Regulation is moving the needle on risk

A profound shift in corporate risk management process and culture is needed as the nature of the risk threat shifts from the physical to the virtual

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The deadline for GDPR finally arrived amid a flurry of emails, demonstrating companies' wildly differing interpretation of the requirements heralded by the new rules. This is the second major regulatory implementation of 2018 so far, with gender pay gap reporting requirements coming into play earlier this spring.

Together, the two pieces of legislation seem to have captured and made concrete a significant change of mood for companies around regulation. Where once regulations were regarded as "business as usual" – necessary, but rarely significant enough to make it on to the regular boardroom agenda – regulation today is capturing the attention of company leaders, revealing itself as a cause for strategic concern, leading to operational change and bringing a different appreciation of what qualifies as a major corporate risk.

Gender pay gap reporting started the ball rolling. As the #MeToo campaign moved the dial around to equality issues, so unbalanced employment practices moved from a disappointing mini-problem to something potentially explosive and toxic. Firms began to fear the outcome of reporting their gender pay gap statistics and had to apply operational time and energy to creating diversity plans that could bring real change.

Value of data

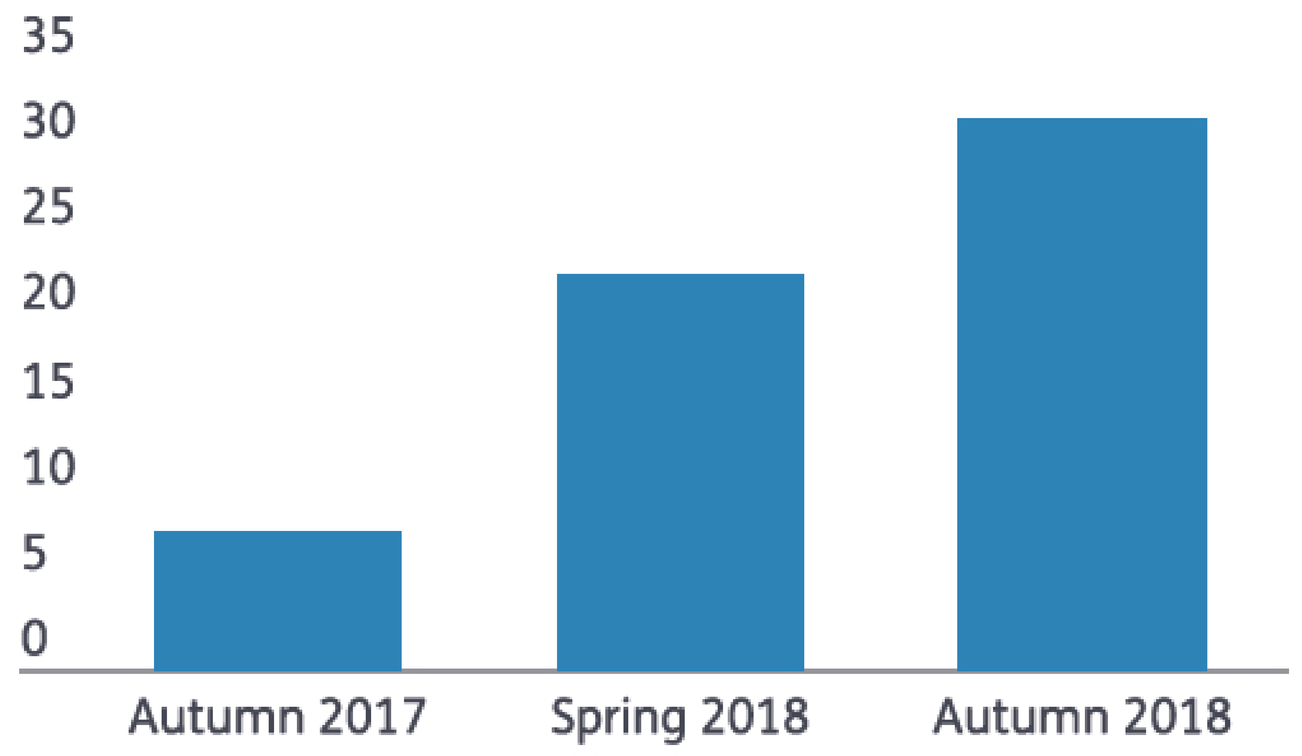
Right behind this came the news firms risked being cut off from one of their most valuable assets – their client data – should they fail to gain permission to continue to hold that data. At a stroke, GDPR changed companies' mindset on both the importance of data and the need to protect it. The threat of losing client data has made many companies sit up and appreciate how much they rely on the arterial flow of customer information to deliver efficiently, plan for the future and maintain the value of their business.

This appreciation moves rapidly to a greater focus on cyber risk, not only because GDPR specifically enforces the need to tell clients whenever data has been compromised but also because it drives the value of data ever higher, raising the reward for successful cyber criminals.

Of course, companies that value data are more likely to invest time and money to protect it. It is this realisation that will bring a completely new paradigm to the work of risk managers, the uptake of cyber insurance policies and the involvement of IT specialists in managing corporate risk. Where once risk was all physical, now a majority of it is virtual, at risk from intangible enemies, requiring a shift in corporate culture, as well as risk management process to mount an effective response.

