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Europe

BDO's Global Risk Landscape Report 2024

Speed, scale and uncertainty: Europe's regulatory melting pot

A barrage of new regulations is piling pressure on organisations around the world, forcing them to keep pace with far-reaching compliance demands. Nowhere is this felt more keenly than in Europe.

Business leaders in the region believe their organisations are more unprepared for regulatory risk than any other type of risk, with 37% placing it in their top three challenges, up from just 13% a year ago.

This is hardly surprising. The volume of regulatory change is particularly burdensome in the continent, from data privacy rules (the new Data Act, adding to existing GDPR considerations) to burgeoning AI regulation. The rules are often complex, while it isn't always obvious how they apply or what the potential impact will be.

For example, take the EU's new ESG reporting rules: the Corporate Sustainability Reporting Directive (CSRD). "It's not really clear to people or these companies how to implement this," says Emanuel van Zandvoort, a risk advisory services partner at BDO Netherlands. "At the end, the financial statement auditor has to provide assurance on this. It will be limited at first, and it will then be 'reasonable assurance' in the future. What will the impact be of needing to comply with these kinds of standards?"

The scale of the change is costly for companies, which often must manage the integration of multiple new regulations at the same time.

"The reason business leaders feel this is one of the biggest threats could also be because of the increasing cost of compliance," says van Zandvoort.

The pace of this regulatory landslide also brings challenges, as companies have less runway available to plan for and implement rule changes.

"Some regulations are a threat to companies mainly because in some cases – such as ESG and probably artificial intelligence – it is not just a very big jump in the number of new regulations, it's also been very fast, with the need for very quick adaptation into all sectors," says Enric Doménech, head of risk advisory services at BDO Spain.

European business leaders ranked regulatory risk as the **number one risk** they felt their organisations are most unprepared for.

Regulatory risk is a top 3 challenge for my organisation

2024 - 37%
2023 - 13%

Number of European firms describing themselves as risk welcoming has dropped from

18% to 8%

Number of those who describe their organisations as proactive in dealing with risk has dropped from

70% to 58%

On top of the speed and scale of regulation, political uncertainty is adding to the risk. This makes long-term planning harder: for example, if proposed regulations are shelved due to a change in government or new, unexpected regulations are tabled.

"What I hear from my clients, for instance in real estate, is that it's not about regulatory risk, but more about the unpredictability of the government," says van Zandvoort. "That's the main problem, because if you look at tax regulation in the Netherlands, it can almost change overnight. The speed and uncertainty of regulatory change is now a more significant challenge than the regulations themselves."

It's a similar situation in Belgium, says Koen Claessens, managing partner at BDO Belgium.

"The risk is the instability of politics and not knowing if new regulations are coming or not coming," he says. "It's not so much about being compliant with the regulation or the capability of being compliant, but how are regulations going to change, particularly if there is an election."

That uncertain political climate is also being fuelled by the rise of far-right parties in the region, including Germany's AFD and Geert Wilders' Party for Freedom in the Netherlands. This could raise the prospect of more countries breaking away from the EU, creating potential regulatory challenges for companies operating across borders.

Elections outside the region may also have an impact on the political and regulatory landscape in Europe.

"If Trump gets elected, geopolitics will change in an instant," says van Zandvoort. "There's a lot of uncertainty in the geopolitical arena."

What's more, the wave of new regulations apply to almost every industry in the economy, unlike previous rule-making, which was typically targeted at specific sectors. As the regulatory perimeter expands, more businesses than ever are caught up in new compliance obligations.

"In Europe in the last 10 years, we started out as a non-regulated kind of market, apart from some specific sectors such as the financial sector and the insurance sector, but now regulations frequently concern all sectors, from real estate to industrial services," says Doménech.

This backdrop is forcing many European business leaders to switch from a long-term view to a short-term risk mindset that has significantly dampened risk appetite in the region. The number of European companies that describe themselves as risk-welcoming has dropped to 8% from 18% a year ago.

"What we hear from companies is that they used to have a long-term plan, and they might face some disruptive forces, but these were more or less predictable," says Markus Brinkmann, head of global forensic, risk and compliance at BDO Germany. "Now we need to manage the business on a very short-term basis because it's a more unstable environment and that causes these short-term crisis models."

"The speed and uncertainty of regulatory change is now a more significant challenge than the regulations themselves."

Enric Doménech
Head of risk advisory services, BDO Spain

"By definition it becomes much more difficult to be proactive towards risk when you keep being impacted from unexpected directions."

