waystone | Compliance Solutions

Why cyber due diligence is crucial for investors

In the investment management industry, building trust with investors has always been paramount. Traditionally, this meant showcasing strong financial performance and a compelling growth trajectory. Today, a new factor has emerged as a critical piece of the investment puzzle – cyber security.

Investors in the financial services sector are increasingly demanding a deep dive into a company's cyber posture. This isn't just about protecting sensitive customer data – it's about safeguarding the entire financial ecosystem.

Why cyber due diligence matters

A cyber attack on a financial institution can have catastrophic consequences.

Breaches can expose sensitive client information, disrupt critical operations, and erode public trust. These incidents not only damage a company's reputation but also trigger hefty regulatory fines and potential lawsuits.

Investors, particularly in the financial services industry, understand this risk all too well. They want to be confident that their capital is invested in companies that take cyber security seriously. We have set out below some of the key areas that today's investors will be scrutinizing:

- Cyber security maturity – does the company have a robust cyber security program with well-defined policies, procedures, and controls in place? Is there a dedicated security team with the resources and expertise to effectively manage cyber risks?
- Third-party risk management – the financial services sector relies heavily on third-party vendors. However, a data breach at a key supplier can have a domino effect, impacting the entire industry.

Investors want to understand how the company assesses and mitigates cyber risks associated with its vendors and partners.

- Data breach history – transparency is paramount. Have there been any data breaches at the company or at its vendors? If so, what measures were taken to address the incident, learn from it, and improve security posture?
- Regulatory compliance – in today's complex financial landscape, navigating regulations is crucial. Investors seek companies with strong regulatory compliance programs. This demonstrates a commitment to operating within the legal and ethical frameworks that underpin a stable financial system. A robust compliance program minimizes the risk of regulatory fines, reputational damage, and ultimately protects investor capital from unforeseen consequences.

Safeguarding investments: from acquisitions to long-term stability

Cyber security due diligence isn't just about protecting existing investments. For financial services firms looking to expand through acquisitions or strategic partnerships, a thorough assessment of a target company's cyber program is crucial. A weak cyber posture can derail a promising deal by introducing integration complexities and unforeseen security costs.

Building a secure future together

By prioritizing comprehensive cyber due diligence, investors in the financial services sector can make informed decisions, mitigate risk, and protect their capital. Companies, for their part, benefit from demonstrating a commitment to data security and building trust with their stakeholders.

Cyber security is becoming an essential part of financial well-being. In our digital age, strong cyber defenses aren't just a good business decision – they're a core responsibility for everyone in the financial services industry.

Waystone Compliance Solutions is a leading provider of cyber security consulting and compliance services to the financial services industry. We offer the strongest, independent **cyber security** and **data protection** services globally and work with our clients to embed a security culture within an organization, assessing information security threats, identifying weaknesses and implementing a sustainable and pragmatic program of information security improvements.

If you would like to find out more about how we can help you to assess your current cyber security measures, please reach out to your usual Waystone representative or contact us below.

Contact Us