

UK RISK INDEX 2015 Enter

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Heightened regulation and fiduciary responsibility demands
a fresh look at commercial risk

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Research Partner:

Acritas
SHARPER INSIGHT

THE MAYER BROWN UK RISK INDEX 2015

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FOREWORD

In recognition of the ever-increasing range and importance of risks faced by UK businesses every day, Mayer Brown has set out to define and better understand the spectrum of business risks in existence. To do this, we commissioned Acritas – a leading independent research company – to enter into a wide-ranging dialogue with senior figures across a range of major companies.

Following a number of in-depth telephone interviews and comprehensive web survey responses from organisations including Vodafone, Wm Morrison Supermarkets and Toyota GB, we are proud to release our inaugural *UK Risk Index 2015*.

This study, which will be carried out annually, tracks the shifting priorities around risk and is designed to support businesses in assessing their own portfolio of risk, as well as how best to mitigate the risks of greatest magnitude.

The *UK Risk Index 2015* presents some fascinating findings, in particular the importance of global events, the impact of reputation and the levels of resource and preparedness applied to the most significant risk areas.

We hope you find this exclusive report informative and helpful in assessing your own portfolio of risks. If you have any comments or questions regarding this report or the research programme, please do not hesitate to contact me.

I would be delighted to hear from you.



“ This annual study tracks the shifting priorities around risk and is designed to support businesses like yours. ”

UK RISK INDEX 2015

The Mayer Brown UK Risk Index 2015 is an essential survey of today's risk environment. It details both the range of risks faced by large UK businesses and the different responses and attitudes towards them.

The UK Risk Index 2015 presents several major findings. The most significant is the universal influence of global economic uncertainty, which is perceived as the risk of greatest overall magnitude to the UK business community. While it is also the risk over which businesses arguably have least control, there are still important steps that can be taken to mitigate its effects.

Other major risks highlighted include cyber risk, which until recently wouldn't have featured on an index of this kind but it is now seen as the second greatest risk of all. Issues such as supply chain management, increased competition and a changing skills base also featured, reflecting the need for speed and agility in today's business world. The focus on these areas is underpinned by a broad concern for reputational risk, which can spring from a whole spectrum of different factors.

The UK Risk Index 2015 also reveals the extent to which UK businesses are prepared to deal with the different risks identified. Although areas with significant amounts of regulation are generally well resourced, several of the most potentially damaging risks receive a disproportionately low amount of attention in terms of preparation.

However, the UK Risk Index 2015's greatest value is in its practical application. To assist businesses in taking action, Mayer Brown has used the findings of the survey to develop a simple online Risk Planning Test, enabling boards to identify the risks of greatest magnitude, and catalyse a discussion.

Businesses which take proactive steps to understand, address and manage all aspects of risk are the ones most likely to thrive in future. We hope that the Mayer Brown UK Risk Index 2015 will play a useful part in the process.



