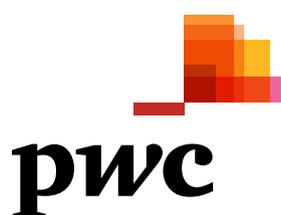
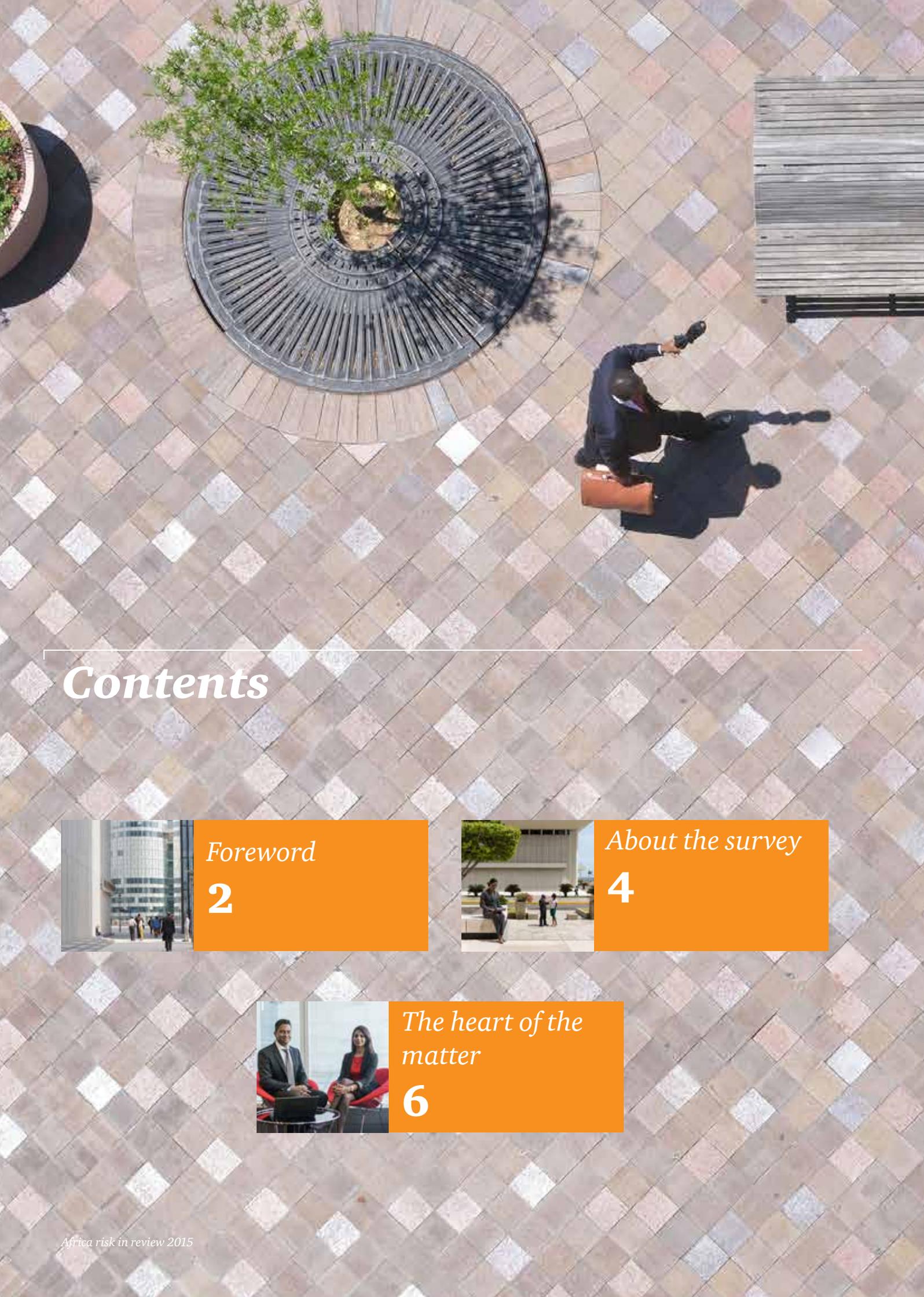


Managing risks, seizing opportunities: an evaluation of how companies in Africa are responding to risks and opportunities. Market shifts and business transformations are combining to open critical capability gaps in risk management.

August 2015

Africa risk in review 2015





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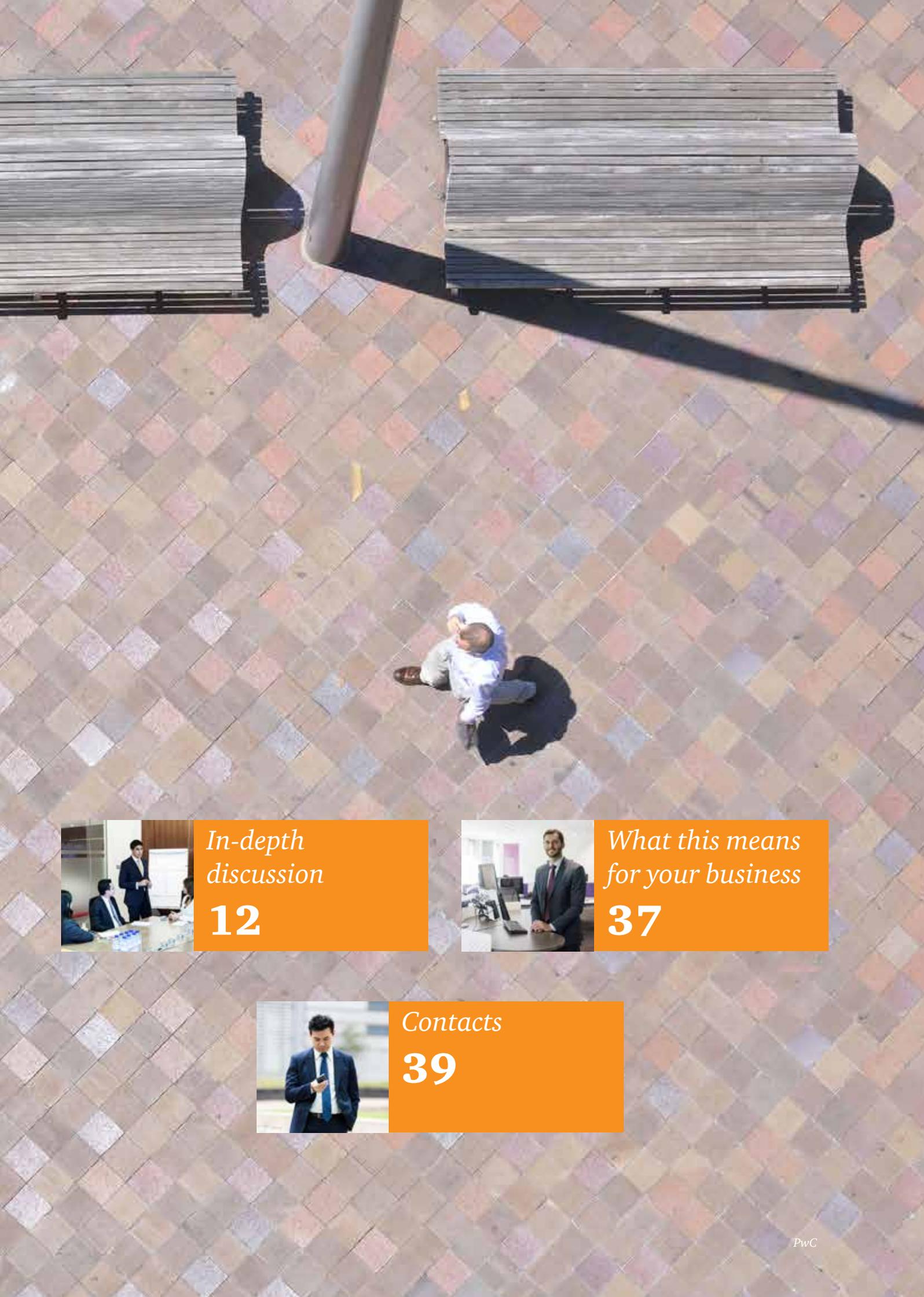
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Foreword



Carmen Le Grange

*PwC Business Resilience Leader
Central and Southern Africa*



Anton van Wyk

*PwC Africa Risk Assurance Services
Leader and immediate past Global
Chairman of the International
Institute of Internal Auditors*

Executives in Africa are increasingly concerned that risks to their companies are on the rise. However, Africa's executives and boards believe they are taking effective steps to address risk strategy and management, putting them ahead of their global peers when it comes to being risk management leaders.

Across Africa, ongoing political, economic and social developments are raising concerns. Inadequate infrastructure, concerns over access to healthcare and food security, as well as the effects of climate change are accelerating significantly. Technology continues to disrupt, through innovations like cloud computing, social media and the Internet of Things, and there is an increase in awareness around the need to manage cybercrime and cyberterrorism.

Business risk is everywhere. Despite this, organisations in Africa remain optimistic about the outlook for their businesses over the next 18 months.

We surveyed more than 350 executives with operations across a broad spectrum of industries in 27 African countries. Survey results were then benchmarked against findings of PwC's global risk in review studies conducted over the past three years.

The purpose of the survey was to:

- Examine which drivers of change have the biggest impact on organisations operating in Africa;
- Highlight the global risks and opportunities which organisations in Africa are responding;
- Explore how organisations are positioned to respond to these and other risks;
- Understand what are the specific risk exposures with respect to digital transformation and technology risks; and
- Understand where organisations perceive themselves to lie along the risk maturity spectrum and obtain a view on the changes they expect to make in the next 18 months.

Respondents expect that the top risks that will impact their companies will be: increasing regulatory complexity (84%); technological change and related IT risks (84%); government policy changes (81%); geopolitical uncertainty (74%) and inadequate infrastructure (74%).

To address these shifts, companies continue to undergo significant business transformation. Eighty-seven percent of respondents say their

organisation has recently undergone a transformation initiative, is doing so, or will do so in the near future. Business transformation (89%), IT (84%) and innovation (81%) are expected to have the biggest impact over the next 18 months.

'New' threats such as cybercrime are requiring new and improved mitigation strategies. Changing consumer behaviour is the top-rated market opportunity and its significance has escalated substantially given the rise of social media, digital and mobile channels. These risks are opening capability gaps in risk management practices, particularly in the areas of regulation, data risk management and building organisational resilience.

Typically, risk analysis remains anchored in historical data. To be more meaningful, risk needs to deal far more in the future. There needs to be a big shift into forward-looking analysis built around scenarios, including stress testing and sensitivity analysis. Subjective judgement also needs to be applied to a greater extent. This will be a challenge for some, as many risk professionals are reluctant to break away from data-driven models and controls.



Risk professionals in some industries are changing risk management processes to be much more focused on incorporating the effect of uncertainty into business planning, performance management, investment appraisal and so on. For example, it sometimes feels like the approach in financial services is still very much about risk capital. But, more should be done to consider what a company's risk exposures mean from a strategy and performance perspective.

Increasing risks and opportunities across Africa

Risks are increasing across the board with CEOs globally seeing more opportunities and more risks today than three years ago. Business transformation initiatives are anticipated across all sectors, led by agriculture, technology and communications businesses and government and the public sector. At the same time, complex regulation and compliance is an increasing concern for business and investors.

With business transformation being one of the main risks organisations are grappling with, risk management can no longer operate independently of strategy – it must be a part of strategic planning and implementation.

On the technology front, cyber risks, including weak links in IT security systems, were also highlighted by a significant proportion of African respondents. Failure of new IT

systems to deliver expected benefits and lack of technology skills to support new digital strategies are ranked among the top technological risks across all industry sectors. Also of concern is exposure created by the interconnectivity of IT systems, brand or reputational risks from social media and open web communication, as well as more frequent and sophisticated cyberattacks.

Despite popular perceptions, bribery, corruption and fraud did not feature as highly as expected. Our findings suggest this may be attributed to organisations embracing the challenges of anti-bribery compliance and starting to build workable compliance programmes that mitigate bribery risks.

Levels of risk maturity across Africa

Three levels of maturity in organisations' risk management practices emerged in our analysis: risk leaders, developing organisations and early-stage organisations. Africa has a higher proportion of risk leaders (29%) compared to global organisations (17%) and a lower percentage of early stage organisations (16%) compared to global counterparts (35%).

Financial services organisations represented more than 20% of survey respondents, but only 13% rated themselves as risk leaders, while consumer and industrial products and services companies (CIPS) accounted for 62%, followed by telecoms, information and entertainment

(TICE) at 33%, and the government sector at 20%.

Risk management must align with other business functions

Respondents reported significant success in aligning risk functions with other areas to strengthen risk culture and strategy. However, there are concerns that collaboration among the three lines of defence (business units, risk and compliance and internal audit) in identifying, monitoring and effectively managing critical risks is still not enough to protect organisations from capability gaps.

Almost 76% of African respondents (global: 60%) believe that a lack of collaboration among the three lines of defence could expose their organisation to capability gaps in their defence against risk. There is still much to do around enterprise alignment and the role it plays in moving the organisation up the risk maturity curve. Companies without a fully integrated view of risk across the three lines of defence, are not positioned to optimise risk management efforts for efficiency.

The aim of risk management should be twofold: To achieve sustainability – making sure the odds favour the organisation's survival – and ensuring it has the ability to take advantage of change. This means continuing to look forward and becoming ever more sensitive to the complex interplay of risk and opportunity.

