



James E. Blair, President

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Dear Colleague;

Managing Risk Wins! The title of this news article from 2007 is as true today as it was then. Organizations that recognize and take control of operational and strategic risks are successful in the market place and among competitors. Interestingly, other notable consulting organizations such as Deloitte and Accenture are now advocating the business imperative of an integrated management approach to risk. Welcome to the discussion!

Since our April letter:

1. The Japanese nuclear power authorities admit inadequate reporting, preparation and response to the melt down at the Fukushima Daiichi plant;
2. Sony and Lockheed Martin data systems have been compromised impacting more than 120 million accounts. Reliance on security tokens to protect system access is now in question. The Sony hackers utilized the new Amazon cloud platform;
3. Global supply chain disruptions now account for more than \$1 billion in revenue loss to General Motors, and billions more globally;
4. The rule making under Dodd-Frank is painfully slow, breeding continued uncertainty for investors and business leaders in the financial sector. The first new regulations from the SEC were effective in 2010 and require new disclosure from public companies on board level governance of risk management;
5. The insurance industry is reeling under the load of global losses, and underwriters are now assessing the quality of client's risk management programs.

How do you get your hands around the organization's risks?

Deploy the Five Smart People in a Room™ technique. The five C-Suite officers who report to the CEO form the Risk Executive Council and work through *Integrated Risk Management Solutions* facilitation to:

1. Formally determine the material risks to the organization,
2. Confirm and align prevention-centric programs designed to mitigate risks,
3. Identify gaps between needs and actual,
4. Prioritize action plans and expectations, and
5. Report the risk assessment to the CEO and Board; with quarterly updates.

For details please see our website at www.integratedrisksolutions.com

The outcome is an executive team that recognizes risk as a key component of operations and undertakes actions to understand and manage it as any other business imperative. The result is reduced cost of risk (including insurance) and discovery of new revenue opportunities. Cash flow and distinctive performance is the result.



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New opportunities are emerging for innovative risk management. Management of enterprise risk will 1) drive down the cost of insurance and claims, 2) anticipate supply/service chain risks and 3) prepare alternatives that minimize disruptions and costs. An emerging opportunity is integrating your health/wellness plan management with employee absenteeism to improve the organizations' health, performance and costs. Captive Insurance programs can house wellness, illness and accidental injury programs.

Creative – yes! Cash producing – yes!

An overlooked risk needing renewed attention is information breaches that originate in the handling of obsolete computer and data storage equipment. Consider that a laptop with 300 gigabytes of storage space can hold 300 million pages of information. This data cannot be permanently destroyed by software techniques, e.g., overwriting, sanitizing, reformatting and degaussing. Current forensic tools enable recovery of most information. The only known solution is physical destruction of the memory hardware in all devices including computers, scanners, copiers, routers, flash drives and servers. The equipment must be ground up and melted down – not recycled to a foreign country.

I encourage you to understand more about this issue at www.technologydestruction.com or email my colleague Bob Knowles [at rhk@techrecycle.com](mailto:rhk@techrecycle.com).

No organization can anticipate the increasing magnitude and velocity of risk events. However, deployment of a C-suite Risk Executive Council enables timely and focused risk scenario plans, risk governance processes, and nimble response capability. Reliance upon insurance protection as a risk plan is not a solution.

I look forward to your thoughts and questions.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Josh'.

Attachment

Manage Your Risks Well!



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 incurred in multiple corporate silos hiding the “Total Cost of Risk.”
- In 2011, companies that manage risks effectively will receive the best insurance prices and maximize the option to self-insure.
- Private companies seem to have weathered the current economic storm because of personal wealth protection – risk tolerance is lower sustaining overall quality performance.
- Enterprise-wide Risk Management is a complete vision of company risk. A strong risk management culture helps a company respond well to unforeseeable events.
- Companies that expect top management to take risks wisely are faring much better.
- Uncertainty and financial pressure renews the need to manage risk. These pressures have always been present, but the magnitude is currently greater.
- 70% of company information system risks come from employees and trusted vendors.
- Third party vendor transactions often result in 10% or greater errors and inaccurate billing.
- Sarbanes-Oxley tests transactional controls – operational controls are “the source” of risk.
- Competitive performance is improved through regular operational reviews, which can improve revenue efficiency by up to 20% of revenue.
- Documented and tested Business Interruption/Scenario Plans sustain key operations during an emergency and improve Company survival by 70%.
- Synergy from a holistic focus on risk reduction, cost/revenue efficiency, operational loss reduction, underperforming 3rd party vendors and fraud often produce one of the most impactful cash flow opportunities available.

Manage Your Risks Well!