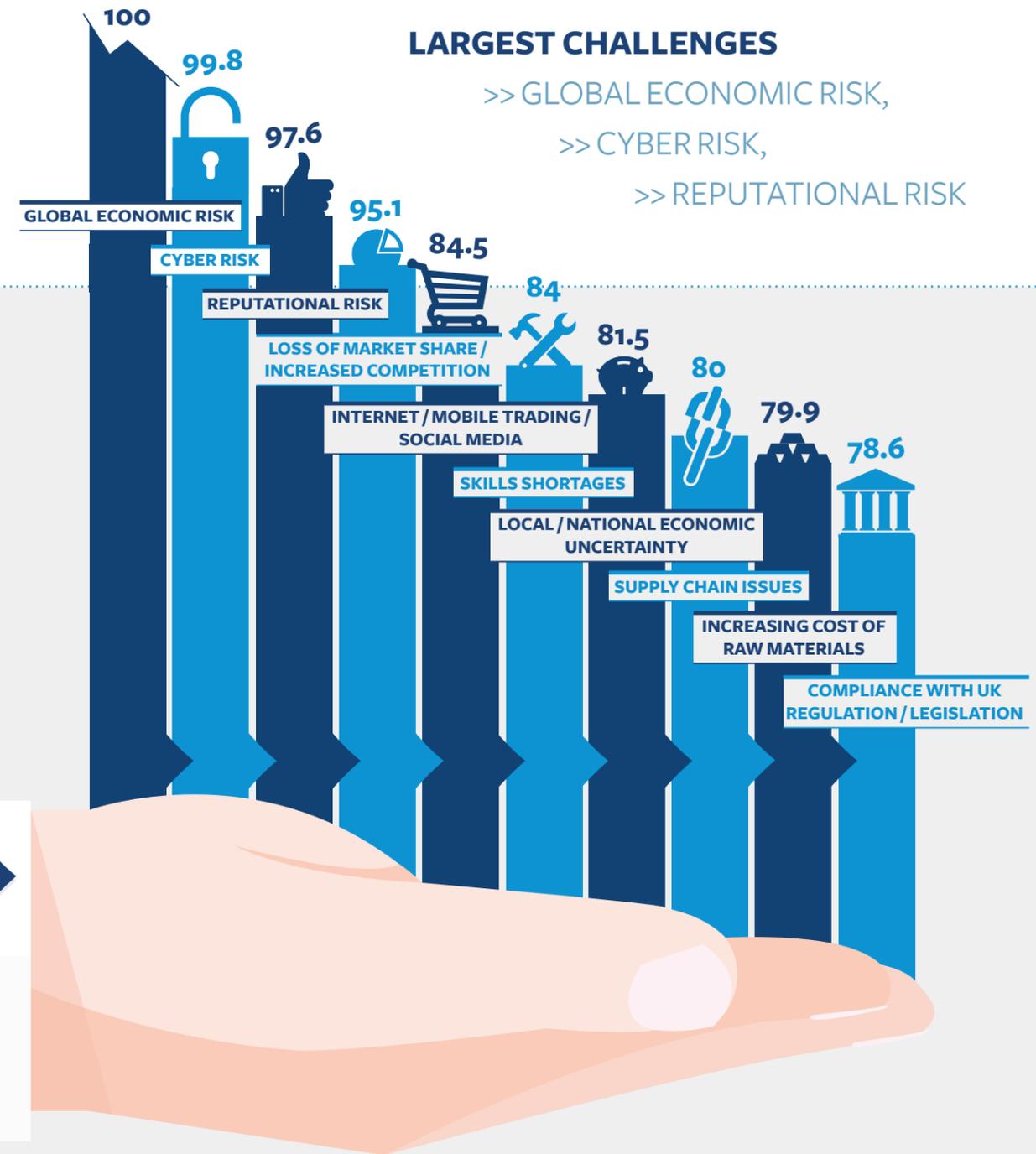
LESSONS

No two businesses are the same – **You have to have a unique risk strategy**

Regulated risk is covered – **unknown and emerging risks cause highest concern**

Emerging risk – **informed decision-making requires board education**

An Overview:



LARGEST CHALLENGES

- >> GLOBAL ECONOMIC RISK,
- >> CYBER RISK,
- >> REPUTATIONAL RISK

UK RISK INDEX 2015

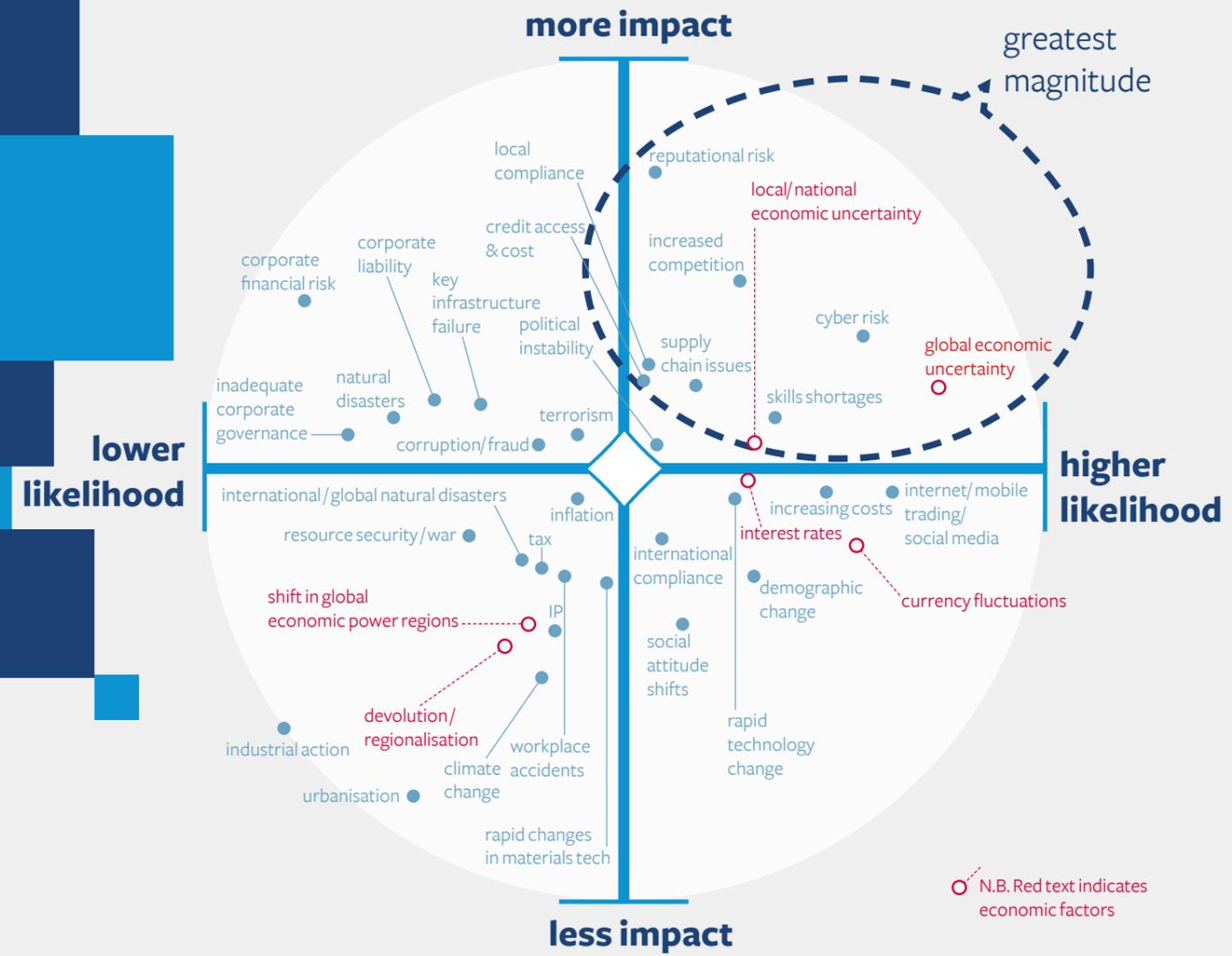
This document summarises the main findings of Mayer Brown's *UK Risk Index 2015*, from the nature and magnitude of risks faced by businesses today, to the resourcing and preparation which goes into managing them. It also highlights some key practical areas for businesses to consider going forwards.