About the survey

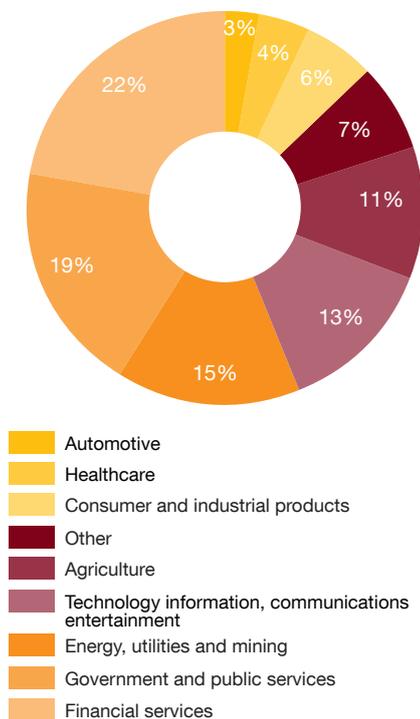


Methodology

In April 2015, PwC surveyed and interviewed more than 350 executives and non-executives with operations across 27 African countries. The sample included respondents from a diverse range of economic sectors.

Figure 1 Respondents by industry

Q What industry does your organisation operate in?



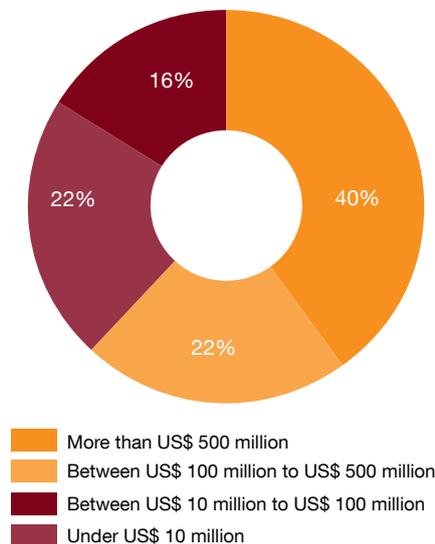
Base: 82
Source: PwC analysis

Respondents represented various facets of the organisation, including internal audit (6%), management and the board (23%), the finance function (7%), risk and compliance officers (29%), and other functions (35%). Roughly 40% of respondents were from organisations with annual revenues of more than US\$500 million (classified here as ‘large companies’), 22% have revenues of between US\$100m to US\$500m, and a further 22% have revenues of between US\$10 million and US\$100 million (classified together

here as ‘medium companies’), and the remaining 16% have revenues of under US\$10 million (classified as ‘small companies’). Nearly two-thirds (64%) represented companies headquartered in South Africa, followed by Kenya (13%) and Nigeria, Swaziland, DRC, Côte d’Ivoire, Zimbabwe (all at 4%) and Cameroon (3%).

Figure 2 Respondents by revenue

Q What is your organisation’s approximate local annual revenue?



Base: 82
Source: PwC analysis

To supplement the survey findings, we conducted further in-depth interviews with a number of executives at leading organisations, amongst which included:

- **Sasol:** Kobus Barnard, Chief Audit Executive.
- **Safaricom Limited:** Nicholas Mulila, Risk Management Director.
- **Skye Bank, Nigeria:** Ajibola Dawodu, GM Group Internal Audit.
- **A large multinational mining company with operations across Southern Africa.**
- **A mining house in the Democratic Republic of Congo.**

Identifying risk leaders

To understand what differentiates leaders in risk management, we segmented respondents based on the question:

“Which stage of maturity best describes your risk management framework?”

Each organisation rated itself on a scale of 1 to 5, across five areas of practice: risk management strategy and vision, risk appetite, stakeholder management, risk monitoring and reporting, and risk culture. The global survey conducted in 2014 and on which ours was based, included a sixth area, namely risk-adjusted performance incentives, and we do refer to this when we present the comparative analyses. Three groups emerged:

- **Risk leaders** scored 23 or higher; 16% of organisations qualified.
- **Developing organisations** scored between 14 and 22; 55% of organisations qualified.
- **Early-stage organisations** scored below 14; 29% of organisations qualified.

Financial services (FS) companies operating in Africa, representing more than 20% of survey respondents, only reflects 13% of risk leaders, while consumer and industrials products and services (CIPS) companies accounted for 62% of risk leaders, followed by telecoms, information, communication and entertainment (TICE) at 33% and the government sector at 20%. These results contrast with global findings, where financial services represented nearly half of risk leaders, and CIPS accounted for more than a quarter.

The heart of the matter



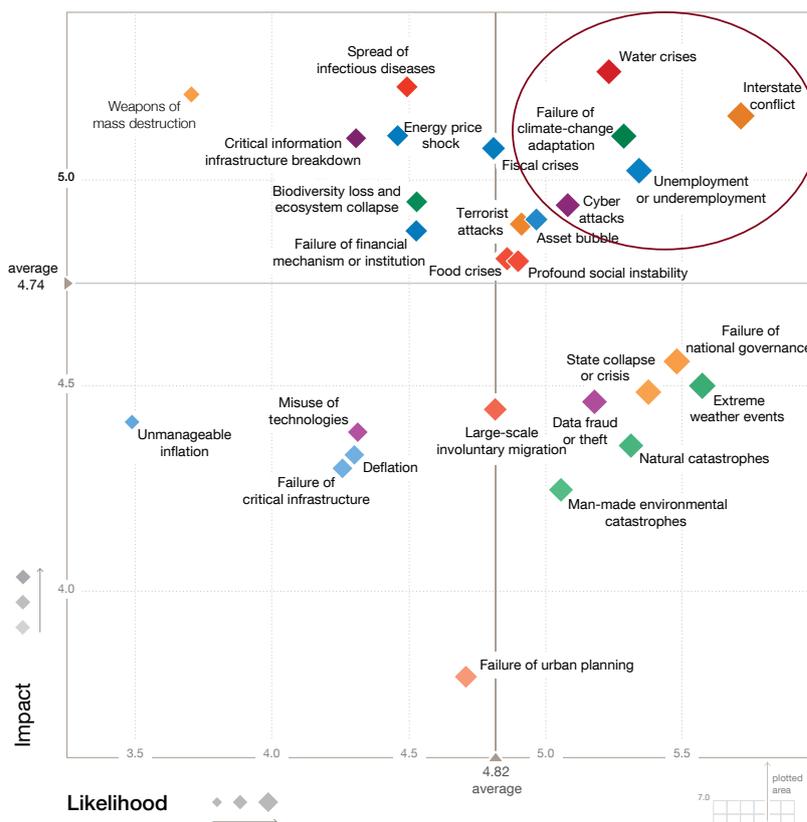
New risks, new opportunities

The world is changing, risks are changing and there is uncertainty, but there are also opportunities – and not taking advantage of upside risks is becoming as risky as not dealing appropriately with downside risks.

While the World Economic Forum’s latest *Global Risks* report identified new high-impact and high-likelihood risks as global expansion and cyberattacks, in Africa we also see un/underemployment, interstate conflict, the spread of infectious diseases, climate change and water/energy shortages as risks with both high impact and high likelihood.

In fact, PwC’s *18th Annual Global CEO Survey* listed geopolitical uncertainty and social instability as two new risk entrants in 2015 and interestingly, we have seen both these occur in South Africa – with the Marikana and Nkandla incidents dominating news headlines.

Figure 3 The Global Risks Landscape, 2015



Top 5 risks overall

1. Interstate conflict
2. Water crises
3. Failure of climate change adaptation
4. Un/underemployment
5. Cyberattacks

Top 5 risks by likelihood

1. Interstate conflict
2. Extreme weather events
3. Failure of national governance
4. State collapse or crisis
5. Un/underemployment

Top 5 risks by impact

1. Water crisis
2. Spread of infectious disease
3. Weapons of mass destruction
4. Interstate conflict
5. Failure of climate change adaptation

Note: Survey respondents were asked to assess the likelihood and impact of the individual risks on a scale of 1 to 7, 1 representing a risk that is not likely to happen or have impact, and 7 a risk very likely to occur and with massive and devastating impacts.

Source: World Economic Forum, *Global Risks 2015*. www.weforum.org/reports/global-risks-report-2015

Figure 4: Risk preparedness : Regional differences

Q For which global risks is your region least prepared?



Source: World Economic Forum, *Global Risks 2015*. www.weforum.org/reports/global-risks-report-2015

As the global economy began to emerge from the economic crisis that took hold in 2008, public- and private-sector organisations were faced with intense market shifts and new challenges. The Eurozone finally began to put the recession behind it and GDP and jobs growth in the US saw positive improvement, but growth among the BRICS countries cooled.

In Africa, 2014 saw the Ebola outbreak in West Africa, with the epidemic's devastating impact on life and the economies, particularly in Liberia, Sierra Leone and Guinea, highlighting the lack of infrastructure and access to basic health services in these countries. But the impact of Ebola has gone way beyond the location of the outbreak, with foreign tourist arrivals down, as far away as Kenya and South Africa.¹

In a number of other African countries, the halving of the crude oil price from US\$112.84 in June 2014 to US\$45.13 per barrel in January 2015 has had serious ramifications for businesses and governments – GDP growth, tax revenues, foreign exchange earnings and exchange rates have all be adversely affected, while the sustainability of businesses in the oil & gas industry has been threatened.²

¹ <http://news.nationalgeographic.com/news/2014/11/141101-ebola-travel-africa-tourism-world-health-medicine/>

² <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RBRT&f=D>

Occurrences such as these serve to highlight the inter-connectedness of risks and the unintended consequences of human action or inaction.

In South Africa, we witnessed geopolitical uncertainty in the form of labour unrest before and after the killings at Marikana, xenophobic attacks that attracted worldwide publicity, and more recently, allegations of bribery and corruption related to the 2010 FIFA World Cup. All of these events have had the impact of increasing reputational risk and affecting the country and the continent's brand.

Meanwhile, technology continues to disrupt globally, both through innovations like cloud computing and the Internet of Things, but also as a result of Cybercrime and cyberterrorism.

The short story: Business risk is everywhere – external and internal, interconnected, growing and ever-changing. Executives and boards know it, and they’re concerned.

Against this backdrop, PwC conducted its first risk survey across sub-Saharan and Francophone Africa in the first half of 2015, interviewing and surveying more than 350 executives and non-executives across 27 countries to seek a detailed picture of the state of risk in Africa’s business climate.

Africa offers both exceptional opportunity, hosting seven of the ten fastest growing economies in the world, and unique challenges to business. These result from demographic shifts, accelerating urbanisation and poor infrastructure, government instability and geopolitical uncertainty, climate change and resource scarcity. Taking our cue from PwC’s global *Risk in Review* survey and using PwC’s *18th Annual Global CEO Survey* and the WEF’s *Global Risks 2015* report as data reference points, this survey was designed to:

- Examine which external and internal drivers of change have the biggest impact on organisations operating in Africa;
- Highlight which global risks and opportunities organisations in Africa are responding;
- Explore how organisations operating in Africa are positioned to respond to these and other risks that impact growth in developing markets;
- Understand the specific risk exposures/capability gaps with respect to digital transformation and technology risk; and
- Understand where organisations perceive themselves to lie along the risk maturity spectrum and obtain a view on the changes they expect to make in the next 18 months.

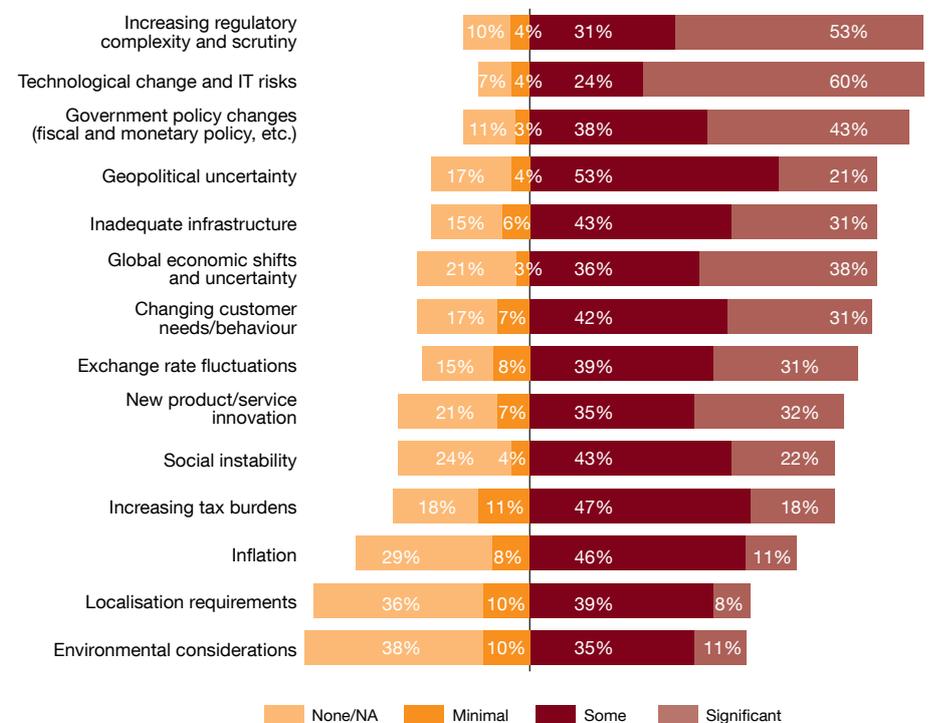
This study presents key findings and insights gained from a survey conducted online as well as from a number of in-depth interviews with executives.

Over the next 18 months, survey respondents expect that ongoing market changes will impact their companies in five key areas:

- Increasing regulatory complexity and scrutiny (84%);
- Technological change and related IT risks (84%);
- Government policy changes (81%);
- Geopolitical uncertainty (74%); and
- Inadequate infrastructure (also 74%).

Figure 5 External drivers of change

Q Which of the following external drivers of change will have the biggest impact over the next 18 months?



