

Small Business – Big OpportunitySM

Finding Solutions to Small Business Challenges

CINCINNATI, OHIO – DECEMBER 2, 2014



L to R: PNC Bank Vice President Don Stock, CAI Insurance Agency Vice President Paul Young, Travelers Institute President Joan Woodward, Cleveland Fed Senior Regional Officer LaVaughn Henry and Definity Partners Solutions Architect Dave Hatter

Keynote Address

LaVaughn Henry, Vice President and Senior Regional Officer, Cincinnati Branch, Federal Reserve Bank of Cleveland

Panel Discussion

Moderator – Joan Woodward, President, Travelers Institute; Executive Vice President, Public Policy, The Travelers Companies, Inc.

Dave Hatter, Solutions Architect, Partner, Definity Partners

LaVaughn Henry, Vice President and Senior Regional Officer, Cincinnati Branch, Federal Reserve Bank of Cleveland

Donald Stock, Executive Vice President & Business Banking Market Manager, PNC Bank

Paul Young, Vice President, Commercial Insurance, CAI Insurance Agency

Small business owners from Greater Cincinnati recently met to explore and discuss solutions to some of their most pressing challenges. The *Travelers Institute*[®] 16th *Small Business – Big Opportunity*SM symposium was held December 2, 2014, in partnership with the [Federal Reserve Bank of Cleveland's Cincinnati Branch](#), the [Cincinnati USA Regional Chamber](#) and the [Northern Kentucky Chamber](#). Gathered at the Fed's Cincinnati branch, attendees learned about mitigating cybersecurity risks, creating business continuity plans and accessing capital in the current lending environment.

Joan Woodward, President of the Travelers Institute and Executive Vice President of Public Policy at Travelers, welcomed small business owners from a range of industries. Woodward explained how Travelers, one of the largest insurers of small business in the country, sees firsthand the struggles that small businesses face every day. Leveraging the company's risk management expertise and convening power, she described the Travelers Institute's efforts to coalesce thought leaders and industry advocates with small business owners to raise awareness about solutions to the issues plaguing entrepreneurs.

Fed Senior Regional Officer LaVaughn Henry kicked off the program with a review of 2014 economic activity and a look ahead in 2015. Henry suggested the following:

- **Real GDP** showed robust growth during the second and third quarters of 2014, rebounding strongly from a weak first quarter.



Travelers Regional President Jim Nestheide speaks to small business owners.



Henry gives a positive economic outlook for small businesses.

- **Labor market conditions** improved somewhat in 2014, with solid job gains and a lower unemployment rate. Labor market indicators suggest that the underutilization of labor resources is gradually diminishing, although the current unemployment rate does not reflect nearly 7 million part-time workers seeking full-time work.
- **Household spending** is rising moderately and business fixed investment is advancing, although the housing sector's recovery remains slow.
- **Consumer sentiment** and confidence continue to improve. Consumer retail and light vehicle sales were strong in late 2014.
- Fifteen of 17 governors on the Federal Open Market Committee say that 2015 is an appropriate time to **raise interest rates**. However, this decision will be data-driven. If the economy softens, an increase could be delayed; if it continues to strengthen, it may occur more quickly.
- Although the economy appears to be stronger, **real income growth remains weak** by historical standards.

The symposium's panelists built on Henry's encouraging keynote address and offered insights into how the improving economy is affecting small business. PNC Bank Executive Vice President and Business Banking Market Manager, Donald Stock, who oversees 149 retail banking branches, said that during the past several years, companies and small businesses made adjustments necessary to survive in the challenging economy. He added that those adjustments put businesses in a stronger financial position today.

"It was tough," said Stock, "Banks tightened up, but [conditions] are starting to turn around and the outlook over the next several years is really positive."

Stock added that many companies are now sitting on cash and using it to fund their operations.

"If you don't have to borrow, don't," he said, "Your cash is the cheapest form of money you have."

That said, he advised business owners to set aside a certain percentage of capital for emergencies and to ensure cash is never depleted. Stock also recommended getting a line of credit; even if it is not necessary, banks are most willing to provide lines of credit before a business has already run out of cash.

Paul Young, Vice President of Commercial Insurance with CAI Insurance, added that risk mitigation strategies for small businesses have changed due to the economy. The panel discussed the importance of having a business continuity plan; a foundation for helping companies assess and reduce business vulnerabilities and increase resilience against natural, man-made or technological disasters.

Young asked business owners to consider how they would continue to operate their businesses and generate revenue if they could not access their building or files. He said that insurance products for lost business revenue are helpful, but are usually not enough. Part of a business continuity plan is thinking through ways to get products to customers during extenuating circumstances, explained Young.

"In a manufacturing world, for example, do you have a partnership with another manufacturer who can step in if needed?" Young asked. "They might be your competition today, but they could also be your best friend if you have a disaster and still need to fulfill your customers' needs."

