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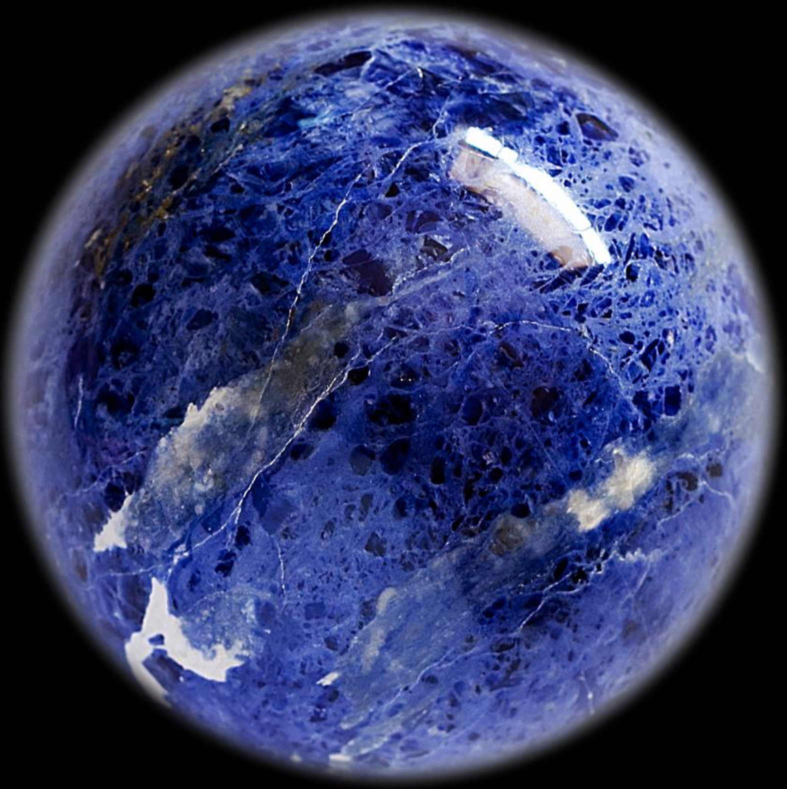


Role of cybersecurity in M&A

Secure 'now'. Agile 'next’.

2021

The current M&A landscape

- As we enter into the new year, businesses are slowly starting to not just survive, but also thrive in the 'new normal'. While Mergers and Acquisitions (M&A) saw a decline in the past year owing to COVID-19, a revival is expected this year, and cyber risk and cybersecurity will play an imperative role in unlocking key M&A deals.
- Organisations may target others and try to acquire them to add new capabilities to their existing repertoire, to reach new market segments and reduce envisaged competition in the market.
- This process, right from identifying an organisation to acquire to finally acquiring it, involves a thorough inspection before the deal is finalised. Therefore, it is extremely essential to assess the financial, operational, and strength capacity of the organisation during a potential takeover.
- This is where organisations face a challenge. There is a gap in the assessment of information and cybersecurity posture of the involved entities, and the implied risks that it can have for the organisation acquiring it.
- In a recent survey by Forescout*, 62 percent participants agreed that their company faces significant cybersecurity risks by acquiring new companies, and expressed that cyber risk is their biggest concern post-acquisition.

The implications of not conducting a thorough due diligence are serious. In 2017, the price of an American multinational telecommunication's acquisition of a web services provider plunged **$350 million** as a result of the latter's data breach compromising more than **1 billion** customer accounts.

In a more recent example from April 2020, a pending merger had **5 percent** of its total purchase price set aside to cover the potential fallout from a ransomware attack[1].

This seems to agree with the data that the Forescout survey report* shared, where **53 percent** respondents stated that their organisations encountered critical cybersecurity issues during the M&A process, which imperiled the deal negotiation.

[1] Source: https://securityintelligence.com/posts/mergers-and-acquisitions-without-cybersecurity-risk/

* Source: https://www.forescout.com/company/resources/cybersecurity-in-merger-and-acquisition-report/

Market need: The importance of cybersecurity in M&A

- Completing an M&A is a high-risk proposition, owing to its potential to influence market dynamics, competition, shareholders interest, business partners, etc.
- Technology also plays an important role by not only enabling the integration, but also driving the new business operating model. It brings in an entire gamut of cyberattacks, and a poor cybersecurity posture can slow down the company's acquisition process and, in some cases, also be a deal breaker.
- It is estimated that by 2022, about 60 percent of the organisations will consider cybersecurity posture in their due diligence process as a critical factor during any M&A[2].

Technology disruption

Technology disruption assists companies to evolve into new business models and upgrade their traditional modes of operating business. However, with new technology integration, there is also a risk of unforeseen cyberattacks.

Dormant threats

Senior leadership must be vigilant in identifying dormant threats in the acquired infrastructure and implement effective mechanisms for mitigating them. Vulnerabilities must be found in advance to reduce the attack surface before they can harm the acquiring company.

Information Technology (IT) resiliency risk

During an M&A process, IT resources are over-burdened as they try to run a smooth integration between entities, thereby leading to extended periods of IT change gap, and subsequently, a significant attack surface.