2015: the top 10 risks

UK businesses face many risks. By common consensus, the greatest of these by overall magnitude is global economic uncertainty. Cyber risk follows close behind, with the wide-ranging 'reputational risk' in third place (these and other key risks are discussed in more detail later in this document). The top 10 in Mayer Brown's *UK Risk Index 2015* are listed here:

Impact and likelihood

A more detailed picture is given when the information is expressed as a correlation chart (see page 7), showing the risks by potential impact and likelihood. Those of greatest magnitude fall in the top right quadrant. This chart also shows the range of risks of lesser perceived magnitude.



Rating Risk

The research study was undertaken between October 2014 and January 2015 and included in-depth telephone interviews and detailed web survey responses, primarily from FTSE-listed companies. Respondents were provided with an extensive list of risks that are likely to be on the radar of any major business. The *UK Risk Index 2015* is calculated by drawing on respondents' responses to the question "on a scale of 1 to 10, where 1 is low and 10 is high, how would you rate i) the impact; and ii) the likelihood of each risk?". The magnitude of risk is then determined as the perceived impact of any given risk multiplied by its perceived likelihood.

MACRO-ECONOMIC RISK

The greatest of today's perceived risks is global economic uncertainty. This is perhaps not surprising given the instability in world markets since 2008.

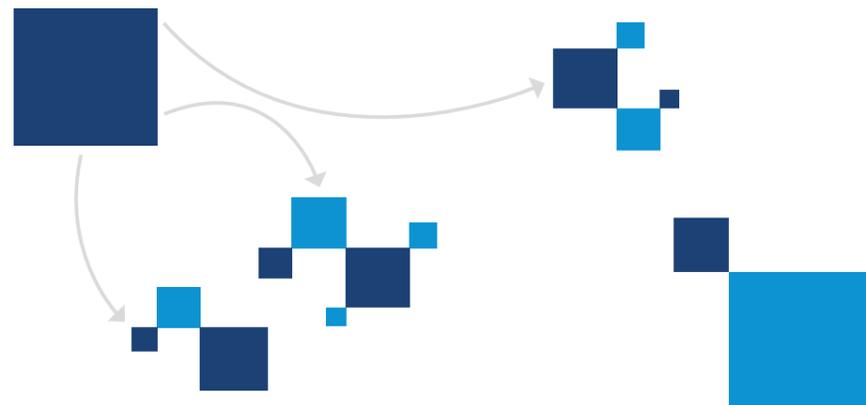
But can businesses ever really prepare for and mitigate risk at a macro-economic level? We believe the short answer is 'yes'. Interestingly, many of our respondents agreed, and the key to this is in understanding the areas in which you may potentially be exposed, should markets change.

There are a number of legal and contractual tools that can be utilised to help mitigate risk caused by global events. These include linking contracts to the relevant price index to help manage inflation, hedging products, protecting your intellectual capital and ensuring the inclusion of break clauses within your commercial contracts, depending on certain economic events.

“ A number of legal and contractual tools can be utilised to help mitigate risk caused by global events ”

Macro-economic risk - key areas to consider:

- How and by whom is macro-economic risk being monitored within the organisation?
- What areas of the business are most exposed and in what ways?
- Establish how this exposure can be mitigated.
- Should steps be taken now or, if in the future, what will the triggers for action be?
- Have a clear chain of command so decisions can be made quickly and effectively.



CYBER RISK

In many cases, it is simple to have a full understanding of a given risk, its potential impact on your business and how best to manage and mitigate that risk – workplace accidents for example. Others are harder to handle, and cyber risk falls into this category.

The risks in this area range from loss of data through to high-profile cyber attacks such as those recently suffered by Sony. The reputational risk involved in the cyber space must also be considered.

