



James E. Blair, President

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Dear Colleague

The Forecasters Were Close!

The Global Risk forecasters projected risks for 2021, including Infectious Diseases, Livelihood crises, Extreme weather events, Cybersecurity failure, Digital inequality, Prolonged stagnation, Terrorist attacks, Youth disillusionment, Social cohesion erosion, and Human environmental damage. We have experienced most of these significant risks through the first 8 months of the year. The capstones are 1) the return of the Delta virus coupled with resistance to vaccinations and masking, 2) the resurgence of terrorist attacks in the middle east and at home, and 3) the trauma of Global warming and the harm to crops and water supply. Imagine the hop crop being squeezed – watch for the hording of beer this fall. And we experienced Hurricane Ida which will leave \$50-75 billion in damage to the South and Northeast, disrupting the supply chain across the entire country.

The upside is that the global GDP is forecast to grow in excess of 5%, challenging the creativity of business leaders to improve sales, develop new products, manage uncertain suppliers, staff to meet customer expectations, and improve margins. The return of inflation is more of a surprise than any other factor at this point. Many organizations seem to be managing their supply chains and wholesale pricing. We all might feel like we are swimming in the middle of the ocean. The imperatives for effective Risk Governance that anticipates and prepares to Respond and Recover from the unknown grow in importance.

The most reliable risk we all face is cyber and information breaches. Ransomware attacks are up 150%, delivering more than \$400MM in profits to global bad guys. X-Rated Phishing is up 974% (let your imagination run). To date, the average time bad guys lurk in your systems is now 205 days before being discovered. RiskLens reports an average cost of a data breach at \$4.24MM, and Ransomware at \$4.64MM. The average payment of ransom is \$136,000. T-Mobile experienced a data breach impacting 55MM customers and applicants. And 9 of 10 businesses can be breached according to cyber-criminals. The best advice is to:

1. Establish a cyber-Risk governance process
2. Proactively pursue information system risks and prevention tactics
3. Inventory your company information, where it resides and who owns it
4. Segment information between proprietary, financial, trade secret, employee (Azure and AWS virtual servers are great for this process)
5. Establish access controls that limit access across these segments
6. Implement multiple layer authentications for all who touch your systems
7. Monitor-monitor-monitor!

Cyber-breaches are now notably impacting physical operations of all business sectors. The Colonial Pipeline Ransomware attack disrupted physical delivery of fuel. No fatalities were reported, but cyber-physical infrastructure could indeed result in human loss costing into the \$50 billion range in the next 2 years. Serious stuff! Lloyds estimates that cyber-physical losses could reach \$2 billion GBP this year. The cyber



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business disruption insurers are clamoring for solutions. To date 50% price increases combined with severe coverage limits seem to be their response.

The three R's – Recognize, Respond and Recover remain paramount Risk Management principles.

Agility!

This Advisory has mentioned the concept of Agility numerous times. The concept aligns well with the Risk Management principles that are foundational to the work of [Integrated Risk Management Solutions, LLC](#). I have consumed the book [Agility](#) by Leo M. Tillman and General Charles Jacoby (retired). It highlights themes of planning, preparedness, practice, recognition of changed circumstances, alternate game plans, response with the intent of action and success, and ultimate recovery. I recommend it to your reading list. Every business leader can benefit from the 290 pages that blend risk taking, risk planning and risk action with military experience from America's war-time actions. The bottom line is to prepare your organization with agile style leaders and managers at all levels who are keen on identifying changed circumstances and empowered to initiate action to optimize an outcome.

One of the most severe Risk costs is Business Interruption from any of hundreds of circumstances. GM and Ford announce disrupting production due to computer chip shortages. The Asian manufacturing resources are being disrupted by COVID-19 impairment of the work force. It's much like 2005 when the Avian Flu spread across China and caused severe slow-down in manufacturing of solid-state storage devices. Global dependance on single sources is ultimately to blame. We ought to learn!

With the middle east in disarray and American allies clamoring for new diplomatic order, your business faces a new Global Risk of peace versus hostility and threats to the supply-chain. We encourage you to take stock of your interdependencies on the that part of the world, assess risks and lay a game plan for the balance of this year and next. We are happy to be of service to you and your leadership team.

Everything [Integrated Risk Management Solutions, LLC](#) represents is preparing you to 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



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.

2021 Global Risks Defined by:

World Economic Forum

- Infectious Diseases
- Livelihood crises
- Extreme weather events
- Cybersecurity failure
- Digital inequality
- Prolonged stagnation
- Terrorist attacks
- Youth disillusionment
- Social cohesion erosion
- Human environmental damage

Executive Opinion Survey*

- Pandemic caused regulations
 - Economic growth restrictions
 - Pandemic caused consumer demand
 - Digital skills shortage
 - Privacy & Information Security
 - Cyber-threats
 - Regulations impairing operating resilience
 - Succession and top-talent retention
 - Resistance to cultural changes
 - Competing with digital-born competitors
- * Protiviti & UCSU -ERM Initiative

Manage Your Risks Well!

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