Base: 82

Source: PwC analysis

Where it does not add up to 100%, the difference is attributable to “Don’t know” responses

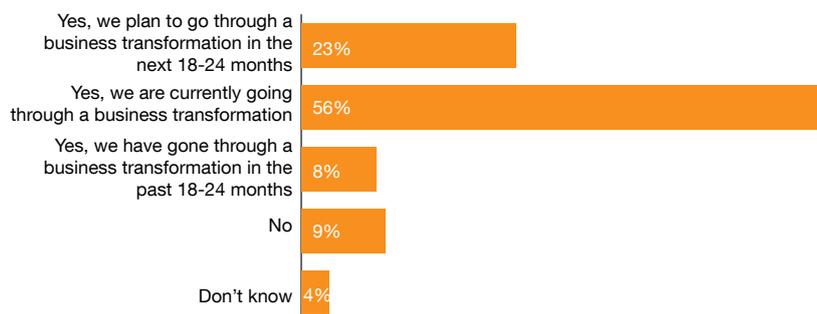
Compared to the results of PwC’s global *Risk in Review* survey³ released in April 2015, respondents in Africa expect increasing regulatory complexity, technological change and IT risks to have the biggest impact on their businesses. This was followed by geopolitical uncertainty and inadequate infrastructure.

To address these shifts, companies continue to undergo dramatic transformation, changing their strategies and driving radical internal change. No less than 87% of respondents in our survey say their organisation has recently undergone a transformation initiative, is doing so, or will do so in the near future.

³ PwC’s, *Risk in Review: Decoding uncertainty, delivering value*. <http://www.pwc.com/us/en/risk-assurance-services/risk-in-review.jhtml>

Figure 6 Business transformation is affecting most organisations operating in Africa

Q Is your organisation transforming its business to respond to market shifts?



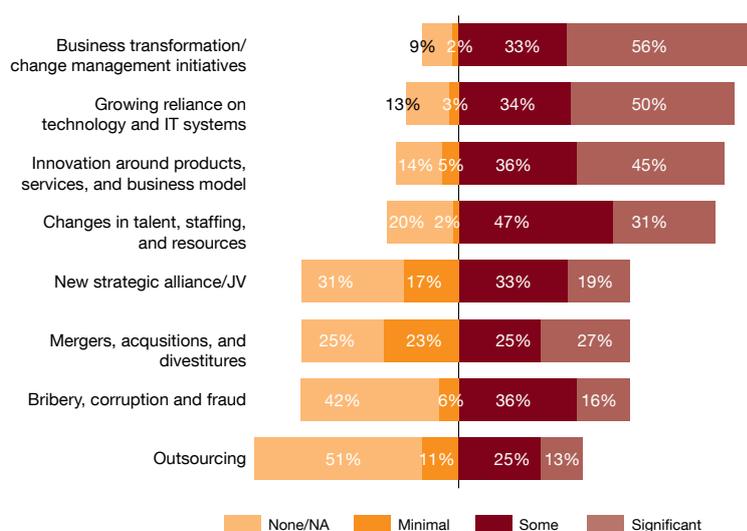
Base: 82
Source: PwC analysis

The combination of market shifts and business changes undertaken in response to them are intensifying risk overall, with 87% of respondents in Africa (Global: 75%) reporting that risks to their businesses are increasing. Our African survey respondents reported that some internal drivers of change will have a substantially more significant impact on them than their global peers:

- 89% – Business transformation (Global: 57%);
- 84% – Growing reliance on technology and IT systems (Global: 54%);
- 81 % – Innovation around products, services and their business models (Global: 56%); and
- 78% – Changes in talent, staffing and resources (Global: 66%)

Figure 7 Business transformation, IT and innovation are internal drivers of change that are expected to have the biggest impact

Q Which of the following internal drivers of change will have the biggest impact on your organisation over the next 18 months?



Base: 82
Source: PwC analysis

The diversity of concerns identified by our respondents is echoed by the findings of PwC's 18th Annual Global CEO Survey⁴. More than 75% of risk specialists and global CEOs in that survey shared concerns about geopolitical uncertainty, fiscal management in the face of rising cost pressures, social instability, cybersecurity and energy price volatility. In addition, our own survey respondents were also very concerned about climate change and resource availability while global CEOs were particularly concerned about regulatory complexity and availability of key skills.

New threats such as cybercrime are requiring new and improved mitigating strategies. Changing consumer behaviour is the top rated market opportunity in our survey and its significance has escalated dramatically given the rise of social media, digital and mobile channels. In response to external forces, companies are rethinking and redesigning their entire business models, product and service portfolios, go-to-market strategies, back-office support and supply chains.

On a positive note and of particular interest in Africa is the innovative use of strategic alliances and joint ventures, as organisations find solutions to supplement skills shortages and re-engineer their supply chains.

Mr Ajibola Dawodu Chief Internal Auditor of Skye Bank Plc (Nigeria) commented on their recent acquisition of Mainstreet Bank Ltd, which now increased the bank's network to around 500 branches from just over 250. "The objective of the acquisition was to grow the bank. The Risk and Internal Audit Groups were part of the integration activities in identifying system and process compatibility issues and in the due diligence on the assessment of their respective risk, internal control and internal audit functions. Our involvement was timely and necessary for the conclusion of the seamless integration."

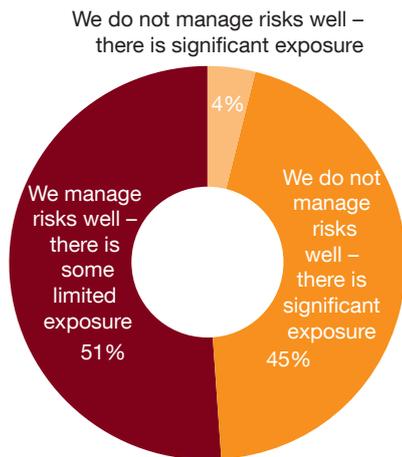
⁴ PwC's 18th Annual Global CEO Survey, 2015. <http://www.pwc.com/gx/en/ceo-survey/2015/>

Worryingly, our survey findings suggest that these shifts are opening capability gaps in risk management, particularly in the areas of data risk management, taking an integrated organisation-wide approach to risk and compliance and building organisational resilience.

In all categories of risk competencies, more than half of respondents were satisfied with their organisation's level of competence in managing risk. Overall, 51% were of the view that they manage risks well with some limited exposure, 45% reported they managed risks somewhat, but with large exposures and the remaining 4% said they do not manage risks well and face significant risk exposures.

Figure 8 How well companies are managing risk

Q Overall, how well do you think your organisation manages risk?



Base: 82
Source: PwC analysis

Surprisingly, when we compared these findings to the global scenario, in particular in developed economies, we found that respondents from Africa express greater satisfaction with their level of risk management competencies than their peers in many other countries. There are a number of possible reasons for this, one of which may be that African organisations are building institutional capacity within organisations by fast-tracking

learnings gained from their global counterparts.

Our findings show that even risk-mature organisations (risk leaders) are moving aggressively toward higher levels of competence, with more growing their expertise across a broader range of risk processes and skills. Examples of this include, the development of capabilities to identify and track risks across the organisation, conducting more non-financial audits and devoting more attention to monitoring emerging risks.

We see a more optimistic picture emerging from the Africa survey respondents, where to close these capability gaps, companies are:

- Integrating risk and business strategies;
- Taking an integrated, cross-functional approach to managing key risks and capability gaps;
- Creating a risk-aware culture across the organisation;
- Developing greater risk management expertise, both within the risk function and across the organisation, making risk management a priority for people at all levels of the organisation; and
- Creating corporate risk dashboards/data visualisation tools.

The companies in the global survey showed some overlap with the Africa results by ranking the top five areas where they expect to make significant progress in the next 18 months:

- Creating a risk-aware culture across the organisation;
- Developing processes to continuously identify and monitor risks;
- Integrating risk and business strategies;
- Conducting more non-financial audits and reviews; and

- Developing greater risk management expertise, both within the risk function and across the organisation, making risk management a priority for people at all levels of the organisation.

Key imperatives for organisations at different levels of risk management maturity

Looking to the future, our survey analysis reveals:

- **Early-stage organisations**
These must put the basic elements of risk management in place and de-silo risk processes by extending them across the organisation.
- **Developing organisations**
These must link business and risk strategy, consolidate risk reporting and build an organisation-wide risk culture.
- **Risk leaders**
These must put in place regular review, evaluation and updates related to processes, incentives, and risk culture.

PwC conducted its first risk survey in sub-Saharan Africa in April 2015. We surveyed and interviewed more than 350 executives and non-executives with operations across 27 countries to seek a detailed picture of the state of risk in today's business climate. This study presents key findings and insights from the survey and in-depth interviews with executives.

In-depth discussion

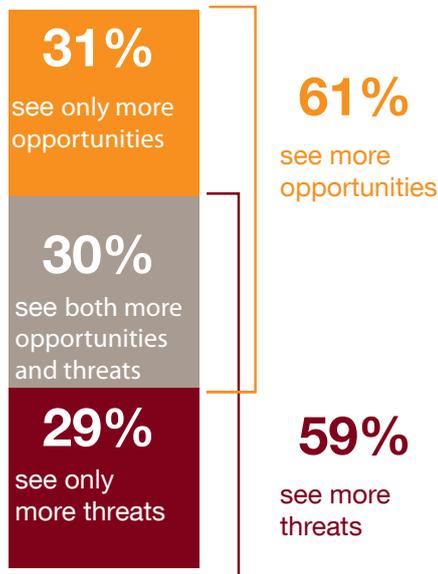


Sweeping market and business change translate into increasing risks and opportunities

Risks are increasing across the board, a trend acknowledged by three out of four survey respondents. Similarly, most executives who took part in PwC's 18th Annual Global CEO Survey foresee continued and significant changes in the world marketplace that will dramatically impact their organisations.

Figure 9 CEOs see more opportunities and more risks today than three years ago

Q How much do you agree/disagree that there are more growth opportunities/threats for your company than there were three years ago?



Base: 1 322
Source: PwC's 18th Annual Global CEO Survey, 2015

While CEOs recognise almost as many risks as they do opportunities, the interconnectedness of risks and pace of change continue to increase. A good example of this can be seen in the repercussions of the West African Ebola outbreak in 2014. Beyond the tragic loss of life, stigma and fear led to a decrease in trade, closing of borders and flight cancellations, declines in foreign investments and tourism arrivals – not only in the areas affected by the disease, but in some instances across the entire continent. This has led some observers to suggest that the economic side effects of the outbreak may kill more people than the disease.⁴

For risk officers and heads of risk operating in Africa, the focus is on building enterprise resilience while leveraging upside risk. Much concern also centres on the broader disruptive effects of technological advances in virtually every sector.

In Kenya, the mobile money market has exploded. Mobile operator Safaricom's success in 'banking the unbankable' through the introduction of M-Pesa demonstrates how companies are boldly entering new sectors to gain competitive advantage and building new, diverse and dynamic partnerships outside of their traditional market sectors. In this publication, we showcase the M-Pesa story as an example of how companies operating in Africa and mindful of the systemic challenges inherent in developing economies,



"Change brings new opportunities and risks. Ten years ago Kenya, Columbia, South Korea, Vietnam and Indonesia were not on most corporate radars as the growth opportunities they are today. The geopolitical landscape and global economy are remarkably changed, as is the business environment in which companies must now operate."

– Anton van Wyk, PwC Africa Risk Assurance Services Leader and immediate past Global Chairman of the International Institute of Internal Auditors

⁴ Helene Gayle, "Ebola's Economic Side Effects May Kill More People Than the Virus". http://www.huffingtonpost.com/care/ebolas-economic-side-effe_b_5768648.html

have responded by effectively using technologies and collaborative partnerships to innovate their marketplaces. While such innovation creates its own risks for those who enter or create new markets, it also threatens the sustainability of traditional competitors.

Globally, we see companies are increasingly encroaching on others' turf. "Most visibly Google, Apple, Facebook and Amazon are blurring lines between technology, retailing, publishing, social networks, entertainment, telecoms, and finance", says Dennis Chesley, PwC's Global Leader for Risk Consulting Services. Similarly, M-Pesa has redefined the way products and services are created and delivered, and by whom. From the technology and communication sectors to government and the public sector, public demand is being powerfully affected by technology innovation. In Africa in particular, we are starting to see how the megatrends of accelerated urbanisation and technological innovation are disrupting traditional business sectors. Governments in Africa are increasingly investing in e-government solutions as the world moves online.

Business transformation has become the norm

In response to these powerful shifts in the market, organisations in all sectors are undertaking dramatic business transformations, altering their strategies and driving radical internal change. In all, 87% of survey respondents in Africa reported that they are in some stage of transformation.

When asked to rank the biggest internal drivers of change over the next 18 months, 89% of respondents expect business transformation to have some impact or a significant impact on their businesses in the short-to-medium term.

This impact is anticipated across all sectors, led by agriculture and technology and communications businesses and government and the public sector, which are responding to powerful, if very, different changes in their markets.

As PwC's *Agribusiness Insights Survey 2014/2015: Africa – are you in for the ride?* (issued in March 2015) notes, the continent has almost 60% of the world's uncultivated land and agriculture is the economic

backbone of most African countries. In sub-Saharan Africa, the sector employs 70% of the labour force and contributes 30% of GDP. Processing of agricultural products generates growth in other sectors too, as demand rises for goods and services.