Many of the larger companies responding to our research have their own complex and sophisticated crisis management plans in place designed to manage cyber risk in a quick, decisive and proactive manner. Smaller organisations, however, are less likely to have these provisions in place, and less likely to have thought through the potential impact of lack of preparedness in this area.

Fortunately crisis response assistance is available as an insurance-based product. This can help ensure that in the event of a breach you have the plan, funding and expert team on hand to mitigate the actual and reputational risk as swiftly and effectively as possible.

Should the European Union introduce the same mandatory reporting requirements that already exist in the United States, then businesses will have a better understanding of their obligations in the event of a breach. Applying regulation to this complex area can only help increase manageability of the risk.

Cyber risk - key areas to consider:

- Understand the potential magnitude of the risk and resource it appropriately.
- Ensure a presence at board level that understands the various risks, owns them and understands implications and actions required in the event of a breach.
- Take human error into account, particularly around the processes in place for closing down and locking out your IT security systems.
- Ensure suitable policies and procedures are in place around the loss of data and what steps need to be taken if, for example, an employee leaves their laptop on a train.
- Understand the link between data protection and cyber risk particularly if your business is handling large volumes of personal data. If data is leaked, the ramifications can be significant and there are increasing numbers of US-based class actions by employees and clients against organisations where personal data has been lost.
- Ensure that training and guidance is provided in relation to use of online systems and social media and that the appropriate measures are in place to monitor and manage activity.
- Ensure that where you are collecting data, you have permission to utilise it for commercial benefit and that you are fully compliant with data protection legislation in all relevant jurisdictions.



Devi Shah

Joint head of Restructuring, Bankruptcy & Insolvency group

“ Global and local economic uncertainty remain risks of significant concern. Many would say these are part of the ‘new norm’. Our experience generally is that early contingency planning is key to meeting the challenge of financial stress or distress. ”

“ Early advice on how to respond to market changes and steer through the pitfalls that await (including for a board whose conduct could be the subject of a close investigation if things do not go well) could make all the difference. ”



Ingrid Hobbs

Partner, Insurance team

“ This highly complex area is an increasingly significant issue for businesses as they move more information into the cloud, more people are working online, often remotely, and bring-your-own-device policies become ever more commonplace. ”

“ Let’s not also forget the potential penalties facing company officers and directors for failing to put the correct protections in place. The key questions to ask are ‘have we done everything possible to prevent a breach?’ and, in the event of the risk manifesting, ‘are we doing everything we possibly can in the aftermath?’ ”

