



James E. Blair, President

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Dear Colleague

Governance is Golden!

Global business leaders face uncertainty, hourly! The combination of “facts” related to your operations with minute-by-minute “noise” from geopolitical interests which are often suspect paints a picture of confusion and mistrust. From 9/11, we discovered the CNN factor which portrayed the actual disaster every 20 minutes to attach one more fact or discovery. Recall it went on for weeks!

Each of us absorbs this noise while searching for the operational information to help the business succeed. And, with the pandemic, charting the path forward has never been more challenging. Our advice has consistently advocated that a solid governance process is the most reliable key to assessing the risks that swirl around your business. Logically, an executive Risk Governance Council rhythmically evaluates the risks to the business, progress of risk mitigation initiatives, resolves inter-departmental disputes and anticipates emerging risk. It is a cornerstone of a successful risk-based organization. The true value of governance is open and honest dialog that filters out the noise.

The Lessons from Third Party Dependencies

The pandemic has highlighted the risks associated with third-party suppliers. We have witnessed severe shortages in all the medical components needed to serve the victims including PPE, testing supplies, basic chemicals, swabs, ventilators, and equipment needed for portable hospitals. We experienced shortages of human expertise as the virus cases grew unevenly across the country. All this has been exacerbated by national and international friction, finger pointing and tariffs. The lesson: anticipate material risks, develop scenario plans and execute a thoughtful plan rather than react to the noise of the day.

Apart from the medical industry and health care confusion, businesses have fared much better. Industrial production has weathered the disruptions through early detection of risks and innovative responses. Industrial supply shortages were quickly identified, and alternatives developed. Software alternatives were created and new solutions such as tracking and tracing, social distancing and digital health screening emerged quickly. Industrial creativity has been robust and timely. The market-place noticed and investors have prospered.

The recently released National Institute for Standards and Technology (NIST) Risk Management Framework 2.0 now includes a new 1st step called “Prepare”. It is designed to intentionally manage security, privacy, and supply chain risk. The interesting finding that led to this recommendation is that 1/3 of organizations do not know what their suppliers actually do. Supply chain dependencies are one of the least understood risks of current times. Effective preparation involves Governance, Planning and Testing.



Cost of Risk and Insurance

Aon estimated that the global insurable costs of disasters in the first 6 months of 2020 were about \$75 billion (insurance only covers about 40% of the total cost ~ \$190 billion). Since the end of June major incidents include the “derecho” storm in the mid-west costing \$15 billion, hurricane Laura estimated to cost \$12 billion, the California wildfires which may exceed \$100 billion and more. Also, the US has experienced 12 hurricanes to date compared to an average annual total of 13. The season is about half over (Nov. 6).

Simultaneously insurance costs have exploded, increasing 19-30% over last year with more major increases in cyber and Directors & Officers liability programs. No wonder! Ransomware attack payments averaged \$178,000 in the 2nd quarter 2020, and the U.S. economic costs of cyber-breaches are nearing \$100 billion this year. With a large portion of the work force working remotely the risk of data theft and contamination is growing exponentially. Everyone is feeling the increasing costs of a risky world.

Risk Operations Centers

As our practice works with international clients, we find that some countries have not adopted effective systems that monitor, analyze and respond to mitigate threats against the public and business. Through cyber and physical means the “bad guys” continue to find opportunities to pirate property, threaten facilities and human beings, steal and ransom information systems, violate personal privacy, disrupt supply chains and burglarize banks through cryptocurrency. The frailty is lack of integration and collaboration across the existing law enforcement and public protection resources.

Taking a lesson from the Fusion Centers implemented by Homeland Security following 9/11, we propose the concept of Risk Operations Centers (ROC). The purpose is integration of all risk management resources collaborating information and analysis across all risks including physical, human, cyber, financial, natural, geopolitical, terrorism and space on a 24X7 basis. ROC is a tangible solution to the Risk Governance processes we advocate. The Fusion Centers have identified and analyzed thousands of emerging threats, engaged local law enforcement officials and mitigated threats to the public. ROC experts develop new expertise from continuous analysis of knowledge gathered from numerous global sources. The ROC operationalizes the proactive management of risk.

As you focus on daily and long-term operations, we look forward to working with you and your teams. 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