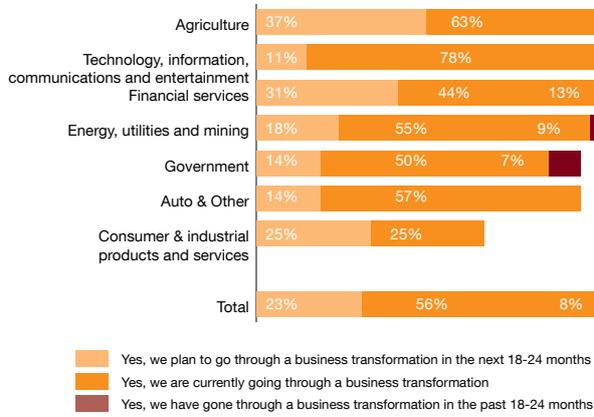
As the world's population increases (recently passing seven billion), global agricultural production must rise to feed these growing numbers. Much of that increased agricultural production will come from Africa. Therefore, as obstacles are overcome and agricultural output is increased, there'll be a business opportunity for the manufacture and marketing of products such as fertilisers, pesticides and seeds, as well as increased demand for food-processing services such as grain refining.

As a result of accelerating urbanisation (research suggests that sub-Saharan Africa's urban population will triple in the next 40 years) the agricultural sector needs to focus on new technologies and improved production systems to increase efficiency in the face of limited resources, notwithstanding the impact of labour migration, economies of scale, increasing wages and consumer demand, among other factors.



Figure 10 Business transformation is sweeping all sectors: Industry analysis

Q Is your organisation transforming its business to respond to market shifts?



Note: *Global figures do not always add up to 100% as we have excluded “Don’t know” responses.

Base: 82

Source: PwC analysis

Globally we see that following business transformation (71%), respondents identified a number of other closely-related change drivers that will have a big impact on them in the short-term:

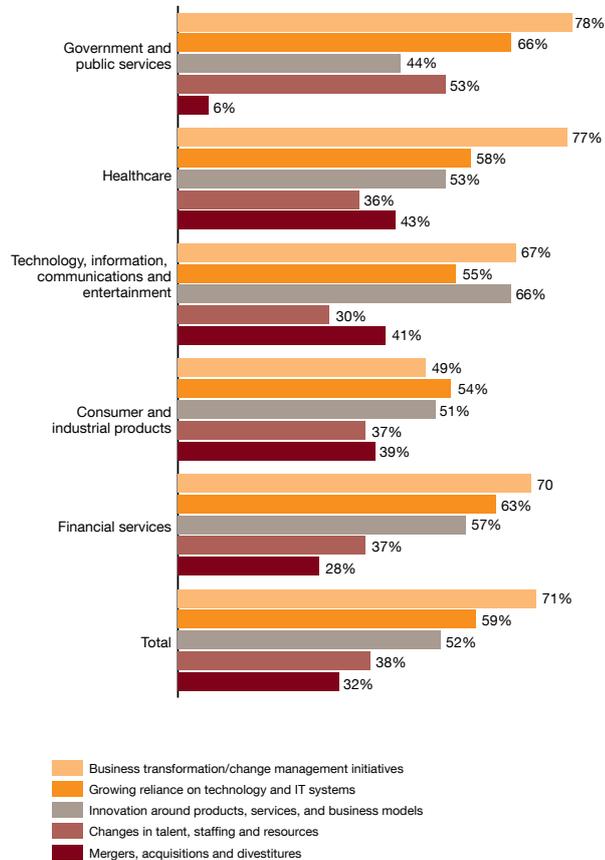
- Growing reliance on technology and IT systems (59%);
- Innovation around products, services and business models (52%); and
- Changes in talent, staffing, and resources (38%).

For technology, information, communication and entertainment companies, business model innovation is an especially important driver (66%), while the same proportion of those in government and public services regard growing reliance on technology as a major concern.

The impact of transformation initiatives is important because of the capacity these initiatives have to create cascading risk effects across many business activities, including mergers, acquisitions and divestitures, which were cited by almost a third of respondents as a high-impact change.

Figure 11 Business transformation is the dominant internal change driver across industries

Q In your view, which of the following internal drivers of change will have the biggest impact on your organisation over the next 18 months?



Base: 1 940

Source: PwC’s Risk in Review: Re-evaluating how your company addresses risk, 2014. <http://www.pwc.com/gx/en/audit-services/publications/risk-in-review.jhtml>

Spotlight on government and public services

Globally, the public sector, which has been buffeted by many of the same economic forces as private companies since the financial crisis, also faces many of the same challenges in managing risk – in some cases to a more severe degree. In Africa, governments more so, because of its involvement as a strategic enabler for economic development.

For example, globally public-sector respondents are considerably more worried about changes in talent, staffing and resources (53% compared to the overall average of 38%). This reflects the difficulty these budget-constrained entities face in recruiting talented staff as well as reductions in staff numbers as a result of restructuring and retrenchments, given that public service salaries are one of the major expenditures of government. Globally too, government lags behind when it comes to and innovation around products and services (44% compared to the overall average of 52%). Perhaps as a result of these factors, public-sector respondents are also significantly more concerned that major business transformation initiatives, like major IT programmes will not produce desired results.

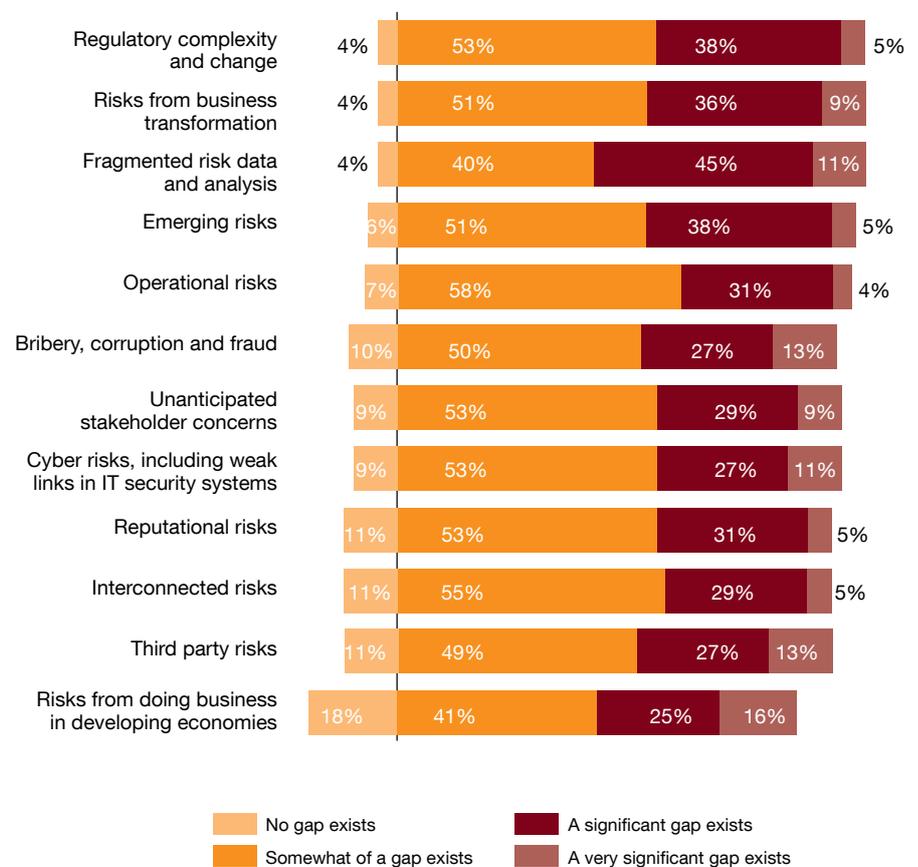
Nevertheless, our research suggests the public sector is responding to these challenges with determination. In nearly every area of change from adopting vision statements, risk appetite statements, and enterprise-wide risk rating systems to building the capabilities of the risk function and creating a risk-aware culture across the organisation – Government says they are as committed as survey respondents overall to prioritise building their capacities. But the impacts of the risks they face will still continue to materialise until appropriate risk mitigation strategies are also implemented.

External shifts + internal change = capability gaps + heightened risk exposure

The combination of external shifts and internal change has heightened risk exposure, opening up capability gaps that traditional risk management systems were not built to address, and that can severely weaken risk management strategies. The top four gaps identified by respondents in our survey relate to regulatory complexity and change, business transformation initiatives, fragmented risk data and analysis and emerging risks.

Figure 12 Largest capability gaps

Q Which areas of risk represent the largest capability gaps for your organisation today?

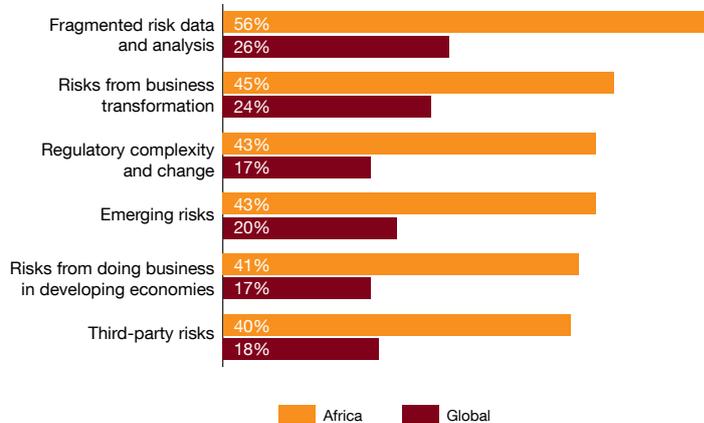


Base: 82
Source: PwC analysis

Figure 12 provides a sobering insight into the scope of capability gaps affecting organisations in Africa. To explore this further, we examined the largest risk capability gaps in which respondents reported either a significant gap or a very significant gap in capabilities and compared the global results to that of our global risk survey. The findings are shown in Figure 13.

Figure 13 Organisations in Africa recognise significant capability gaps compared to global peers

Q Which areas of risk represent the largest capability gaps for your organisation today? (Summary: Significant/very significant gap exists)



Base: Africa – 82, Global – 1 940
Source: PwC analysis

The sizeable contrast in the prevalence of major capability gaps between global and African respondents highlights the differences between organisations in the developed and developing world.

Companies operating in more developed economies generally exhibit a higher level of sophistication in their risk management capabilities and are positioned higher up on the risk maturity curve.

Cyber risks, including weak links in IT security systems, were also highlighted by a significantly higher proportion of African respondents (38%) than global (23%). At a time of intensifying risk, rationalising data and analytic reports is especially urgent.

In Africa, there are a number of governance, risk and compliance (GRC) technologies in the market (SAPGRC, CURA, Isometrix, MetricStream, RSA Archer, Ontraac that supports Oracle, etc.) There are simple tools like dashboards, heat maps, risk interconnectedness maps and there are also sophisticated risk analytical tools.

Many financial institutions are investing in technology upgrades, driven in part by pressure from regulators. Firms are investing in establishing processes and tools to mine, manage and interpret the myriad data across the domains of product, customer, finance and workforce, which is required to support integrated decision-making and enable effective governance.

“What we are starting to see is that many companies are seeking a technology solution without putting the basics into place. We are of the view that technology is an enabler and you still need to appropriately configure a system – whether you buy an off-the-shelf solution or whether you build and tailor your own system”, observes Carmen Le Grange, PwC Africa’s Business Resilience Leader.

Taken together, these results suggest that many executives may not fully understand some key capability gaps. In one increasingly crucial area –interconnected risks –relatively few respondents (16%) report significant capability gaps. Yet this is a vulnerability that will require closer attention. “Risk interconnectivity is

an area that companies must focus on more, given its impact on the risk profile – we saw this with the outbreak of Ebola last year, and we are increasingly hearing our clients tell us that significant risk exposures determine their investment decisions.” says Carmen Le Grange, PwC Africa’s Business Resilience Leader. “This interconnectivity is about understanding how one risk can trigger another.”

Digital transformation is critical, but executives struggle with implementation

Broadly speaking, the biggest capability gaps centre on increasingly technology-dependent business models. Failure of new IT systems to deliver expected benefits (70%) and lack of technology skills to support new digital strategies (70%) are ranked among the top technological risks by respondents across all industry sectors.

Also of concern is exposure created by the interconnectivity of IT systems, brand or reputational risks from social media and open web communication, as well as more frequent and sophisticated cyberattacks. News of cyberattacks also spreads quickly, often via social media, and often with reputation-damaging consequences.

Such threats become more complex and difficult to solve when risk, IT and the business units are not in frequent communication. Successful execution of technology projects and strategies requires the tools to implement them and the skills to support implementation. Yet lack of technology skills emerged as a top-three technology risk and was cited by at least one in three survey respondents in every sector.

Recent articles in the press report that corporations of all types from entertainment groups like Sony to retailers, insurers and even carmakers are spending big money

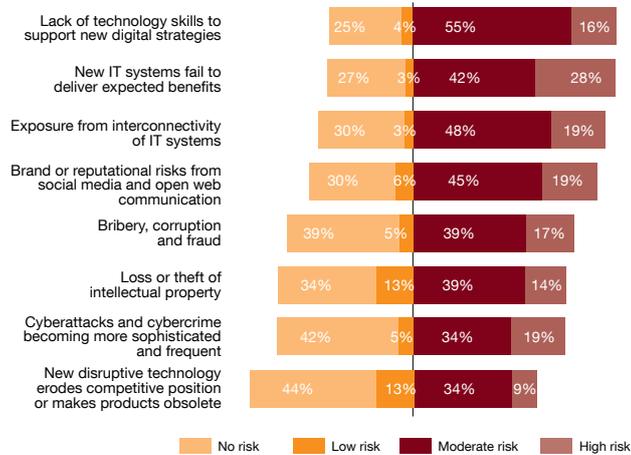
to fight back against hackers. But the financial industry is the most frequently targeted, facing 300% more cyberattacks than any other sector, according to a report from Websense, a cybersecurity company.⁵ Many large banks have begun moving their technology onto a 'defensible architecture'. Some are building new platforms, setting up clouds and creating virtual desktops to keep data away from the 'perimeter' and locked into servers that make it inaccessible to USB drives.