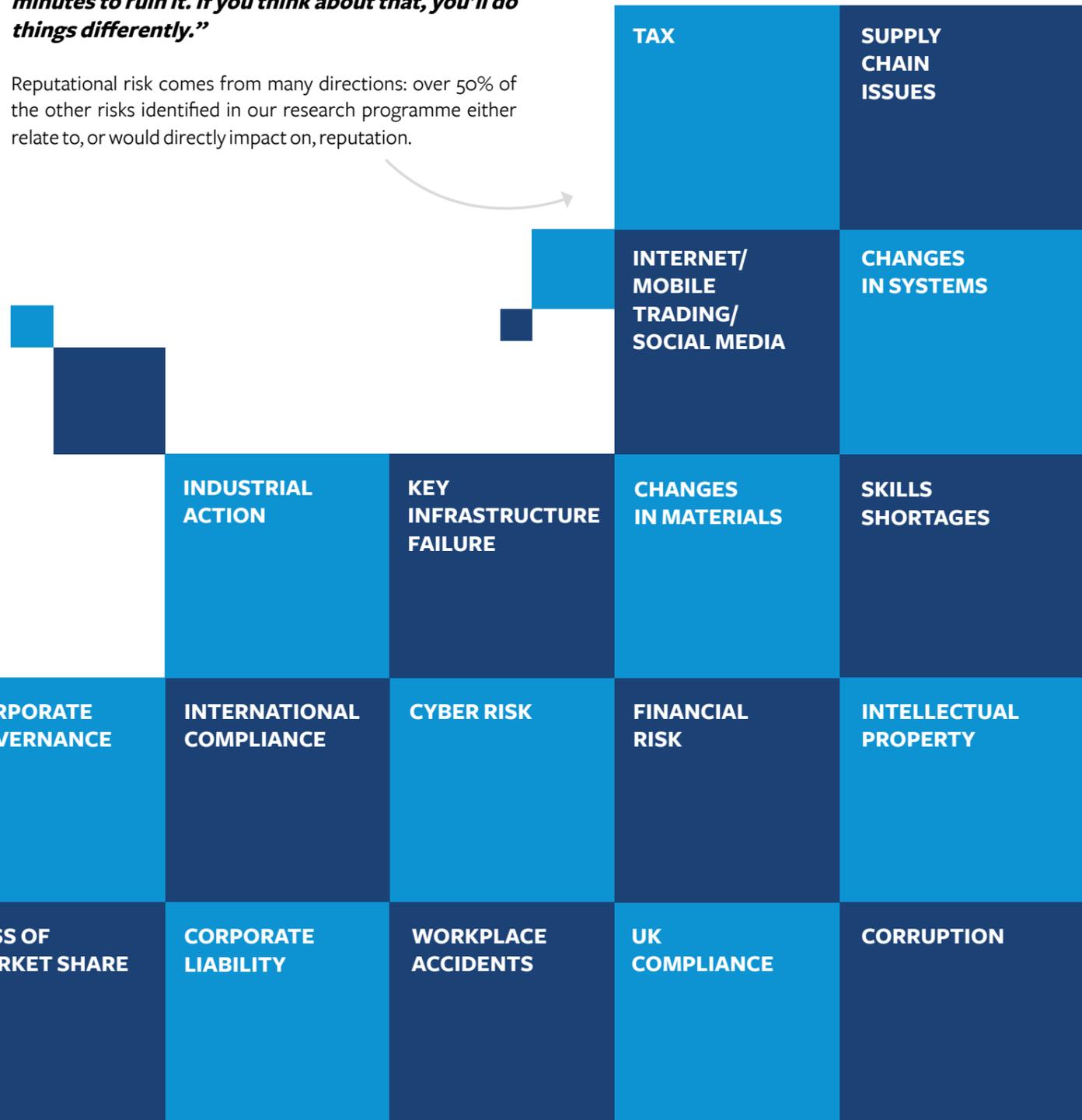
REPUTATIONAL RISK

As Warren Buffett says,

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently.”

Reputational risk comes from many directions: over 50% of the other risks identified in our research programme either relate to, or would directly impact on, reputation.

REPUTATION-RELATED RISKS



Nick Robertson

Partner and head of Employment group, London

“Mitigating the impact of potential reputational damage should be included as a key factor in any new project within an organisation, from new product development to a potential merger or financial strategies. The latter is particularly important in light of the impact seen on a number of international brands including Amazon and Starbucks following exposure of their UK tax strategies.”

There are some areas where failing to manage risk, for example in relation to anti-bribery and corruption, implies that there is something wrong at the heart of an organisation. Quite rightly, we see the level of resource and preparedness for those sorts of risks at high levels in our findings.

More generally, particularly for those businesses providing high-end, sophisticated services where customers are wholly reliant on you as a provider, then your reputation is key to success.

We can see this in the growth of legislation in connection with the responsibility of European and American employers to ensure that supply chains rooted in third world countries, observe proper standards towards the workers of sub-contractors and agents. For example, the Rana Plaza factory disaster in 2013 in Bangladesh caused worldwide headlines and discussion about the responsibility of the high street brands being supplied from the factory. Accordingly, the recent Modern Slavery Act 2015 in the UK for example, relies as much on the reputational risk to a company of being found to have ignored its responsibilities as it does on legal sanction. A key facet of any business’ reputation is of course its employees; employment law has the potential to damage the reputations of businesses in numerous guises. Discrimination claims, whether occurring during recruitment, management or termination

of an employee, can be brought directly against the manager making the decision, directly affecting the reputation of that individual as well as the business. It is not uncommon for organisations to need to defend themselves publicly against allegations, and whether innocent or guilty, the ramifications for reputation can be significant. The same is true of organisations facing industrial action. Media interest surrounding such activities can potentially impact a number of third parties as well as the primary organisation.

As our research shows, skills shortages are also a risk facing many UK-based businesses. The key to addressing this issue is for businesses proactively to manage their skills pipeline in alignment with the overall business strategy. Do you know what type of people you will be looking to employ in the next two, five or ten years to support your plans?

Reputational risk - key areas to consider:

- How closely connected is the board of the business with its PR team?
- Who in the business ‘owns’ reputational risk? Does the business have a crisis response team and is it small enough to enable quick, effective decision-making and the dissemination of information?
- Is there a PR strategy in place for crisis support?
- Who is the ‘point person’?
- How and when will we communicate with our stakeholders?

SUPPLY CHAIN

Another key area for consideration is how you approach and manage your supply chain. In the present market, a supply chain full of inflexible and committed spend can potentially put a business at an enormous disadvantage.

Agility is key. Businesses want to be able to pay for what they use. An upshot of this may be paying slightly more per unit, but avoids a worst-case scenario where payment must be made for goods or services that aren't required. Flexibility in supply contracts now means that businesses can turn the tap on or off to meet fluctuating demand.

Supply chain issues are also increasingly becoming a major concern for those working in the HR departments of organisations. Large international employers are responsible for compliance with employment legislation on offshore countries and can be heavily impacted by the activities of their supply chain.

In the apparel industry for example, UK-based companies must ensure that second- or third-tier suppliers are not employing child labour in third-world countries for the production of their garments. Failure to understand the detail of the supply chain can therefore present colossal reputational risk.