Data security

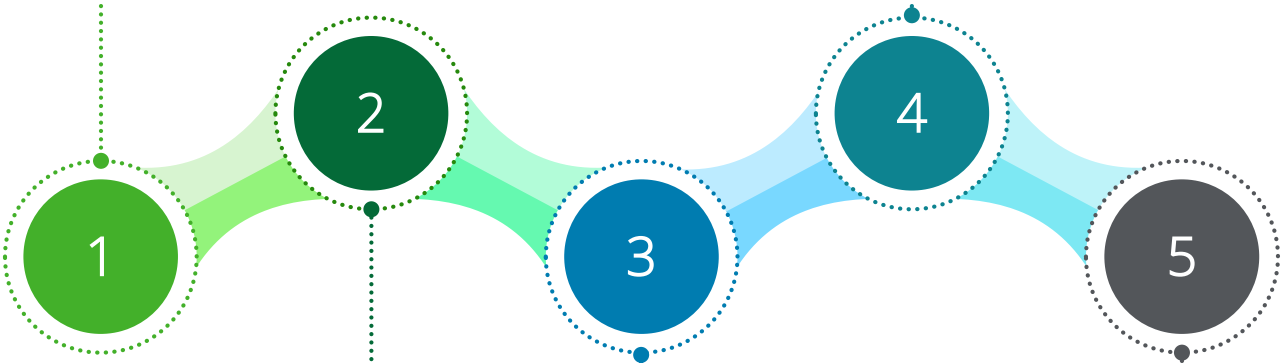
The acquiring and the target companies both have critical data in their repositories. The acquiring company must determine the cybersecurity posture of the target company to mitigate the risk of a data breach.

[2] Source: https://securityintelligence.com/posts/mergers-and-acquisitions-without-cybersecurity-risk/

Business challenges during M&A

Business challenges during an M&A

An M&A goes through multiple phases before the final integration is complete. It starts with due diligence and continues through transition right up to integration. Each of these phases poses a different cybersecurity challenge in terms of strategic, technology, and transitional and operational risk. Some of the key challenges during this period include the following:



Lack of cybersecurity artefacts, documentation and evidence poses a challenge during due diligence, especially in case of small and medium sized organisations. The acquiring organisation needs to rely on the limited information available of the target company's cyber landscape to make their decision.

Even though acquirers may conduct a questionnaire survey and penetration testing to understand the target company's risks and issues, the methods only provide a snapshot in time, and do not reveal any historical background.

During the transition phase, i.e., the time between when the deal is signed and the completion of integration, it is difficult to establish the governance model and the accountability.

- Risk exposure is high during the transition phase for both the organisations involved due to the possible open networks that support integration activities.
- Full hybrid integration also becomes challenging when trying to integrate new disruptive technologies with the legacy ones.
- Difference in the infrastructure might also pose incompatibility and scalability challenges when integrating the applications and systems.

During integration, unclear roles and responsibilities, disgruntled employees, modifications in the operating model, language barriers, and changes in location may prove to be a challenge.

An in-depth understanding of the M&A lifecycle

We help you manage cybersecurity concerns across the entire lifecycle of the M&A, which includes the process prior to, during, as well as post acquisition. At each stage of the process, we identify the key steps that are imperative for both the target company, as well as the acquiring company to ensure a smooth transition.

Pre – M&A

From initial screening to the start of negotiation

Key steps required during this stage	Identify the status of the applicable legal and regulatory compliance of the target company, based on the scope of acquisition.	Identify inherent business risks to the acquiring company from the target in the event of an acquisition.	Understand the current InfoSec and privacy risk of the target company by conducting a detailed risk assessment.	Identify early indicators of risk, based on publically available information and passive threat hunting.
Importance of these steps	To identify any potential regulatory penalties	To identify if the business risks are within the acceptable limits of the acquiring company	To understand the current controls risk and determine how much effort is required to treat the risk post acquisition	To identify risks before the merger is finalised and uncover the probability of breach occurrence

During M&A

From pre-announcement to the signing of deal

Key steps required during this stage	Finalise the type of integration–full, hybrid or soft–to be aligned to the strategy behind the acquisition.	Formulate RACI matrix for InfoSec activities during the merger, based on the type of integration.	Conduct more active threat hunting and penetration tests once the deal is legally signed.	Review InfoSec processes and procedures of the target company to ensure it is aligned with the acquiring company's InfoSec requirements.
Importance of these steps	To understand the risk for the acquiring company and formulate the risk management strategy accordingly	To establish roles and responsibilities of the target and acquiring company	To proactively identify any critical vulnerabilities and potential security breaches	To streamline and standardise InfoSec processes and procedures for effective risk management

Post – M&A

From signing of the deal to integration

Key steps required during this stage	Establish and monitor Key Risk Indicators (KRI) for ongoing compliance.	Remediate the vulnerabilities identified in the previous steps and establish guidelines for re-assessment.	Establish a governance model for ongoing compliance and incident handling.	In case of full integration, onboard target company's InfoSec resources to acquiring companies' InfoSec services.
Importance of these steps	To proactively monitor risk levels on an ongoing basis and ensure that risk is kept within acceptable limits	To treat risks identified during the merger and perform re-assessment periodically	To ensure incidents are identified and handled effectively	To extend existing InfoSec services to the extended organisation

Our Secure. Vigilant. Resilient. framework

Our **Secure. Vigilant. Resilient.** model provides a comprehensive set of service offerings to support your organisation's M&A process throughout its complete lifecycle. Our framework helps you develop a cybersecurity programme in line with your organisations' strategic objectives and risk appetite.