“As a telecommunications company using technology, Safaricom is always conscious of the risks around cybersecurity. There are attack threats both from local and international sources. Cybersecurity is a response to a significant risk to the business and is a constant agenda item for the risk department, explains Nicholas Mulila, Director of Risk Management at the Kenyan mobile network operator. “Considering the value of transactions on our M-Pesa platform, as well as its voice and data services, Safaricom management is conscious of these risks and has taken the necessary steps to mitigate them, including developing robust systems. There are also various layers of reviewers monitoring security across the business – from the IT department, the risk department and internal audit”, he says.

⁵ www.websense.com

Figure 14 Technological change puts organisations at risk

Q9 To what extent do you feel that your organisation is at risk from each of the following factors over the next 18 months?



Base: 82
Source: PwC analysis



“Technology risk, with its fast-changing pace is without a doubt a top risk not just globally, but across Africa. Our research has found that cyberattacks skyrocketed globally in 2014 – up 48% from 2013. This is expected to increase further in 2015, with roughly 117 000 attacks a day. In Africa, we are seeing cyberattacks following the global trend as a ‘new’ risk. Organisations need to manage this proactively or risk facing potential major downside exposure.”

– Mark Telfer, PwC Africa IT Risk Assurance Leader and PwC Risk Assurance Leader for East Africa

Facing a volatile risk environment, companies are scrambling to develop and maintain risk competencies

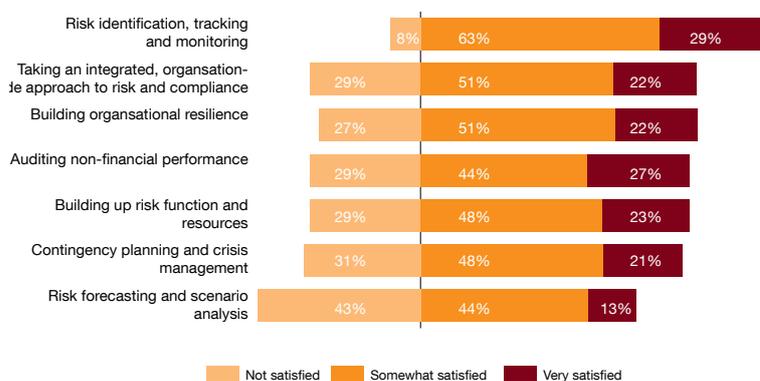
In the face of capability gaps and technology challenges, executives in Africa feel they are making progress at maintaining and building their risk management competencies, with more than half (51%) of respondents saying they think their organisation manages risk well, with some limited exposure.

Larger percentages of respondents, in Africa and globally, are more satisfied with their level of competence in almost all risk management processes. Nevertheless, some important areas still need improvement: Respondents are least satisfied with their abilities around risk forecasting and scenario analysis and with competencies involving structure and processes – building organisational resilience, building up the risk function and resources, and taking an integrated, organisation-wide approach to risk and compliance.

Across sectors, financial services companies are most satisfied with their competencies, perhaps owing to having made greater effort, having access to more widespread benchmarking against peers and being subject to a highly-regulated environment.

Figure 15 Satisfaction levels are growing in most areas of risk competency

Q How satisfied are you with your organisation's current level of competency in each area? (Summary: Somewhat/very satisfied)



Base: 82
Source: PwC analysis

It is notable that for African respondents, bribery, corruption and fraud did not feature in the top three risk areas requiring improvement. This result is supported by ENSafrica's 2015 anti-bribery and corruption survey, which found fewer organisations feel they are highly exposed to bribery in Africa than they

were just two years ago (17% this year as opposed to 50% in 2013).⁶ This may be attributable to organisations embracing the challenges of anti-bribery compliance and starting to build workable compliance programmes that mitigate bribery risks.

A total of 88 organisations across Africa, including in Mauritius, participated in the ENSafrica survey, which was designed to gauge perceptions regarding an organisation's anticorruption compliance with local and global requirements and to see how these processes compared with generally accepted anticorruption compliance best practice.

Some of the survey's other findings worthy of mention include:

- 68% of those surveyed believe that third-party business partners pose the greatest source of bribery risk to their organisations, with 62% of organisations now conducting due diligence screening on third parties;



“Risk professionals in some industries are changing risk management processes to be much more focused on incorporating the effect of uncertainty into business planning, performance management, investment appraisal and so on. It sometimes feels like the approach in financial services is still very much about risk capital. More can be done to consider what a company's risk exposures mean from a strategy and performance perspective.”

– Keith Ackerman, PwC's Risk Assurance Leader for Southern Africa.

⁶ ENSafrica, 2015 anti-bribery and corruption survey, <https://www.ensafrica.com/forensics/forensics2015/index.html>

- Angola, the Democratic Republic of Congo, Ghana, Kenya, Mozambique, Nigeria, South Africa and Uganda were highlighted as corruption hotspots; and
- Only 36% of the organisations surveyed believe they are well prepared to respond to the threat of an anti-bribery regulatory investigation and are confident that they have appropriate procedures to mitigate bribery risks.

Apart from bribery and corruption, inadequate infrastructure ranks fifth as a risk that will have the biggest impact over the next 18 months. Not least of these challenges are problems with electricity supply:

“Africa faces a huge electricity demand challenge. Existing infrastructure is insufficient to meet current requirements, let alone the growth of the coming decades. Installed power capacity is expected to rise from 2012’s 90GW to 380GW in 2040 in sub-Saharan Africa. Nonetheless 530 million people, primarily in rural communities, are expected to remain without power. But difficulties such as the investment barriers facing the sector are being addressed. An era of rapid technological change is also coming at a pivotal time in the expansion of African power infrastructure.”

PwC’s Africa Power & Utilities Sector Survey, 2015⁷

⁷ www.pwc.com/gx/en/utilities/publications/index.jhtml

Two-thirds (67%) of those interviewed for PwC’s *Africa Power & Utilities Sector Survey* cited ageing or badly maintained infrastructure as a high or very high concern. Encouragingly, many felt this situation would improve, with only 39% predicting that it would be a similarly high or very high concern in five years’ time. If this proves to be the case, this will be a very significant development.

Our findings in Africa show executives are least satisfied with their abilities around risk forecasting and scenario analysis, building organisational resilience through expanding competencies involving structure and processes, taking an integrated organisation-wide approach to risk and compliance, as well as contingency planning and crisis management.

Case study: Managing disruptive technology – the M-Pesa story



The challenge

Inadequate and inaccessible financial services are just two of the reasons poor people are trapped in poverty. Without access to financial services, poor people cannot invest in tools to increase productivity, start a microenterprise, invest in education or health, or even take time to search for better opportunities.

In addition, traditional monetary exchange requires a physical location and people need transportation to get to the location, both of which can be problematic in infrastructure-constrained countries such as Kenya, particularly in rural areas.

The response

Developed by global mobile network operator Vodafone and launched commercially by the company's Kenyan affiliate Safaricom Limited in 2007, M-Pesa is a small-value electronic payment and store of value system accessible from ordinary mobile phones. Transaction values are capped at US\$500.

Once customers have an M-Pesa account, they can use their phones to transfer funds to both M-Pesa users and non-users, pay bills and purchase mobile airtime credit for a small, fixed fee per-transaction. The affordability of the service has been key in opening the door to formal financial services for Kenya's poor.

Disruptive technology – the threat that another company comes up with a better or cheaper version of a key product – is one of the greatest technology risks facing companies today. The Safaricom story highlights how a leading African company innovatively captured market share in Kenya by leveraging the marketplace disruptors of regulation, competition and changing customer behaviour, while at the same time boldly and successfully entering a new industry sector through collaboration with new partners and the regulators.

Safaricom Limited's Director of Risk Management, Nicholas Mulila explains:

“The company is constantly innovating. The risk team strives to be an enabler of business with the consideration that the customer comes first. As a telecommunications company, keeping up with the latest technology is an area of focus and change is continuously considered in the business. The risk department is involved in all technological projects and gives approval for all changes. There are also governance structures around change.”

Safaricom Limited's Director of Risk Management, Nicholas Mulila

Since its introduction in mid-2007, M-Pesa has been adopted by more than 9 million customers – representing more than 40% of Kenya's adult population – and is now facilitating an average of \$320 million per month in person-to-person transfers (roughly 10 percent of Kenya's GDP on an annualised basis).

– Ignacio Mas and Dan Radcliffe, “Mobile payments go viral – M-Pesa in Kenya”, World Bank, 2010. http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/M-Pesa_Kenya.pdf

How organisations operating in Africa assess themselves on the risk maturity spectrum

While improving competencies is an important step in closing capability gaps, organisations are making broader changes across five areas:

- Strategy and vision;
- Risk appetite;
- Stakeholder management;
- Risk monitoring and reporting; and
- Risk culture.

To understand what differentiates leaders in risk management, we asked respondents:

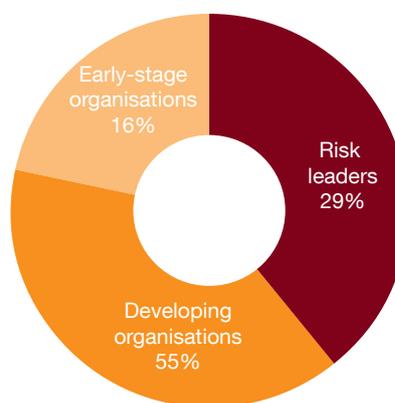
“Which stage of maturity best describes your risk management framework?”

Each organisation rated itself on a scale of 1 to 5 across the five areas/practices of risk management mentioned above. The global survey used six areas of practice management, as opposed to the five used in our research, as we excluded risk-adjusted performance incentives. This did not prevent respondents from commenting on risk incentives, where they use these to link risk to performance. Three groups emerged from those that assessed themselves on the risk maturity curve:

- **Risk leaders** scored 23 or higher; 29% of organisations qualified.
- **Developing organisations** scored between 14 and 22; 55% of organisations qualified.
- **Early-stage organisations** scored below 14; 16% of organisations qualified.

Risk maturity ratings: overall and sector analysis

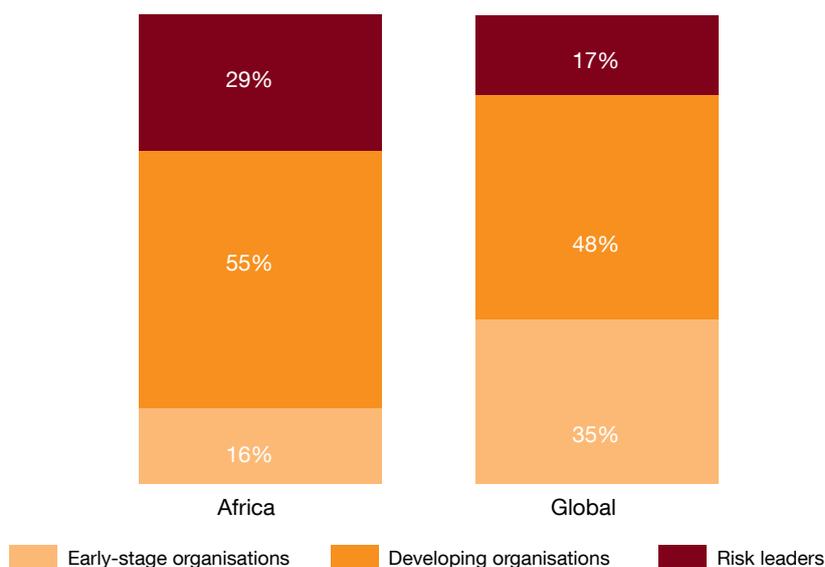
Figure 16 Risk maturity in Africa



Base: 82
Source: PwC analysis

When comparing African survey respondents to their global peers, we observed a higher proportion of risk leaders in Africa (29%) compared to global organisations (17%) a surprising result given the sophistication of developed markets – and a lower percentage of early stage organisations (16% compared to 35%). Perhaps the reason for this is that African companies are more optimistic in their self-assessments, especially since they’ve been taking advantage of upside risk and leveraging opportunities. Another reason could be that as African countries are busy building institutional capacity, it is easier to redefine and implement technology requirements.

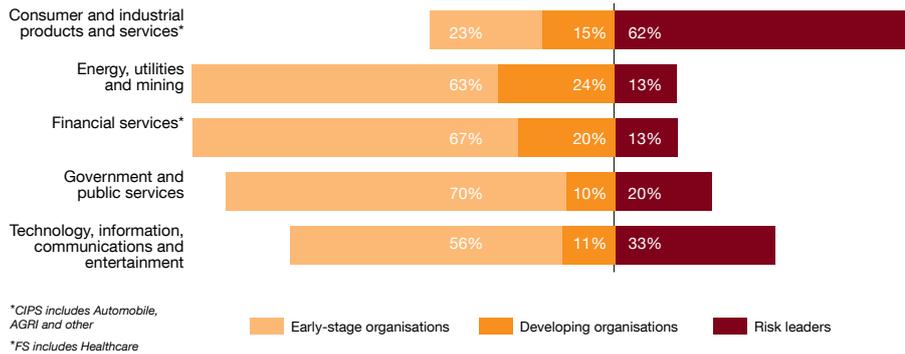
Figure 17 Risk maturity comparison, Africa vs global



Base: Africa – 82, Global – 1 940
Source: PwC analysis and PwC’s Risk in Review: Re-evaluating how your company addresses risk, 2014. <http://www.pwc.com/gx/en/audit-services/publications/risk-in-review.jhtml>

Capability gaps vary by sector. While financial services companies operating in Africa represent more than 20% of survey respondents, only 13% of risk leaders fall in this sector. In contrast, 62% of CIPS respondents, 33% of TICE respondents and 20% of government and public sector respondents qualified as risk leaders. These findings contrast substantially with the 2014 global results, in which financial services companies represented nearly half of risk leaders and CIPS accounted for more than a quarter.