“ There is a need to be agile, to react quickly to what the competitors are doing and the impacts of disruptive technology ”

Supply chain risk - key areas to consider:

- Most contracts will have a life of three to five years and, depending on where you are in the contracting cycle; simply renewing arrangements on the same basis as before isn't necessarily the right thing.
- Assess whether your contracts allow you to scale up or down to meet buyer demands.
- How will changes in technologies and globalisation affect your supply chain and your ability to deliver goods and services to your clients?
- Do you know the detail at each stage of your supply chain, including second- and third-tier sub-contractors?
- Is supply chain management close to the heart of the business?
- Ensure your procurement strategy is centred on supply chain needs and associated risks, not just on cost.



Devi Shah

Joint head of Restructuring, Bankruptcy and Insolvency group

“ Supply chain issues are high on management's risk agenda. When financial stress hits a sector (as it did with the automotive industry in the mid-2000s), these issues, if not managed well, can have a domino effect. The winners that emerge will often be those that can most efficiently and swiftly switch suppliers. This requires having robust contractual protections in place to protect a party on a supplier failure, regular monitoring of suppliers for early warning signs and a route map for steering through a break in the supply chain, should it happen. ”

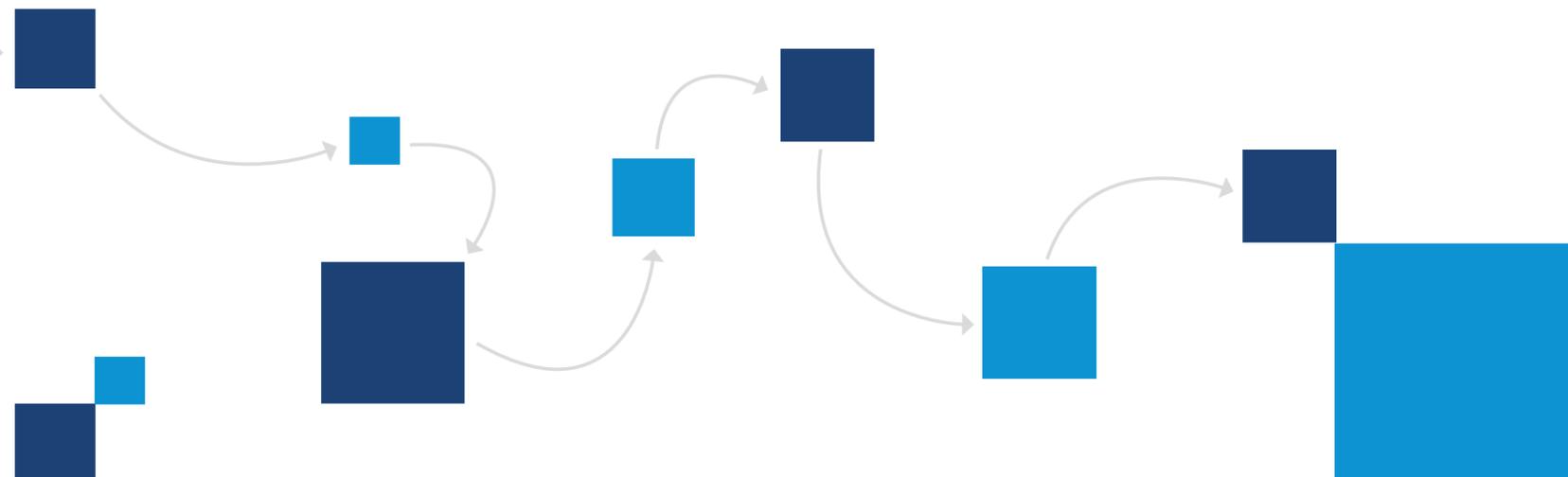


Peter Dickinson

Partner, Corporate & Securities practice

“ The world is evolving incredibly quickly and in particular in the supply chain area, which is compounded by technological change. For example, if you look at IT services, all large corporates need a huge amount of IT support to enable them to function. Go back pre-cloud and people were investing in very heavy infrastructure, very long-term contracts and the assumption was that technology would evolve reasonably predictably over time. ”

“ Now there is a need to be agile, to react quickly to what competitors are doing and the impacts of disruptive technology. Naturally you will want long-term relationships, but those relationships have to be flexible enough to enable you to react to what the world is doing. If you simply stand back and follow what is becoming legacy or redundant technology, all your competitors will stride ahead. ”



PREPAREDNESS & RESOURCING OF RISK

Our research delivered some interesting results around the levels of corporate preparedness for the top risks in the *UK Risk Index 2015*. Significantly, respondents scored some high-magnitude risks significantly lower in terms of their preparedness. This highlights the importance of discussing risk at board level and working as an organisation to increase preparedness and mitigate risk.

Notable Disparities

Reputational risk

1st for impact

3rd for magnitude

14th for preparedness

Supply chain issues

7th for impact

7th for magnitude

19th for preparedness

Global economic uncertainty

1st for magnitude

8th for impact

34th for preparedness

Skills shortages

1st for magnitude

12th for impact

35th for preparedness

Top 10 risks by preparedness

The top 10 risks by preparedness show a very different picture to the overall *UK Risk Index 2015*.

Areas with significant regulation top the charts here, as businesses strive to ensure compliance. However a number of areas which carry significant impact and likelihood scores, such as cyber risk, sit perhaps disproportionately low in terms of preparedness. Interestingly, neither global economic uncertainty nor reputational risk appear in this list.