Cybersecurity Protection (CSP)

Secure.

Being secure means having risk-prioritised controls to defend against known and emerging threats.

In the pre-M&A stage of the M&A lifecycle, the emphasis is to understand how **secure** is target`s environment, security controls in place, behaviour, and practices around cyber security

Cyber Vigilance & Operations (CVO)

Vigilant.

Being vigilant means having threat intelligence and situational awareness to identify harmful behaviour.

During the M&A stage, the focus moves from just secure, to **secure and vigilant**, as during this stage, there is a huge risk due to open networks for integration activities, external threats from competitors, etc. The environment needs to be secured during the integration process. In addition, constant monitoring and round-the-clock vigilance is essential to proactively keep the organisation secure.

Cyber resilient

Resilient.

Being resilient means having the ability to recover from, and minimise the impact of, cyber incidents.

In the post-M&A stage of the M&A lifecycle, the emphasis is on all three stages of the framework, i.e., **secure, vigilant, and resilient**.

Even though the acquisition is now complete and it is business as usual, there needs to be a constant check on the security of its information and assets. Round-the-clock vigilance is required to ensure that key assets of the organisation are being maintained with sufficient confidentiality, integrity, and are in line with the buyer's policies. Finally, in the event of a cyberattack, the organisation should be resilient enough to bounce back from the attack in the shortest possible time.

Through our key capabilities of **analytics/risk intelligence, training and integrated solutions**, we can support the delivery of your M&A services.

Our Secure. Vigilant. Resilient. framework (contd.)

While delivering our services defined under **Secure. Vigilant. Resilient.** framework, following are the essential components to be considered for an effective and efficient cyber risk management in the M&A lifecycle.

Governance and oversight

The organisational structure, committees, and roles and responsibilities for managing information security need to be clearly outlined during the M&A process.

Policies and standards

Expectations for the management of information security need to be detailed by the organisation.

Management processes

Robust processes to manage risks in information security risk management and oversight need to be in place.

Tools and technology

Tools and technology that support the risk management lifecycle and integration of risk with cyber risk domains should be strengthened.

Risk metrics and dashboard

Reports identifying risks and performance across information security domains; need to be communicated to multiple leadership levels in the organisation.

Our Secure. Vigilant. Resilient. framework (contd.)

Key cyber risk focus areas for M&A

To achieve and maintain a **Secure. Vigilant. Resilient.** posture, it requires an ongoing effort to define an executive-led cyber risk programme, track progress, and continuously adapt the programme to shifting business strategies and the evolution of cyber threats.
The key cyber focus areas during an M&A are:

- Cyber/IT due diligence
- Cyber risk assessment
- Privacy due diligence
- Vulnerability assessment and penetration testing
- Cyber Maturity Assessment
- Breach assessment

- CISO as a service – Transition service
- Cyber strategy alignment
- Application security
- Cyber transformation during M&A
- Privacy compliance and readiness
- Cyber threat monitoring
- Identity and access management
- Secure data migration strategy
- Third-party risk management

- Cyber awareness
- Cyber post integration assessments and compliance (application, IDM, technology)
- Post application reviews
- Cyber incident response
- Regulatory compliance
- Data governance and privacy
- Privacy reviews

Managed services

Our tailored, high-touch managed and subscription services can help clients operate more efficiently, address talent shortages, achieve more advanced capabilities, and keep on track with client's overall cyber risk programme objectives.

The Deloitte difference: Key benefits

The Deloitte difference: Key benefits

Our holistic approach, combined with years of industry experience, sets us apart from the crowd.

1. Our mature practice on M&A ensures that we have a treasure trove of knowledge on the subject.

2. Our experience in Cyber Risk Advisory, along with our expertise in the M&A sphere, enables us to assist you in ensuring seamless integration with your acquired businesses.

3. With our business-focused information security risk assessment methodology, we provide you with a realistic view of the risk exposure against your acquiring businesses.

4. Our professionals are uniquely placed to understand the cyber risk landscape of your organisation from a business need perspective, and can identify and analyse key risks and challenges in an M&A scenario

5. Our technological capabilities help you understand the risk at an early stage of acquisition, which in turn enables you in effective decision making.

6. Our experience in M&A space with clients from both sides (acquiring and acquired companies) has helped us gain a holistic understanding and insights into the potential key risk areas during any M&A.

Conclusion

Managing cybersecurity during M&A cannot be a one-time activity, but needs to be an ongoing process throughout the entire acquisition lifecycle. The more due diligence a company performs with respect to cybersecurity during a M&A, the better their outcomes are when it comes to reducing risk, protecting the company's assets and ensuring a smooth transition.

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