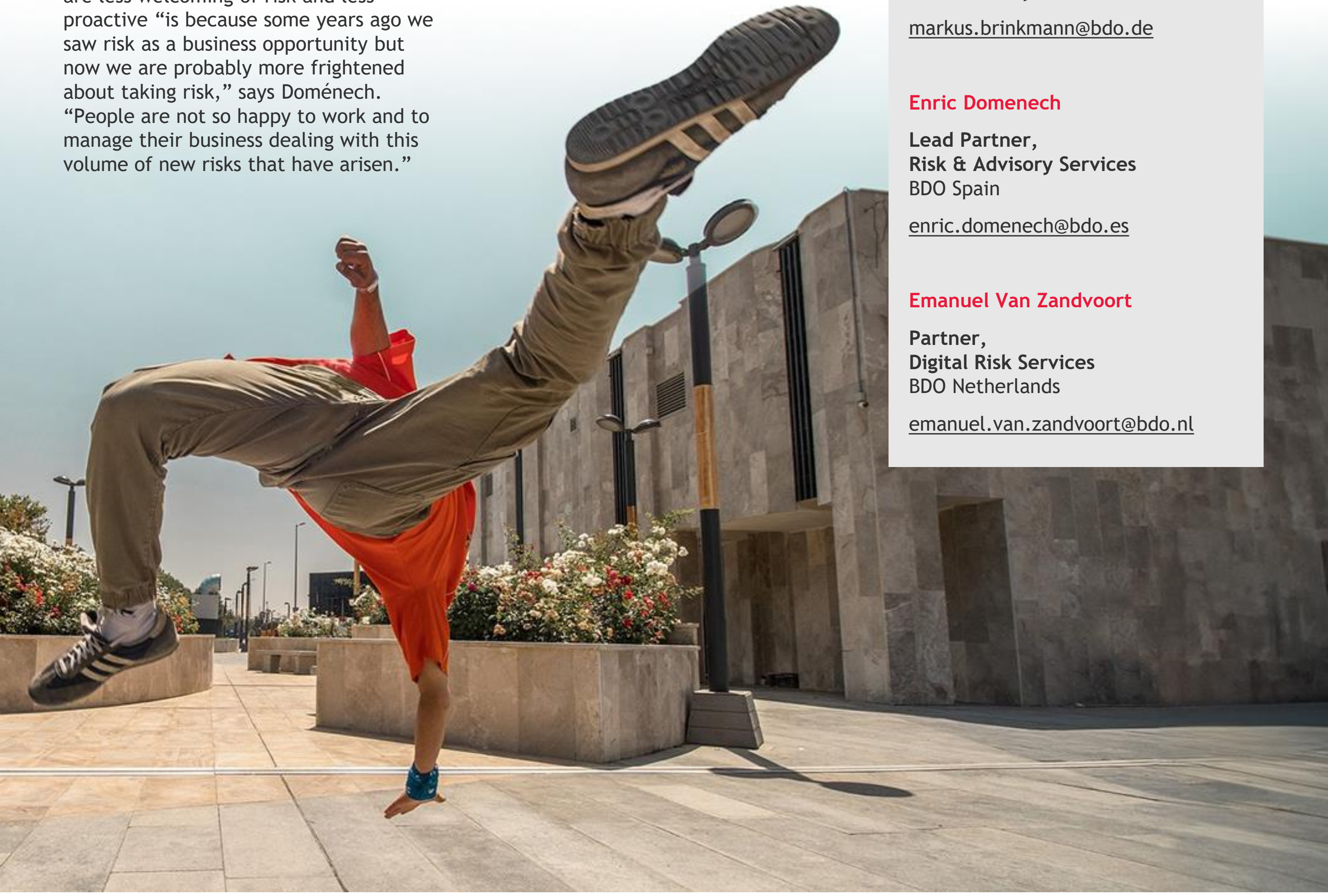
Koen Claessens
Managing Partner, BDO Belgium

The proportion of business leaders in the region who described their organisations as proactive in dealing with risk also dropped to 58% from 70% last year.

“That has a lot to do with uncertainty and unpredictability,” says Claessens. “By definition it becomes much more difficult to be proactive towards risk when you keep being impacted from unexpected directions.”

This makes European business leaders far more risk averse, given they are still suffering the scars from previous bouts of turmoil. One reason that companies are less welcoming of risk and less proactive “is because some years ago we saw risk as a business opportunity but now we are probably more frightened about taking risk,” says Doménech. “People are not so happy to work and to manage their business dealing with this volume of new risks that have arisen.”

This risk pull-back means companies may miss out on potential growth as conditions improve. This is where taking an ‘antifragile’ approach to risk management can provide a competitive advantage. By seeking opportunities in times of disruption, antifragile businesses can get an edge on their peers who take an overly cautious approach and wait for the storm clouds to clear. Companies that are prepared to embrace risk and take calculated bets amid the chaos can emerge from crises stronger and potentially with greater market share.



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