Resource follows the trends seen in preparedness, rather than those found when looking at impact or likelihood of risk. Indeed the levels of resource allocated, to areas such as workplace accidents and intellectual property are double the scores given for the potential impact of these two risks. It would be wrong to suggest the level of resource allocated in these areas is too high: these scores may also reflect the potential reputational risk of damage to intellectual property or loss of life or limb.

The resource and preparedness levels allocated to risks within any given organisation should reflect its activities, structure and strategy. Critically, the full portfolio of risks must be considered in the allocation of resource.

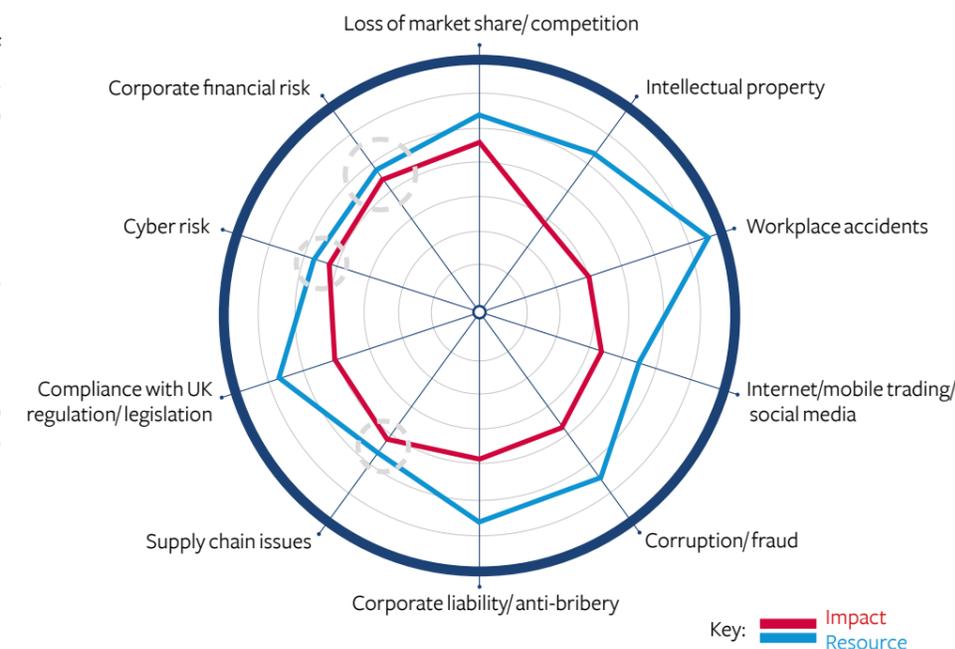
Key questions to consider include:

- ‘What do your directors and officers know about the risks the company is facing?’
- ‘Does someone own and control those identified issues?’
- ‘Is the business working in teams to mitigate and manage those risks?’



Top 10 risks by preparedness

Impact vs resource applied



RISK PLANNING TOOL

ABOUT THE TOOL

Designed as a simple visual aid, our tool is intended only to catalyse high level thinking about an individual risk or perhaps help to reflect on the way strategy can alter attitudes to risks across the business. As a multi-disciplinary, global advisory firm we can help you think about governance and risk side-by-side, providing expertise and processes which provide you with the knowledge to act and confidence to be responsible.

START HERE

To assist businesses in assessing their portfolio of risks, Mayer Brown has created a simple risk planning tool.

The tool will help ensure that the landscape of risks is considered at board level, and will identify the risks of greatest magnitude. This will help inform the allocation of resource to mitigate those risks and catalyse a discussion.

The team at Mayer Brown would be delighted to work with you in person, to help share our extensive knowledge of the issues contained within this report, and ensure that your business is in the best possible position to manage the risks faced in the everyday business world.

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LEGAL DISCIPLINES

Every business operates in a unique risk landscape, and while most game-changing strategic decisions involve an element of risk, it's essential that they're informed by a full understanding of the terrain.

As a business law firm, our clients count on us to provide leading experts in specific practice areas. What sets us apart from our peers is that we like to help our clients understand the broader consequences and opportunities of their decision-making, so we can use our wide-ranging expertise to address the whole picture. All of the legal disciplines below may come into play in the risk landscape.

