FAQ Sheet

Aggregate Risk Quantification™ (or ARQ™)

What is ARQ™?

Aggregate Risk Quantification™ or ARQ™ is a patented cost accounting business methodology that deciphers the Cost of Risk from conventional accounting records and produces a unique Performance Measurement. ARQ™ creates the "5th Financial Statement" needed to more precisely assess your organization's performance in today's rapidly changing business environment. It looks into your company's results "through the lens of risk" to create a definitive Statement of Cost of Risk in ***dollar terms***. Viewed alongside your Income Statement and the other three financial statements (GAAP), ARQ™ completes the picture and eliminates any distortion affecting the interpretation of your company's performance.

Why do I need ARQ™ now?

Three reasons:

1) Do you know how much risk is actually costing your company in dollar terms? Do you know for sure that your company is performing at its peak? ARQ™ answers these questions by establishing the financial link between your company's risk sources (or Key Effects on your Business Drivers), the organizational spending to address these sources and the actual effects (good or bad) on your performance. By doing this, *ARQ™ provides a powerful, insightful, systematic and repeatable way to identify opportunities for earnings improvement.*

2) Although Enterprise Risk Management (ERM) has significantly advanced in the marketplace since its beginnings two plus decades ago, one key ingredient has eluded practitioners – ***the ability to measure the benefits of ERM itself in dollar terms.*** ARQ™ solves this problem by accurately and objectively measuring the "management of risk" enterprise-wide and linking it to the organization's bottom-line results.

3) Regulatory and governance mandates from the Sarbanes-Oxley and Dodd-Frank Acts, S&P, Moody's, A.M. Best, SEC Regulations, Stock Exchanges and others have required Boards and Senior Management to take a closer look at ERM. However, typical ERM programs and solutions are resource intensive with only subjective processes and NO measurable benefits. Boards and other stakeholders, including rating agencies and regulators, are looking for ERM processes that are transparent, systematic and repeatable and that produce an enterprise-wide view. Further, CEO's & CFO's are seeking a tangible ROI in dollar ($$) terms. **ARQ™ responds to these concerns by making ERM quantifiable, accountable and linked to the bottom-line.**

Why is it valuable?

If you ask the CEO to tell you what worries him/her about your company, you will get an answer something like this: "It is not what I know that scares me. It's what I don't know … and I don't know what I don't know." By adopting ARQ™ your company is actively seeking to find out what the CEO "doesn't know" every accounting period. By its very nature, it trains a company to look closely at risk in a practical and realistic way that can lead to growth and earnings improvement.

What has it done for others?

Some examples of the dollar benefits of using ARQ™ are:

- Identified a $54 Million opportunity to positively swing annual earnings results in a $500 Million retail operation.
- Exposed $36 Million in cost reduction opportunities in a $2.5 Billion electric power-gen company.

- Highlighted $150 Million in earnings improvement opportunities in a $4 Billion (written premium) insurance company.

What can it tell me that I don't already know?

ARQ™ isolates (in dollar terms) the excess spending to manage specific and known areas of risk (or risk sources) and exposes risks that are insufficiently funded. It also "connects the dots" with regard to the specific risk events that have occurred in a period and their actual financial impact on the company. *Public companies would get the means to calculate the actual hard dollar cost of the key areas of risk highlighted in the "Risk Factors" section of their SEC Form 10-K and Proxy Statements.* Lastly, in aggregate, ARQ™ provides a consistent overall "cost of risk" index *(ARQ™ Index)* that can be trended and analyzed as a means to determine the company's risk management effectiveness.

How does ARQ™ measure the benefits of ERM?

ARQ™ is a "Cost of Risk" method that has expanded this proven concept to an enterprise scale. The method captures all of the organization's risk related costs for any accounting period, the "traditional" risk management activity; and the strategic, tactical and operational activities as well. These costs are split between: (1) total risk response expenditures (the costs to manage risk); and (2) the resulting net impacts of actual risk events (or net retention costs). This Enterprise Total Cost of Risk™ figure is then divided into the organization's revenues for that period (or ARQ Index™) to provide **a normalized risk measure to compare against previous periods in order to determine the value of ERM for the current period.**

How can ARQ™ capture all of the costs accurately?

*r*PM³'s patented approach has broken from conventional risk methods and views the organization through the looking glass of "Risk" itself. In doing so, ARQ™ simplifies the organization into two functional categories:

- *The "core" or "essential" functions of the organization* – where key risks of the organization emanate (such as, manufacturing, sales, etc.). It is here that you need to "take risk"; and
- *The "risk handling" or support functions of the organization* – these functions either evolved or have been deliberately established to manage specific areas of risk the organization is consistently faced with (such as, human resources, legal, quality, etc.). Here is where you "manage" the risks you take in the "core".

ARQ™'s patented methods then link this activity to the organization's bottom-line performance to assure all risk events are captured accurately. **The result:** ***a definitive measure of the pennies of every dollar of revenue the organization has spent on risk enterprise-wide.***

What other benefits does ARQ™ offer?

1. Since ARQ™ isolates the key areas of potential risk events facing an organization, and can capture both the risk management spend and the actual cost of risk events, ***an organization now has the ability to analyze the effectiveness of its specific risk management activities enterprise-wide.*** Trade-offs can be monitored, over-spending can be exposed, and the organizations risk assessment efforts can be compared to where actual risk management dollars are being spent.
2. ARQ™ can be broken down to monitor specific business units or key lines of business. Therefore, ***management's risk-related performance can be included in compensation plans***.