Figure 18 Level of risk maturity across industry sectors

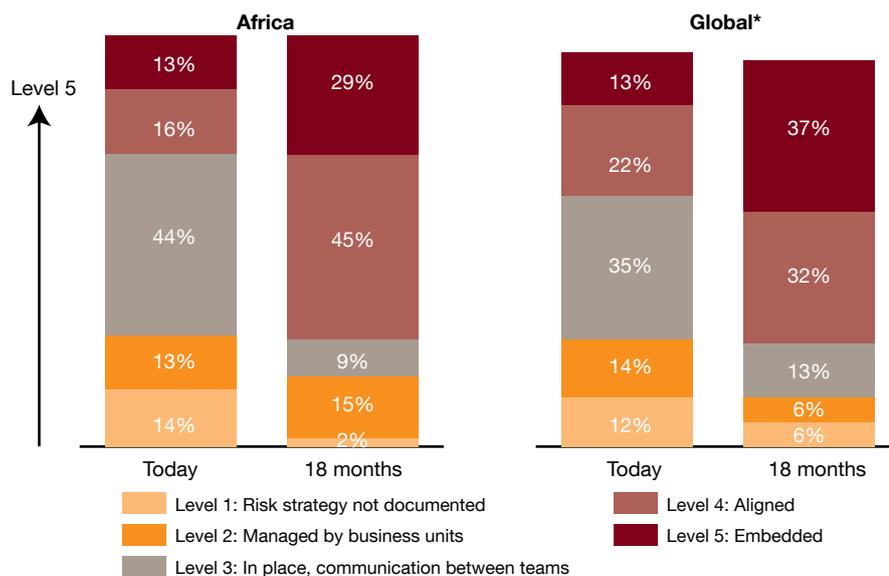


Base: 82
Source: PwC analysis and PwC's Risk in Review: Re-evaluating how your company addresses risk, 2014. <http://www.pwc.com/gx/en/audit-services/publications/risk-in-review.jhtml>

Risk maturity ratings by risk category

Figure 19 Risk management strategy and vision: How organisations assess themselves on the risk maturity curve and where they see themselves in 18 months

Q Which stage of maturity best describes your risk management strategy and vision, today and in 18 months?

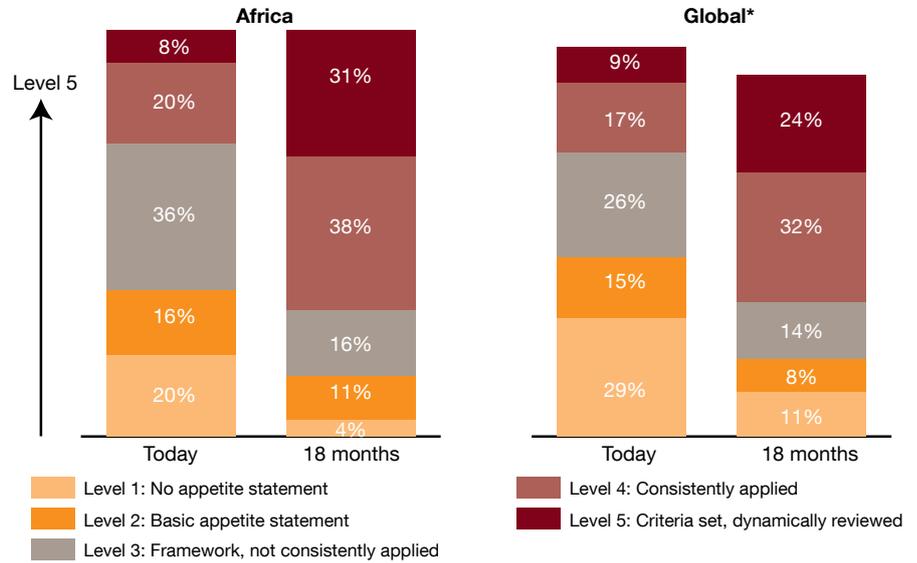


Note: *Global figures do not always add up to 100% as we have excluded "Don't know" responses.

Base: Africa – 82, Global – 1 940
Source: PwC analysis and PwC's Risk in Review: Re-evaluating how your company addresses risk, 2014. <http://www.pwc.com/gx/en/audit-services/publications/risk-in-review.jhtml>

Figure 20 Risk appetite: How organisations assess themselves on the risk maturity curve and where they see themselves in 18 months

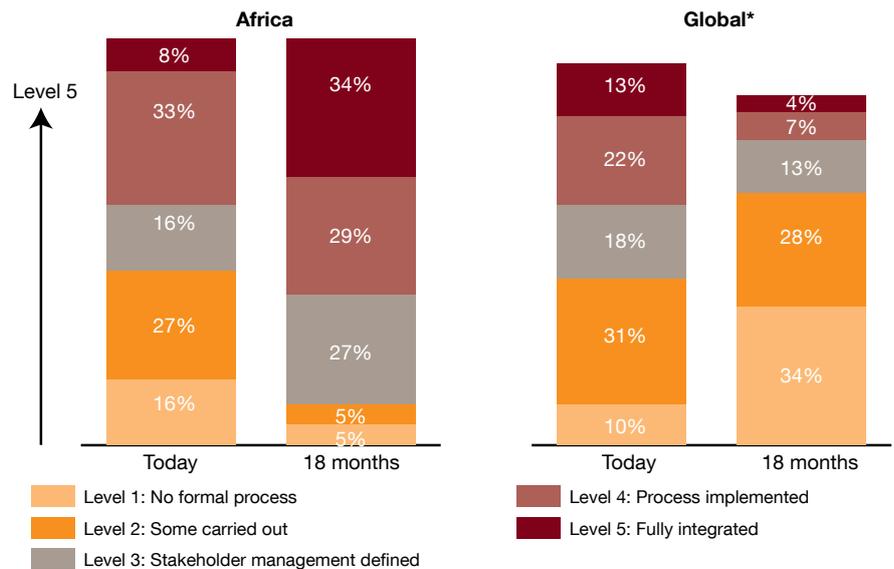
Q Which stage of maturity best describes your risk appetite, today and in 18 months?



Note: *Global figures do not always add up to 100% as we have excluded “Don’t know” responses.
 Base: Africa – 82, Global – 1 940
 Source: PwC analysis and PwC’s Risk in Review: Re-evaluating how your company addresses risk, 2014.
<http://www.pwc.com/gx/en/audit-services/publications/risk-in-review.jhtml>

Figure 21 Stakeholder management: How organisations assess themselves on the risk maturity curve and where they see themselves in 18 months

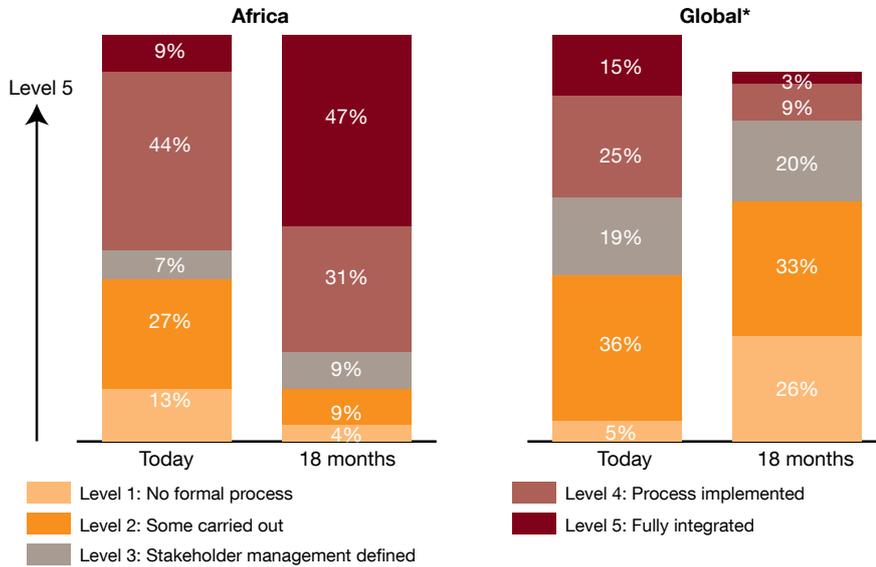
Q Which stage of maturity best describes your stakeholder management, today and in 18 months?



Note: *Global figures do not always add up to 100% as we have excluded “Don’t know” responses.
 Base: Africa – 82, Global – 1 940
 Source: PwC analysis and PwC’s Risk in Review: Re-evaluating how your company addresses risk, 2014.
<http://www.pwc.com/gx/en/audit-services/publications/risk-in-review.jhtml>

Figure 22 Risk monitoring: How organisations assess themselves on the risk maturity curve and where they see themselves in 18 months

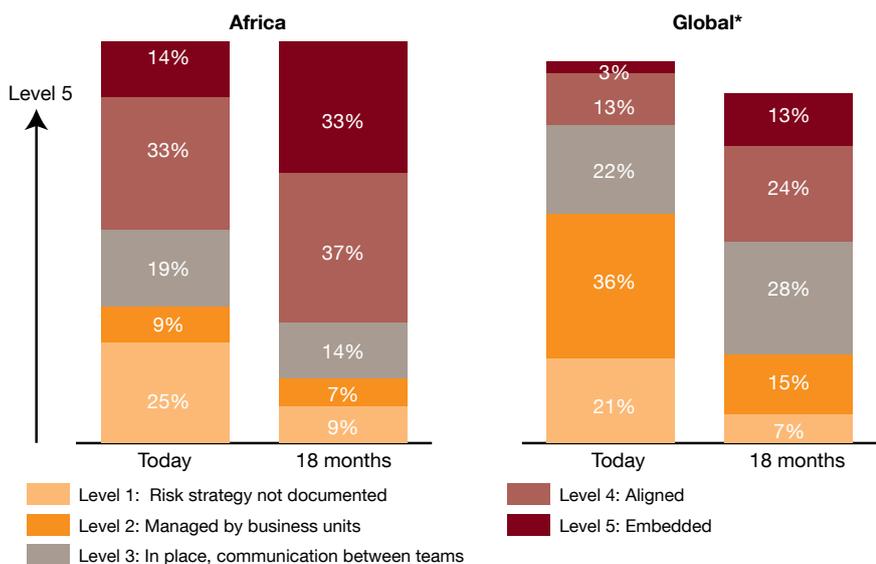
Q Which stage of maturity best describes your risk monitoring, today and in 18 months?



Note: *Global figures do not always add up to 100% as we have excluded “Don’t know” responses.
 Base: Africa – 82, Global – 1 940
 Source: PwC analysis and PwC’s Risk in Review: Re-evaluating how your company addresses risk, 2014.
<http://www.pwc.com/gx/en/audit-services/publications/risk-in-review.jhtml>

Figure 23 Risk culture: How organisations assess themselves on the risk maturity curve and where they see themselves in 18 months

Q Which stage of maturity best describes your risk culture, today and in 18 months?



Note: *Global figures do not always add up to 100% as we have excluded “Don’t know” responses.
 Base: Africa – 82, Global – 1 940
 Source: PwC analysis and PwC’s Risk in Review: Re-evaluating how your company addresses risk, 2014.
<http://www.pwc.com/gx/en/audit-services/publications/risk-in-review.jhtml>

Across all categories of risk management, organisations see themselves moving up the risk maturity curve:

- **On risk management strategy and vision**

While only 13% of both Africa and global survey respondents say they have embedded strategy and vision statements today, more global than African respondents expect this to be more embedded and aligned in the next 18 months. In Africa, there is a bigger emphasis on getting the strategy documented, managed by business units and getting it in place across teams.

- **On risk appetite**

Only 8% and 9% of African and global survey respondents, respectively, say they have set criteria for determining risk appetite statements and these are dynamically reviewed today. Companies in Africa are more optimistic that they will be at a level 5 in the next 18 months (31%) compared to their global counterparts, of which less than a quarter (24%) anticipate this. This suggests an appreciation by global respondents of the challenges in determining and formalising risk appetite frameworks, and is supported by a study done by PwC and the International Association of Credit Portfolio Managers (IACPM), released in November 2014, which surveyed 78 financial institutions across the globe to assess how they determine and implement risk appetite frameworks.

- **On stakeholder management**

More African survey respondents (41%) assessed themselves at a 4 and 5 with fully-integrated and implemented processes (Global: 35%). In fact, global respondents don't expect to get to these levels in the next 18 months, with more focusing on how they will implement a formal process and which aspects of stakeholder management they will prioritise. While stakeholder management ranks higher in Africa, in our experience the impact of what is actually happening in the market begs the question: What are the real issues that stakeholders are being engaged on?

- **On risk monitoring**

Fifty-three percent of survey respondents assessed their organisations' maturity levels at 4 and 5 today (Global: 40%). In fact, global respondents do not even expect to get to advanced levels of risk monitoring in the next 18 months – 12% expect to achieve only levels 4 and 5, while 78% of African respondents say they will achieve mature levels when it comes to risk monitoring. This result suggests that despite the proliferation and use of data and risk analytics tools in developed markets, organisations in the developed markets remain concerned about fragmented risk data and grapple with how to integrate, interpret and make sense of big data.



“The risk appetite framework (RAF) is an essential component of effective risk governance. While organisations are keen to determine a RAF and do align this with the company’s strategic goals, they battle to operationalise risk appetite, risk tolerance and risk-bearing capacity into their day-to-day decision-making. This can profoundly impact a company’s overall risk profile.”