RECOGNITION OF RISK
(LEGAL RESPONSIBILITY)

APPETITE
(COMPETITION)

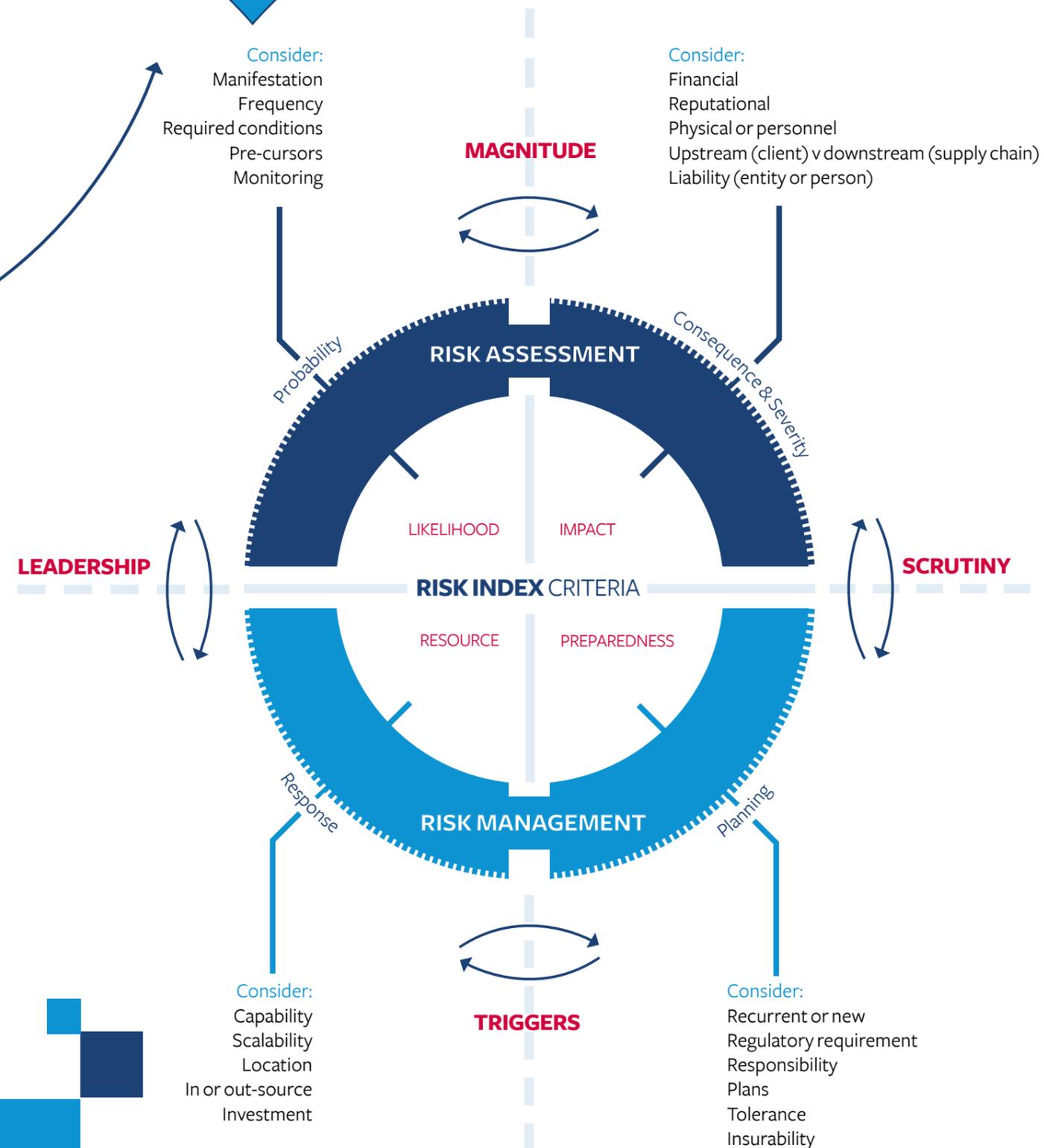
ASSESSMENT
(IP, EMPLOYMENT)

LEGISLATION
(COMPLIANCE)

LEADERSHIP
(CORPORATE, FIDUCIARY)

MITIGATION AND PLANNING
(INSURANCE, SECURITIES AND CONTRACT)

To request an appointment, please contact ukriskindex@mayerbrown.com



About Mayer Brown

Mayer Brown is a global legal services provider advising clients across the Americas, Asia and Europe. Our geographic strength means we can offer local market knowledge combined with global reach. We are noted for our commitment to client service and our ability to assist clients with their most complex and demanding legal and business challenges worldwide. We serve many of the world's largest companies, including a significant proportion of the Fortune 100, FTSE 100, DAX and Hang Seng Index companies and more than half of the world's largest banks. We provide legal services in areas such as banking and finance; corporate and securities; litigation and dispute resolution; antitrust and competition; US Supreme Court and appellate matters; employment and benefits; environmental; financial services regulatory and enforcement; government and global trade; intellectual property; real estate; tax; restructuring, bankruptcy and insolvency; and wealth management.

Please visit www.mayerbrown.com for comprehensive contact information for all Mayer Brown offices.

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About Acritas

Acritas is a global leader in the research of high value relationships in service-based organisations.

Our research provides empirical evidence on which to base strategy and planning. We pride ourselves on delivering data that provides a firm foundation for outstanding decision-making, leading to greater success and profitability for the organisations with which we work.

By highlighting opportunities, threats and future trends, our research helps organisations to reduce risk and plan strategic change with confidence. Our portfolio of products and services is broad, ranging from brand-tracking and thought leadership to client listening and analysis of emerging trends.