Because cyber risks are a growing threat that can shut down governments and businesses, the panel agreed that cyber risks should be addressed within any business continuity plan.

While cyber incidents can be the work of foreign hackers, Definity Partners Solutions Architect Dave Hatter, who has worked in programming and IT consulting for 20 years, explained that breaches can result from the simplest of mistakes.



Event partners John Bosse (left), Vice President for Membership at the Cincinnati USA Regional Chamber, with Trey Grayson (right), President of the Northern Kentucky Chamber.

He shared the story of a training vendor that was given access to a company's employee passwords. The vendor uploaded the sensitive password file to a cloud storage system, which, unbeknownst to the vendor, Google then indexed and made publicly available.

Hatter said it took his firm four months to have Google take it down.

"I strongly suggest you Google yourself and your company to see what might appear," said Hatter. "Use Google Alerts – it's a free service that notifies you any time a certain name or phrase appears."

The example showed the importance of understanding IT security needs and exposures. Stock added that sound cyber risk preparation is increasingly important for small businesses seeking relationships with larger companies, an important revenue driver for small businesses in the B2B space. He cited that larger companies now require cyber risk plans from smaller vendors so that their private information remains safe. Furthering Stock's point, Young recalled having to complete security assurance documents on behalf of his agency as prerequisites for recent business partnerships.

"While they are a pain to complete, I understand the precautions, especially in light of recent data breaches," he said.

"If you have an employee with a password that is '123456,' you might as well put your money in a box outside your house. Many companies do not yet understand the implications and how these errors can roll up to a large company," he added.

Beyond internal controls, Hatter described a patchwork of federal laws that governs parts of cybersecurity for certain industries; these include the Health Insurance Portability and Accountability Act (HIPAA), the Privacy Act of 1974 and the Digital Millennium



Cincinnati small business owners follow along as Henry discusses the declining U.S. unemployment rate.

Copyright Act. Due to cybersecurity's complexities, these laws and others can intersect, overlap and, at times, conflict. As a result, Hatter shared that 47 states have adopted their own breach notification laws, which outline the responsibility of a business owner in the event of a data security breach.

"Hackers and identity thieves can move faster than government or even industry experts and it's a major problem," he said.

When faced with a breach, Hatter encouraged small business owners to understand the extent of the damage, take steps to immediately remediate that damage, consult with an attorney to determine what is legally required and build an emergency communications plan that outlines what to say publicly and how to say it. For the last step, he recommended looking to the Internet for free online templates, which have become readily available due to an increase in cyber breaches.

Young, who referenced the insurance industry's expanding policy offerings for cyber protection, emphasized that reputational damage from a data breach is another concern.

"You don't want Channel 5 showing up at your door talking to your business owner," he closed. "You need to have a plan in place to respond to the public. If you lose your business or your business partners, or customers go to [a competitor], what's the likelihood of getting them back?"



L to R: Hatter, Young, Woodward, Henry, Grayson, Travelers Select Regional Vice President Lisa Pechan, Stock, Nestheide and Bosse

Cincinnati USA Regional Chamber

The Cincinnati USA Regional Chamber is the nation's fifth largest chamber, representing the interests of more than 4,000 member businesses. Its mission is to capture Cincinnati USA as one of the world's favorite American business centers. The chamber serves its membership and the Cincinnati USA community through economic development, government advocacy, festivals and events, regional vision and collaboration, money-saving benefit programs, leadership and networking opportunities and educational programs.

Federal Reserve Bank of Cleveland

The Federal Reserve Bank of Cleveland, with branches in Cincinnati and Pittsburgh, is one of 12 regional Reserve Banks that, along with the Board of Governors in Washington, D.C., comprise the Federal Reserve System. As part of the nation's central bank, the Cleveland Fed participates in the formulation of U.S. monetary policy, supervises banking organizations, and provides payment and other services to financial institutions and the U.S. Treasury. In addition, the Bank supports the well-being of communities across the Fourth Federal Reserve District through a wide array of research, outreach, and educational activities.

Northern Kentucky Chamber

The Northern Kentucky Chamber of Commerce, Inc., founded in 1969, is the leading business organization in Northern Kentucky. It is a Five-Star Accredited Chamber with nearly 1,600 member companies representing approximately 175,000 employees. The Chamber focuses its efforts on education, workforce development, international trade, leadership development and government relations at the federal, state and local level.

The Travelers Institute

Travelers established the Travelers Institute as a means of participating in the public policy dialogue on matters of interest to the property casualty insurance sector, as well as the financial services industry more broadly. The Travelers Institute draws upon the industry expertise of Travelers' senior management and the technical expertise of its risk professionals and other experts to provide information, analysis and recommendations to public policymakers and regulators.