Integrated Risk Management Solutions, LLC

James E. Blair, President

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Dear Colleague:

Compounding Risk – Volatility, Velocity and Volume!

The year of 2022 is a compounding of risk unique to our human experience. Not only are risks more costly, but the events occur in multiples which increase the impact and magnitude. Price Waterhouse Coopers reports that the rate of $1 billion events now occurs every 18 days globally compared to 82 days in the 1980's. The rate of change is 10X, the scale of change is now 300X and overall scale of impact is 3000X. The staggering changes are driven by the global interdependence of the supply chain, massive diversification of industry and population, extensive growth of economies in underdeveloped countries and interconnectedness enabled by the internet. During the past 40 years these vectors occurred subtly, yet compounding the overall global risk.

The challenge is comprehending the dynamics of volatility and velocity of change. We humans are good, but the risk world is like catching feathers in a strong wind. A risk situation can see its scope expand overnight via social media, impacting stakeholders globally, and result in nuclear size claims costs. The solution is integrated management of organizational risks that 1) anticipates material impacting risks, 2) initiates mitigation strategies, 3) measures the results and 4) seeks out emerging risks. Disruption is the new normal and businesses are well served by development of business sustainability practices of nimble situational awareness and agile response and recovery practices.

The three "Vs" demand speed and holistic response across your organization. All in, the business is strengthened by cross departmental collaboration to anticipate and mitigate risks, and when needed deploy business interruption procedures to respond. The compounding impacts of the Russian war in Ukraine include disruption in manufacturing resources, energy supply and food production globally. The entire risk culture was caught flat-footed. Few recognized the scope of impact that these two countries could have on the economies of 130 countries. And for how long?

Simultaneously, COVID-19's impact in China has shut down entire cities and the manufacturing sector. Supply chains producing computer chips, auto parts, finished goods and consumer products ceased to meet economic expectations. The impact on China is long-term weakness with expected GDP growth to drop from 6-8% to 1%. The compound impact of these two global economic engines has flummoxed global industry.

The third major risk vector is inflation. The recovery from the pandemic and all the spending to stabilize economies is generating substantial increases in costs not seen in 40 years. Governments are faced with challenges to production capacity, increasing costs and labor shortages while public demand for products and services remains strong. Congressional funding of the American Rescue Plan, the CHIPs and Science Act, and now the Inflation Reduction Act 2022 assure billions in expenditures for construction,

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innovation and infrastructure over the next 10 years. All are compounding risks, both positive and negative!

The fourth is cyber-risk! The cyber bad guys continue to create and innovate. All the work industry has done to protect internet and social media resources appears to have delivered a stalemate. Forty percent (40%) of companies were breached this year and the average cost of a data breach is about $3.9MM. The related business disruption and reputational degradation reeks long term harm to client relationships and growth for your firm. Geo-politics has disrupted internet services in 54 countries, and we now face the threat of independent internet systems in Russia and China.

The social engineering skills deployed by the bad guys have super-charged payment authorization fraud within the banking industry to 75% of all fraud in the sector. The cyber-insurance sector is struggling to at least break even. The velocity and volume of cyber related claims are stretching insurance capacity, driving premiums upward 100+%, coverage limits down and deductibles upward. The ability to even procure cyber-insurance now depends on a businesses deployment of cyber security best practices that include technology, employee and third-party training, system monitoring and practiced incident response (tabletops). Ransomware remains king!

All the other operational risks – like the day-to-day risk of climate change, weather, fire, geo-politics, third-party outsourcing, employee behavior, etc. challenge the best of us. Catastrophe losses to date in 2022 approximate $39 billion (half the year). And hurricanes Fiona and Ian are impacting the east coast with enormous costs. Geo-politics are transforming manufacturing toward reshoring and friend-shoring. Imagine risk management driving collaboration and relationship building between nations.

Only 20% of Execs See Strategic Value in Risk Management

A survey from the American Institute of CPAs and North Carolina State University's Enterprise Risk Management Initiative presents this alarming result. The McKinsey study reported in last quarter's Client Advisory produced a finding that CEOs are discovering that effective management of Risk requires their personal involvement in leading the organization's Risk Management Governance processes. CEOs take risk to generate business (cash). Establishment of a strong risk culture enables agility and nimble response to unexpected risk situations. The three R's – Recognize, Respond and Recover!

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

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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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