



James E. Blair, President

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Dear Colleague;

### **Sensationalizing Risk Management**

Not a day passes without a headline about a risk catastrophe somewhere in the world. If the disaster is not natural, e.g., earthquake, fire, flood, wind, landslide etc.; it is human caused - geopolitical actions, threats, rhetoric, trade restrictions, shootings, drug abuse, corruption or digital (cyber). It's enough to make a nice business leader cranky!

The events are increasing in number and magnitude and seem to continually multiply. Consider that the first quarter 2019 has seen shootings at schools and businesses in the US, record flooding in the mid-west, wild fires early in the season, large numbers of tornados in the southeast, 2 airline crashes and record highs in the number of cyber-breaches encountered by business, universities and city governments. Never has the need for effective management of organizational risk been more important.

Welcome to my world!

Nothing within the first quarter experience is unique other than comprehending the skyrocketing number and increasing variety of incidents. Each delivers a wallop to organizations and leaders. The damages are frequently in the millions of dollars and days of business disruption. This weekend's South American power outage and Target's computer glitch showcase major risk incidents within normal operations. News media coverage sensationalizes the incidents and can lead to reputational damage and longer term decline in market value.

To date, estimated US losses from natural disasters are nearing \$1 trillion. Human caused losses include 13 mass shootings (costing 54 lives), corruption/fraud losses exceeding \$250 billion and data breaches costing more than \$30 billion. Remember that insurance may cover about 40% or less of these costs and the rest is borne by your business and the public. We either tolerate these losses or turn attention toward proactive management of risk!

The most sensational number is related to data breaches which cost the US economy \$654 billion and exposed 2.8 billion personal records to the Dark Web in 2018. Hiscox estimates the median cost of a breach is about \$350,000 and the business disruption is days to weeks. Does anyone have these dollars in a piggy bank? The city of Baltimore was recently attacked by ransomware, with a demand for \$76,000 in bitcoin. Properly, the city refused but has now spent in excess of \$18.2MM and disrupted its citizens for more than a month. The costs were not in anyone's budget.

The headlines are painful reminders that inadequate management of organizational risks result in real costs to your business along with longer term reputational impacts that impair value and customer trust.



**Back to the Basics**

In the larger scale of operations, sensational risks that impact business occur infrequently. But when they do preparedness is a most valuable asset. More important is the day-day work of your processes and people devoted to serving clients and the public. While all risks can't be avoided, preparation for business disruption can be one of the most important attributes of your culture and operation. Every day delivers the unexpected and a risk focused team anticipates and nimbly adapts to challenges that come from an employee, vendor, customer, product, cash disruption, mechanical breakdown, traffic, public infrastructure change, network glitch and more.

Please be reminded that the preferred vendor among the crowd is the one that quickly Recognizes, Responds and Recovers from any disruption. Customers know which providers plan for the three R's and will quickly learn to who is the preferred vendor – hopefully you; the one that anticipates and adjusts daily to the not so sensational risks. Preparedness for these more regular and inevitable incidents is the result of rhythmic risk governance that drives awareness and planning from bottom to top. Preparedness counsel is the heart of *Integrated Risk Management Solutions, LLC*.

**Integrated Risk Management Solutions**

You will notice an emerging media trend. Businesses across the globe are adopting the tag line Integrated Risk Management Solutions. They are providers of security and safety services, global travel logistics, risk analytics, business continuity, claims and insurance. They have substituted the title of Integrated Risk Management Solutions for Enterprise Risk Management (ERM) or Compliance Risk Governance (CRG) and you will see increasing advertisement using the words.

None, however, grasp the value and benefit of an integrated approach to managing operational risks. None understand that you spend 7-10% of your revenue on risk functions that typically are not managed holistically across the organizational silos. None deliver an integrated approach to governance, risk-based decision making, intentional risk mitigation initiatives and performance measurement. None promote an ROI on the risk dollars expended within the business. All do advertise and promote piece-meal software-based services that may/may not benefit your organization and produce a return.

Risk Management discipline is a business imperative; more today than ever before. Intentionally mitigating risk is a most responsible practice and when accompanied by preparedness and Response planning it is an investment well made. Proactive Risk Management is the key business practice. *Integrated Risk Management Solutions, LLC* 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!

January 2019