

Active is: Sharing insights

# Cyber security: handling data with care

by Marie Rupp | 29/06/2020  

## Summary

Data is sometimes called the “new oil” given its integral role in the functioning of the world’s economy. But how safe is this data? As more business activity and social interaction moves online – particularly in the wake of the coronavirus pandemic – companies’ approach to cyber security is being scrutinised. Through a dedicated engagement programme, we’re helping to influence companies’ policies and best practices in this area.

### Key takeaways

- Cyber-security incidents are on the rise, and regulators and investors are increasingly scrutinising companies’ policies and protections, given the costly implications of these incidents
- To foster dialogue and compliance on cyber issues, we engaged 17 companies in the most vulnerable sectors, to understand their approaches and share best practices across these industries
- Our research highlighted the hallmarks of a robust approach to cyber security, including the need for companies to think about not just their internal systems but their wider ecosystem
- We plan to extend this engagement to other industries, because these issues are of growing and universal relevance as more business activity and social interaction moves online

Cyber security is a growing concern for businesses, institutions and individuals, with a rise in incidents such as critical data breaches, ransomware and “email spoofing” incidents, and operational breakdowns. The risks increase as more business activity and social interaction moves online – a trend that has been accelerated by the coronavirus pandemic. A report by the security firm McAfee with the Center for Strategic and International Studies estimated the annual cost of cybercrime at USD 600 billion. And as the potential risks grow in scale and complexity, the costs will likely increase.

Given the high stakes, cyber risks are attracting increasing regulatory scrutiny. Similarly, investors want to be confident that the companies in which they invest have the necessary protections in place – given that these risks can threaten their ability to operate and, ultimately, their existence.

## Our dedicated engagement programme

To enhance and share knowledge on this topic, Allianz Global Investors has spent two years conducting a cyber-security engagement programme. Working with our portfolio managers, we selected 17 firms spanning financials, technology and the internet – sectors with a potentially high exposure to cyber risk, where we would expect to see comprehensive and robust protections.

We found this engagement helpful in several ways, such as identifying companies with an elevated cyber-security risk, producing more accurate ESG risk ratings,

and progressively embedding cyber-risk considerations into the investment case. Furthermore, driving more transparency around this topic is critical, as companies' current public disclosures on cyber-security may not allow investors to assess the risks fully.

We summarise our key findings below, with more detail available in our full report [here](#):

- **Organisations that are advanced on this issue have a highly structured approach** – These companies can identify, quantify and mitigate the risks (eg, through insurance) and they include provisions on their balance sheet.
- **Maturity level is positively correlated with cyber resilience** – Companies that have faced cyber risks for longer are likely to have more robust governance and security practices in place – not least because they have had to combat more live incidents. They also tend to have a larger budget allocated to managing those risks.
- **Improved cyber security can be a competitive advantage** – As rigorous cyber security becomes, in effect, a company's licence to operate, firms with a more robust and tested approach can likely have the confidence to move faster to seize new opportunities; this may favour firms with a simpler business model.
- **Reputational damage can be the biggest cost** – Losses due to cyber incidents range from operational interruptions to large fines and compensation payments, but the most material impact could be the damage to the reputation of affected companies – although this can be difficult to quantify.
- **Businesses need to think about their entire ecosystem** – Rather than focusing only on protecting their own assets, they need to address the threats that come from important stakeholders (such as infected client devices) and other third parties in the value chain.
- **People can be the weakest link in cyber-security defence** – A cyber incident is not necessarily a deliberate attack – an internal failure caused by human error or oversight can also cause system unavailability.

## From insights to positive stewardship outcomes

While generating a wealth of insights, this type of engagement is constructive in several ways. It gives companies a better understanding of the information they should provide to help investors assess the risks related to cyber security. And it also contributes to continuous improvement in disclosure and practices. By tracking publicly available information on the 17 companies involved in the engagement, we found that six of them have improved their disclosures, risk management and governance. One company has appointed a chief information security officer; others have added a cyber-threat intelligence team or appointed a group data protection officer. Cyber risk management is increasingly likely to be included in firms' key performance indicators, and training is generally being improved on these issues.

Next we plan to expand this project to other industries, given the universal relevance of these issues. We are committed to sharing knowledge and communicating our expectations to companies, as well as embedding cyber factors into our investment cases. Dialogue is critical to these goals.

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## About the author/s



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Ms Rupp is a Senior Analyst with Allianz Global Investors, which she joined in 2000. She is a member of the European technology team, covering IT services, payment technology, LED lighting, 3D printing, computer hardware and peripherals. Ms. Rupp previously worked at Global One Telekommunikationsdienste as a multinational sales consultant and in an account manager support role, and worked at Atlas Telekommunikationsdienste in a technical project support role. Before that, she worked at Future Electronics as a product specialist and a product line manager. Ms Rupp has an electrical engineering degree in telecommunication from the Ecole Polytechnique Féminine – Sceaux in France, and holds the DVFA/CIIA designations.

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## Summary

Research indicates that a more even gender balance among employees can enhance corporate performance, but only one in nine directors at Japanese companies is female. Our engagement project on gender diversity aims to find out why progress has not been faster, and to encourage the wider adoption of any initiatives to help close the gap.

### Key takeaways

- Research shows that greater gender diversity can raise companies' return on equity by increasing innovation and productivity
- The business case for gender diversity is not one-size-fits-all; active engagement helps companies to define their specific 'why' on gender diversity issue
- Corporate leaders in gender diversity typically understand the need for cultural transformation, and construct a pipeline of female talent that begins with graduates

- Our engagement shows that setting clear targets and key performance indicators is key to making more progress in gender equality

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