– Carmen Le Grange, PwC Africa Business Resilience Leader





- **On risk culture**

Forty-seven percent of African survey respondents assessed their organisations at levels 4 and 5 today (Global: 16%). In the next 18 months, African survey respondents expect that this will improve to 70%, while their global counterparts expect an improvement to only 37%.

Globally, companies are spending a lot of their energy on creating a risk-aware culture to address risk capability gaps and integrating risk across their organisations by aligning people, processes, systems and technology.

Organisations in Africa are creating a risk-aware culture to address capability gaps and non-traditional risks

While improving competencies is an important step in closing capability gaps, organisations are making broader changes across three areas:

- Strategy and vision;
- People and culture; and particularly
- Processes, systems and technology.

The objective is to embed risk awareness across the organisation, improve processes to monitor risk and increase companies' attention to non-traditional risks. As Figure 24 shows, the top-ranking changes African survey respondents have made or plan to make in the next 18 months are:

- 89% – Integrating risk and business strategies, ensuring that risk is factored into all strategic decisions;

- 88% – Taking an integrated, cross-functional approach to managing key risks and capability gaps;
- 87% – Creating a risk-aware culture across the organisation;
- 87% – Developing greater risk management expertise, both within the risk function and across the organisation, making risk management a priority for people at all levels of the organisation; and
- 87% – Creating corporate risk dashboards / data visualisation tools.

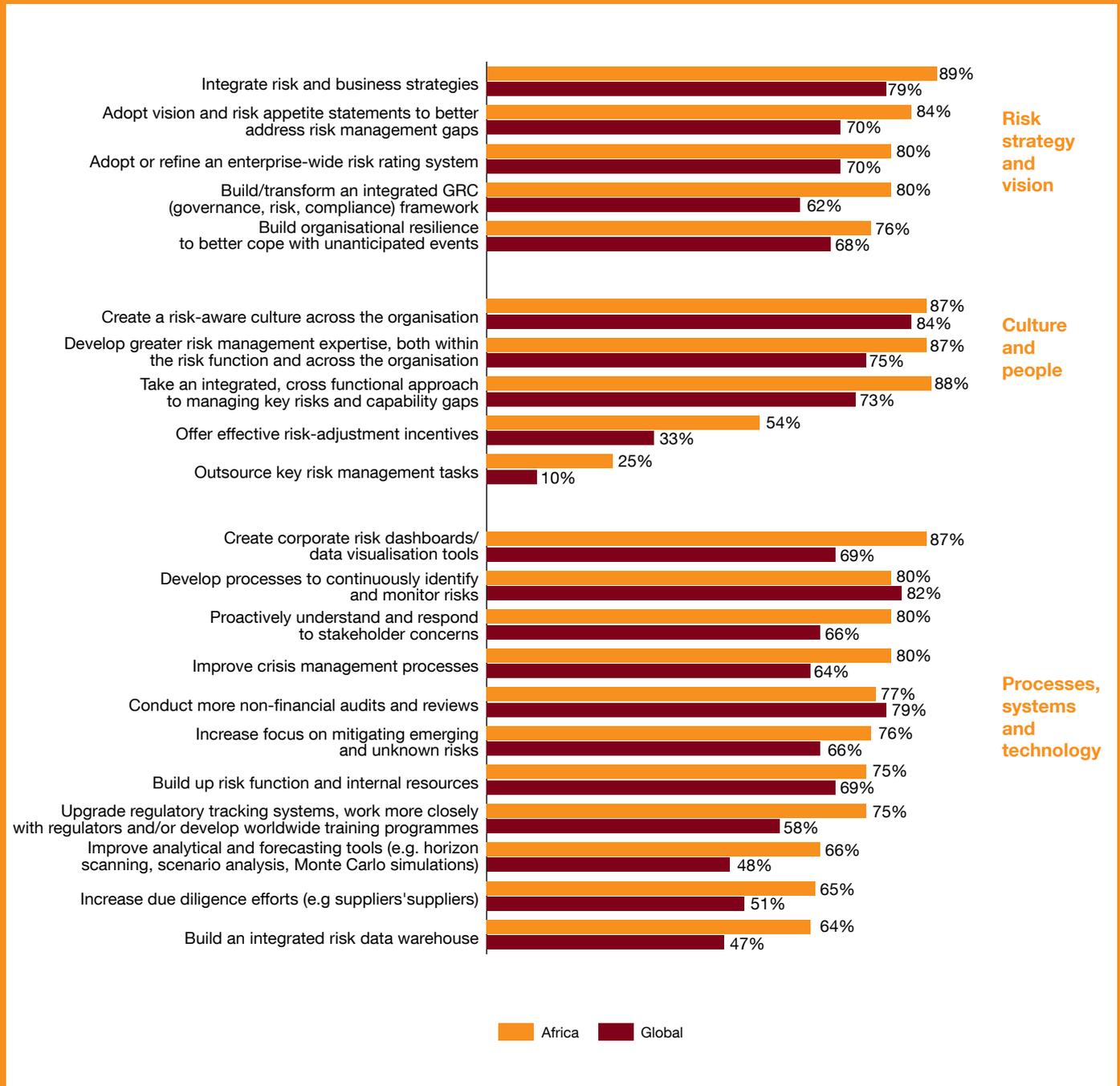
By contrast, participants in the global survey ranked the top five changes they expect to make in the next 18 months as follows:

- 84% – Creating a risk-aware culture across the organisation;
- 82% – Developing processes to continuously identify and monitor risks
- 79% – Integrating risk and business strategies;
- 79% – Conducting more non-financial audits and reviews; and
- 75% – Developing greater risk management expertise, both within the risk function and across the organisation, making risk management a priority for people at all levels of the organisation.

Here again we see a more optimistic picture emerging from African survey respondents. For many organisations in fast-growing economies, improving risk management is part of catching up with global corporate best practices.

Figure 24 Steps being taken to address capability gaps

Q Which changes have you already made or are planning to make over the next 18 months to address key capability gaps? (Summary: Already made change/ Planning to make change over next 18 months)



Base: Africa – 82, Global – 1 940

Source: PwC analysis and PwC's Risk in Review: Re-evaluating how your company addresses risk, 2014. <http://www.pwc.com/gx/en/audit-services/publications/risk-in-review.jhtml>

More than ever before, the risk management function must align with other business functions

With business transformation changes being one of the main risks that organisations grapple with, risk management can no longer operate independently of strategy; it must be a part of strategic planning and implementation.

In PwC's latest *State of the Internal Audit Profession* study released in April 2015, internal audit functions considered by stakeholders to be contributing significant value to their organisations are now also involved in transformational initiatives up to twice as frequently as their peers and are performing far better at focusing on the critical risks and issues the organisation is facing. Strong support from management and the audit committee enables internal audit to engage early on and provide proactive views. The chief audit executive (CAE) has a seat at the executive table and at the Board Risk and/or Audit Committee table. But it's not only the CAE that should be proactively engaging with management about how they are responding to risk. The chief risk officer/head of risk also has a responsibility to ensure that robust dialogue around enterprise risks takes place; the risk function should share their objective perspectives and not only challenge the executive to reach a viewpoint on the most critical risks, but also enable executive decisions.

Whether management deploys a centralised or a decentralised model is not important – what is important is that risk management must enable business engagement and alignment across the organisation:

“Risk champions have responsibility and accountability throughout the business. The knowledge and experience of teams across the business has been important for risk management. A notable success was the migration of the M-pesa platform from Germany to Kenya where there were risk teams from across the business working together to deliver on this large project.”

– Nicholas Mulila, Director of Risk, Safaricom Limited

Despite improvements, collaboration among the lines of defence still requires optimisation.

Organisations report considerable success in aligning risk functions with other areas to strengthen risk culture and strategy. Concerns remain, however, that collaboration among the three lines of defence (business units, risk and compliance, and internal audit) in identifying, monitoring and effectively managing critical risks is still not deep enough to protect the organisation from capability gaps.

Such collaboration shares equal importance with robust risk management competencies and strong collaboration between top management and risk management.

Respondents agree that close collaboration between risk-related functions is vital to ensure a shared view of business risk up, down, and across the enterprise.



Risk management is now aligning more closely with internal audit and the other lines of defence:

“How the lines of defence work collaboratively together will not only optimise integrated assurance, but will also enhance risk management and ensure better alignment across the organisation. Embedding risk processes and activities into a business’ day-to-day operations enables organisations to leverage upside risk and take advantage of market opportunities, however more needs to be done and more collaboration is required.”

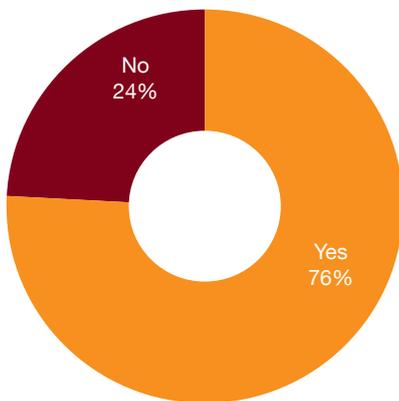
– Sian Ashdown, PwC Associate Director: Enterprise Risk Management

Respondents report a great deal of progress in fostering broader alignment of the risk functions with other parts of the organisation, and predict further progress.

Despite the progress organisations have made at aligning risk/compliance and the other lines of defence, executives believe that alignment is not yet sufficiently pervasive. Almost 76% of Africa survey respondents (Global: 60%) believe that a lack of collaboration among the three lines of defence could be exposing their organisation to capability gaps in the defence against risk.

Figure 25 Lack of collaboration exposing companies to gaps in their risk defences

Q11 Do you believe that lack of collaboration among your organisation's lines of defence could be exposing your organisation to capability gaps in your defence against risk?



Base: 82
Source: PwC analysis

“There’s still much to do around enterprise alignment and its part of moving up the risk maturity curve. Companies without a fully integrated view of risk across the three lines of defence are not positioned to optimise risk management efforts for efficiency.”

“Without a collective enterprise view and understanding of how risks interconnect and impact their risk profile, companies could fail to eliminate holes in risk management by assuming that risks are covered by other parts of the risk infrastructure, when they are not.”

Carmen Le Grange, PwC Africa Business Resilience Leader

Despite the progress organisations have made in fostering collaboration between the business units, risk and compliance, and internal audit, executives believe that alignment is not yet sufficiently pervasive to prevent exposures due to capability gaps.

Alignment between risk management and functions traditionally considered its partners is close to ubiquitous today:

- 51% Internal audit (Global: 80%);
- 71% Finance (Global: 76%);and
- 64% Compliance (Global: 72%).

Most organisations also report alignment with other key areas, including operations, IT, legal and human resources. The exception highlighted in the global survey was sales and marketing, where less than half of organisations report alignment

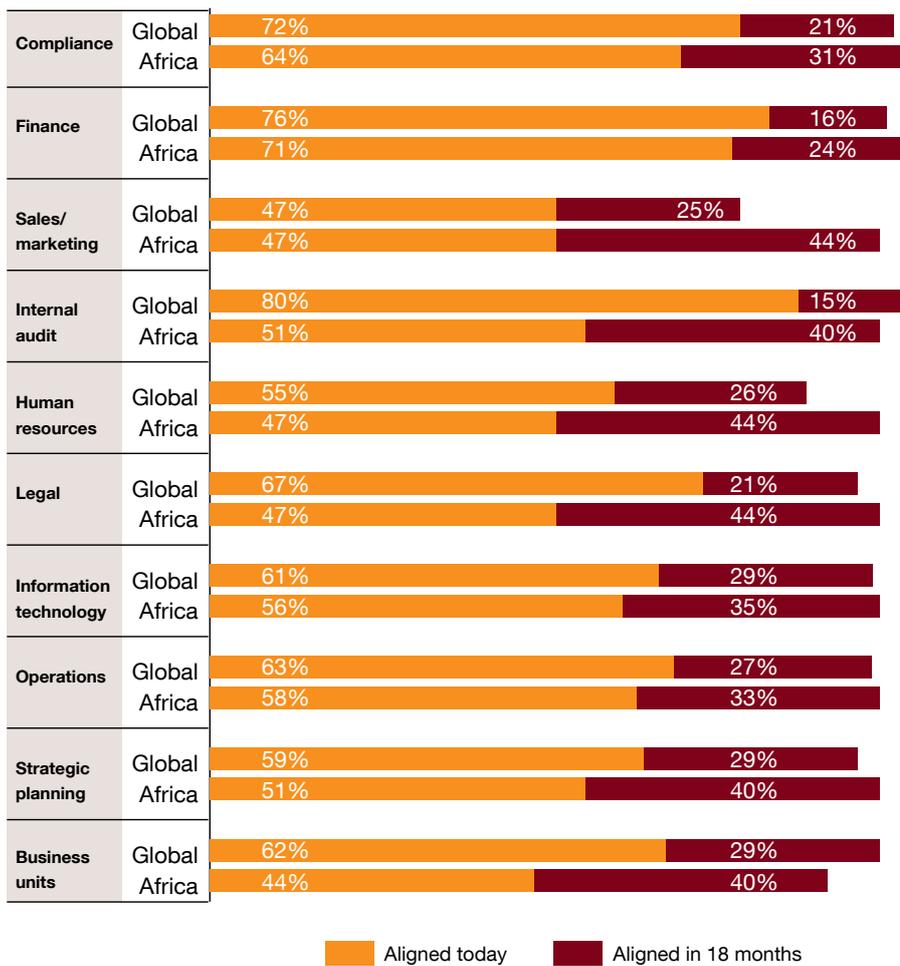
with the risk functions today, although nearly three-quarters expect to achieve it over the next 18 months.

