



James E. Blair, President

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Dear Colleague;

Risk Management – An After-Thought!

The second quarter of 2019 continued to experience disastrous risks resulting in significant property damage, information loss and human suffering. This includes the long-term business interruptions that prolong unacceptable public and customer service and increase costs. Hurricane Dorian pounced on the Bahamas for 3 days, leaving a path of destruction in excess of \$10 billion, 70,000 homeless and to-date the loss of 51 lives. Rebuilding that paradise will be an arduous thought, only to be achieved by the human spirit (and public dollars not in anyone's budget – insurance may cover about 30%).

Closer to home, severe flooding impacted life in the mid-west. More than 14 million people were impacted in 6 states during the January - July period. Communities were covered by up to 15 feet of water caused by unending rainfall and ice melt (sounds like global warming!). Mid-west farmers will recover – sometime; but, with the added risk of geo-political chaos from the “Tariff War”, the risk decisions ahead of these important resources is overwhelming. The challenges of anticipating and preparing for physical disasters are enough; but add the global political uncertainties and we are operating in a riskier world than ever before.

The 283 year-to-date mass shootings (more than 1 per day) are taking a psychological toll as well as real lives. During the same period more than 4.1 billion data records were stolen (about 11 records for every human in America). The cost estimate is approaching \$8 billion in direct and business interruption. Ponemon estimates that 99% of breaches are due to human error – the bad guys poke at us and employees get suckered into opening the door. These data points demand our attention to risks, mitigation actions and preparedness.

Intentional management of organizational risk has never been more important.

A recent study by Aon focuses on the shareholder value impact of organization's responses to data breaches. Anticipating that the economic costs of breaches will move into the \$1 - \$6 trillion in 2 years, organizations must develop, deploy and test effective cyber-breach response and recovery mechanisms. It is a matter of long-term survival. The study suggests that effective response to breaches results in share price increase of 20%, while ineffective responses drive share price down by 30%. [*Integrated Risk Management Solutions*](#) is prepared to work with you to 1) anticipate and prepare for breaches and 2) practice with you the best form of response and recovery.

The variety and magnitude of disastrous and serious risk situations moves us to consider next generation responses. For example, with training and preparedness for mass shootings in workplaces (locks, lights, cameras, guards, etc.), combined with the Run-



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Hide-Fight protocol, our employees face real risks in public (shopping, theaters, schools, stadiums, concerts). In addition to the training provided for protection within the workplace, attention is now required for everyday life. Organization's Duty of Care requirements must extend to off-the-job activities and include 1) constant awareness of surroundings and situations, 2) attention to the sound of gun fire, 3) the "always on" scanning for a way "out", 4) the instinct to "fight" when necessary and 5) the "first responder" techniques for severe bleeding.

You should consider the "Stop the Bleed" training from the Red Cross or local Emergency Response professionals. Given the probability of becoming involved with a disaster or human-caused casualty situation, the old First Aid training simply is not enough. The Department of Homeland Security offers excellent resources at: <https://www.dhs.gov/stopthebleed> and <http://WWW.dhs.gov/active-shooter-preparedness>.

The After-Thought Problem

The National Association of Corporate Directors (NACD) reports that a mere 29% of corporate directors report that their boards formally evaluate major risk interdependence regularly. This is an increase from older studies conducted by PWC, but with the risk issues outlined in this Advisory, too little attention is being paid to the management of organizational risk. Effective management of risk requires top leader attention, tone at the top, engagement of every member of the organization and a rhythmic cadence of risk identification, mitigation, performance measurement and anticipation of emerging risks. These steps prepare organizations to quickly Recognize, Respond and Recover from any disruption.

The Boeing Corporation reports that a board committee will recommend to the full board changes that refocus the organization on the safety of new aircraft. Following the 2 crashes of Boeing's 737 Max jet, the recommendations 1) restructure the engineering functions that previously had been delegated to product lines back into an integrated reporting structure to the Chief Engineer, 2) establish a cross-departmental safety group that will work across the organization (it will report to senior management and a new board committee focused on aerospace safety). And 3) recommend focusing on the design of the cockpit to better serve pilots who receive different training based upon their country of employment. The point is 1) recognition of a severe organizational risk, 2) the need for cross-silo integration of safety resources, 3) board level governance and 4) anticipation of emerging risks from customers.

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 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!

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