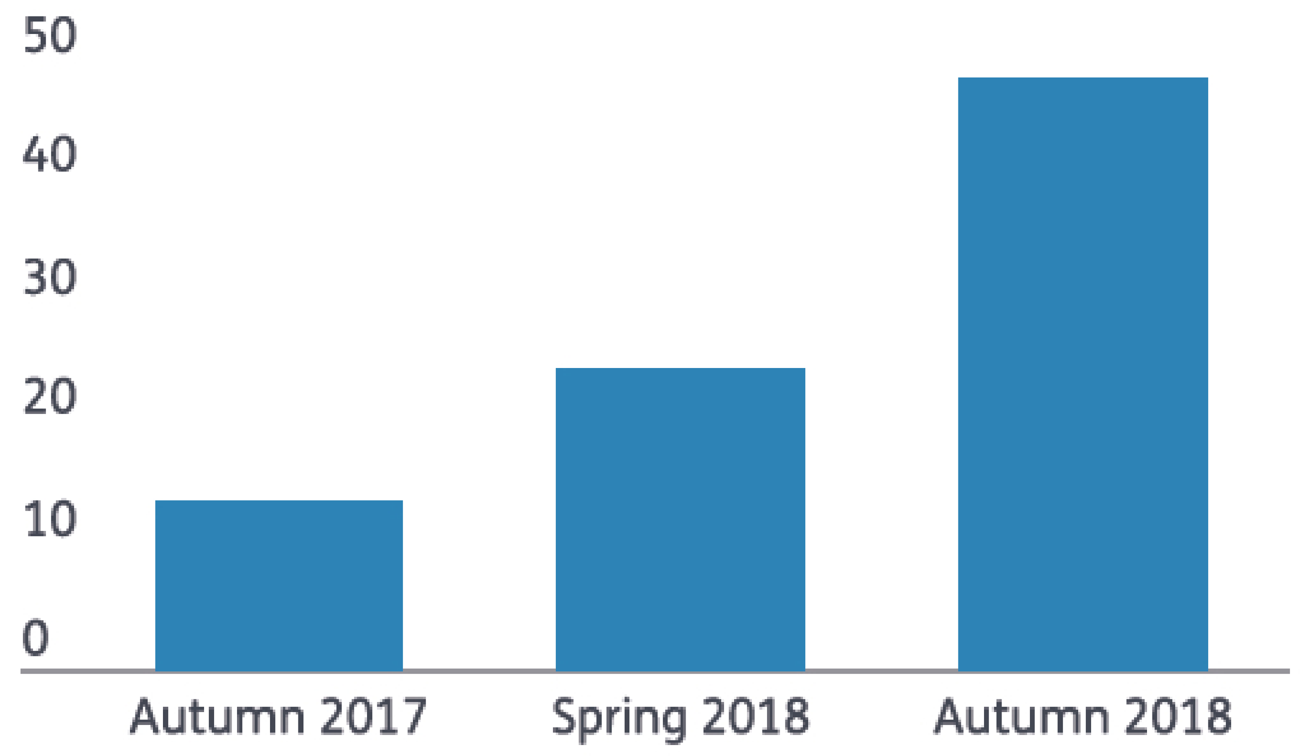
Regulatory risk rising up the risk agenda

Percentage of firms that say regulatory risk concerns them most



Cyber risk now tops the risk ranking

Percentage of firms that say cyber risk concerns them most



Against this backdrop, I predict by the end of 2018 data and its associated risks will become a key theme for company investment. A recent survey found 90% of large global companies will have a chief data officer by 2019. The role encompasses the monetisation of valuable data, as well as creating cost savings and efficiency.

Brexit 'big buckets'

Regulation has driven much of this focus and will do so again. The next big hurdle on the regulatory horizon is the veritable multi-tentacled monster that is Brexit. Brexit will affect regulation in multiple ways, many of which are industry-dependent. However, there are some "big buckets", which should be a starting point for every company addressing the issue.

The first of these is financial: the rules around costs, tariffs and tax will change because of changing import tariffs and VAT levels. Companies will need to think through their supply chain footprint and understand at both the second and third supplier level how these may affect costs, including how their goods travel through supply chain hubs, and where they are located.

The second is the overall impact on the regulation and management of import and export activity, including potentially much higher requirements for export documentation, extended transit periods to cross borders, and as a result stretched time periods within supply chains.

Finally, regulated companies, especially those within financial and professional services, may also need to address their rights to do business. Most companies have already examined this and begun to address the challenges caused by the loss of passporting. The ramifications extend to pharma, where the European Medicines Agency may no longer provide parity to British drug firms; and also to companies with large online sales, where the European umbrella system for the management of tax around international online sales may not survive Brexit.

In effect, companies will have to think through new regulatory and management challenges in nearly every aspect of business life. With this in mind, the boardroom focus on regulatory risk will not only move higher over the next two to four years but will also have to fundamentally widen its focus.

The dial will move for risk managers too. They will be required to reassess risk in a rapidly changing environment and may need more external support than they might have done previously to assess, absorb and manage these changes effectively. Along with cyber, regulation will become an over-riding issue of boardroom concern. Risk managers: buckle your seat belts – your jobs are about to become mission critical. ■

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