemic-Related Regulations
- Succession & Talent Retention
- Pandemic-Related Market Drop
- Technology Skills Void
- Economic Conditions/Inflation
- Increased Labor Costs
- Resistance to Change
- Failure to Deploy "Big Data"
- Cyber Threats
- DEI Outpaces Performance

* Protiviti -ERM Initiative

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