This increased focus on aligning sales and marketing with an organisation’s risk functions may reflect rising concern over risk emanating from social networks and other digital channels, generally managed by marketing.

By contrast, companies in Africa demonstrate more collaboration and the formation of new and dynamic partnerships to address market and consumer demands.

Figure 26 Alignment of risk management with other functions

Q *Is your organisation’s risk management function aligned with other business functions today?*



Base: Africa – 82, Global – 1 940
 Source: PwC analysis and PwC’s Risk in Review: Re-evaluating how your company addresses risk, 2014. <http://www.pwc.com/gx/en/audit-services/publications/risk-in-review.jhtml>

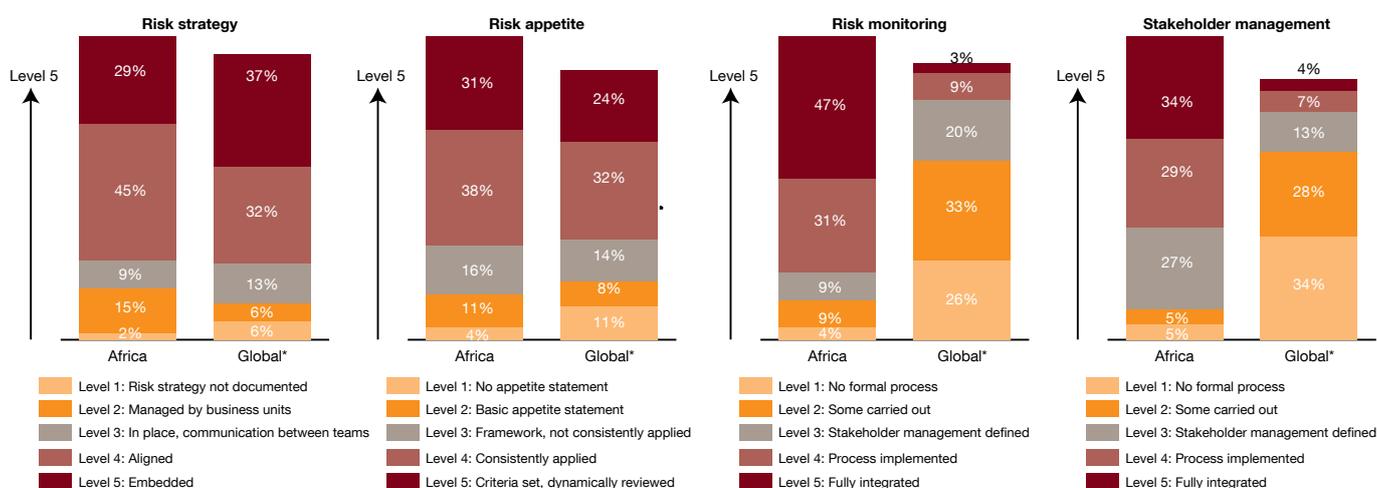
Risk functions among global companies are more aligned with more parts of the organisation compared to their African peers.

Moving up the maturity curve is an imperative

Understanding that addressing capability gaps needs to be part of a more holistic approach, organisations are moving toward higher levels of maturity in all five areas of risk management they rated in this study (six areas were rated in the global survey – see the ‘Methodology’ section on page 5 of this publication). However four categories – risk management strategy, risk appetite, stakeholder management, and risk monitoring and reporting – stand out with a more dramatic expected pace of change than is predicted in the other two areas (risk culture and risk-adjusted performance incentives). Global respondents were certainly less optimistic than their Africa counterparts in assessing themselves overall on the risk maturity scale.

Figure 27 Most organisations expect to be at levels 4-5 (most mature) within 18 months

Q Which stage of maturity best describes your risk management strategy/risk appetite/stakeholder management/risk monitoring in 18 months?



Note: *Global figures do not always add up to 100% as we have excluded “Don’t know” responses.

Base: Africa – 82, Global – 1 940

Source: PwC analysis and PwC’s Risk in Review: Re-evaluating how your company addresses risk, 2014. <http://www.pwc.com/gx/en/audit-services/publications/risk-in-review.jhtml>

Getting to these levels means prioritising specific sets of goals, as detailed below:

- **Risk management strategy**

Prioritising risk management strategy means aligning business and risk strategy and embedding risk strategy across core business processes over the next 18 months.

For a large mining company with operations across Southern Africa, aligning business and risk strategy and embedding risk strategy across core business processes happens by following a two-tier approach – a bottom-up approach in which operations identify their own risks and report the material risks up into the business, thereby addressing their strategic risks – and a top down approach in which senior management identifies strategic risks and combines them with the operational risks to identify the top 10 risks of the company.

- **Risk appetite**

Reaching maturity levels 4 and 5 means defining risk appetite, applying it consistently and using the risk appetite statement to drive strategy and business decisions.

- **Stakeholder management**

Risk maturity in stakeholder management means establishing processes to communicate effectively with stakeholders. Globally much effort in this area concentrates on social media.

- **Risk monitoring**

Maturity in risk monitoring includes monitoring, aggregating, and reporting risk activities and integrating that reporting with day-to-day management tools. A major aspect of risk monitoring is data analytics, because of the opportunity it presents not only to understand risks better but to respond to them more quickly.

When one reviews the overall picture of risk maturity, global survey respondents rate themselves to be operating at lower levels than their African counterparts.

Below, we see that in financial services, which enjoys wide leads in risk maturity across all risk categories today, and expects to build on them over the next 18 months, a technology-enabled approach to risk maturity is increasingly common as companies are focussed on risk monitoring and reporting.

After financial services, consumer and industrial products and services show strong progress in risk management strategy, followed by Healthcare and Government. Technology, information, communications and entertainment companies show strong progress in risk management strategy and stakeholder management.

Figure 28 Global sector profile of progress in building risk maturity

Q Which stage of maturity best describes current elements of your risk management framework, and the one you hope to have in place over the next 18 months? (Proportion at levels 4-5)

Industry progress indicators in areas of strong progress (current)					
	Financial services	Consumer & industrial products and services	Technology, information, communications and entertainment	Healthcare	Government & public sector
Risk management strategy	50%	29%	29%	32%	29%
Risk appetite	41%	20%	18%	20%	22%
Stakeholder management	53%	36%	38%	37%	40%
Risk monitoring and reporting	56%	35%	36%	33%	38%

Industry progress indicators in areas of strong progress (in 18 months)					
	Financial services	Consumer & industrial products and services	Technology, information, communications and entertainment	Healthcare	Government & public sector
Risk management strategy	83%	65%	62%	65%	64%
Risk appetite	73%	51%	51%	56%	43%
Stakeholder management	72%	59%	62%	56%	50%
Risk monitoring and reporting	73%	52%	56%	53%	51%

Source: PwC's Risk in Review: Re-evaluating how your company addresses risk, 2014. <http://www.pwc.com/gx/en/audit-services/publications/risk-in-review.jhtml>

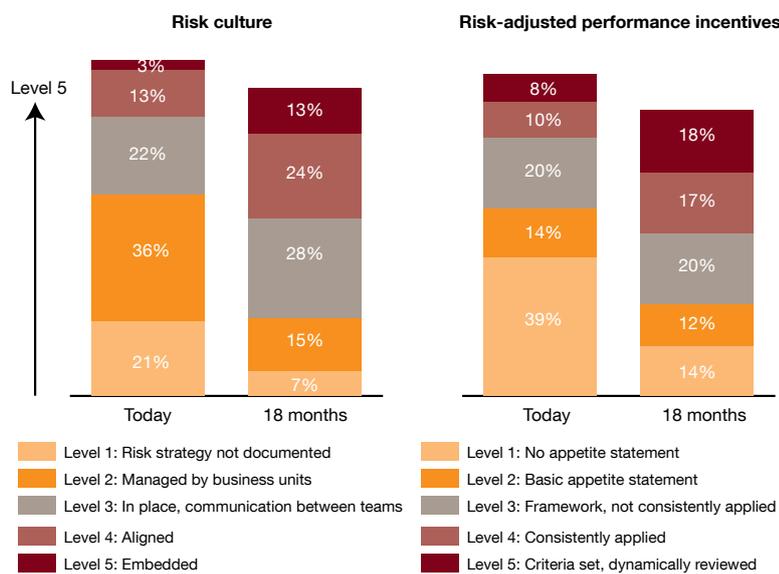
The undiscovered country: Boosting risk culture and defining risk-adjusted performance incentives

Despite the clear advances organisations are making in most elements of risk management maturity, globally, many companies still show critical capability gaps in the areas of risk culture and risk-adjusted performance incentives.

In this section we highlight how global organisations are placing greater emphasis on creating ‘risk intelligent’ organisations by getting people across their organisations aligned around risks.

Figure 29 Globally, less progress is expected in risk culture and performance incentives

Q Which stage of maturity best describes your risk culture and performance incentives, today and in 18 months? (Excludes ‘don’t know’ responses)



Note: Excludes “Don’t know” responses

Base: Africa – 82, Global – 1 940

Source: PwC’s Risk in Review: Re-evaluating how your company addresses risk, 2014. <http://www.pwc.com/gx/en/audit-services/publications/risk-in-review.jhtml>

Risk culture

In the global survey, over half of organisations in almost all sectors expect to be at levels 3-4 in 18 months, which will require expanding risk culture analysis more fully across the organisation and developing process benchmarking around risk culture. Only 13%, however, will have taken the additional steps of instituting ongoing benchmarking of risk processes and adopting automated tools to assess the effectiveness of risk culture training.

Even in financial services, which leads all sectors when it comes to risk culture maturity, less than half of all sector respondents (37%) expect their organisation to reach levels 4-5 in 18 months. While survey respondents say they have created a risk-aware culture across the organisation or expect to do so, these maturity predictions suggest that organisations may not be putting all the necessary elements in place to assure achievement of higher risk culture maturity.

Conduct risk continues to be a huge area of focus across financial services following the financial crisis. It is widely recognised that addressing culture is critical to delivering a truly customer-centric approach to improve customers’ experiences and strengthen overall risk management practices. Establishing and embedding a culture in which employees are doing the ‘right’ thing at the ‘right’ time, regardless of circumstance, are key to the organisation’s ability to conduct itself in a manner that is commensurate with its regulatory obligations and the expectations of its stakeholders. Making the right decisions at key customer touchpoints is integral to commercial success and good customer outcomes.

Risk-adjusted performance incentives

When asked about their organisations’ anticipated future performance in terms of defining the linkage between business incentives and risk strategy, and integrating these with strategic and tactical plans at all organisational levels, less than half of respondents said they expect to reach levels 4-5 in the next 18 months.

Organisations that are leading in risk management continue to move aggressively to improve risk processes and systems

Our survey revealed a connection between organisations' success at moving up the risk maturity curve and the extent to which they are upgrading and leveraging risk tools and systems. Risk leaders are more likely than others to improve analytical tools, build an integrated risk data warehouse, and/or upgrade regulatory and tracking systems. Risk leaders are also more likely to make improvements in areas that receive less attention among overall respondents. For example, they're twice as likely to adopt or plan to adopt risk-adjusted performance incentives.

These efforts are producing results judging from respondents' level of satisfaction with key aspects of their risk processes and structures.

Risk leaders are more likely than early-stage companies to:

- Say they manage risk well;
- Have a formal risk function;
- Align the risk function with challenging areas such as strategic planning, IT, HR and Sales/Marketing;
- Say they are somewhat or very satisfied with their organisation's current levels of risk competency, including:
 - Risk identification, tracking and monitoring;
 - Risk forecasting and scenario analysis;
 - Building up organisational resilience; and
 - Building up the risk function and resources.
- Risk leaders are also substantially less likely to report significant capability gaps relating to, for example,
 - Business transformation;
 - Fragmented risk data and analysis;
 - Reputation risk; and
 - Interconnected risk.

Leading companies we interviewed have also made significant progress in many of the following areas:

- Continuously identifying and monitoring risks;
- Integrating risk data capabilities;
- Implementing cybersecurity controls; and
- Performing more non-financial audits and reviews.

“Risk analysis in financial services remains anchored in historical data (facts from the past). To be more meaningful, risk needs to deal far more in the future, and there are no facts about the future. There needs to be a big shift into forward looking analysis built around scenarios, such as stress testing and sensitivity analysis. And subjective judgement should be applied to a greater extent. This will be a challenge for some, as many risk professionals are reluctant to break away from data driven models and controls”.

Keith Ackerman, PwC Risk Assurance Leader, Southern Africa

What are the benefits of risk leadership?

Risk leaders differ considerably from other organisations, both in the degree of difficulty they experience with collaboration and capability gaps and in their level of satisfaction with aspects of risk management itself. They are far more likely to align the risk function with other parts of the organisation, they report fewer problems fostering collaboration between lines of defence and they're less likely to suffer capability gaps from business transformation or fragmented risk data.

Moving TICE companies up the risk maturity curve

Risk management at companies in the technology, information, communications and entertainment (TICE) sector reflects the fact that many of these firms are relatively new and operate in fast-growing, volatile, fiercely competitive markets.

TICE companies are more likely to undergo or plan to undergo business transformation than any sector. They express greater concern around risks related to business volatility, increased competition and cybersecurity than they do around risks stemming from regulation or internal processes.

TICE companies are also less likely to make changes to improve their risk processes and culture, such as building an integrated governance risk and compliance framework, developing greater risk management expertise across the organisation, building an integrated risk data warehouse, or offering risk-adjusted performance incentives.

Yet the pace of change in their businesses, and the resulting internal and external pressures, pose particularly acute challenges for TICE companies. New technologies transform competitive dynamics every few years; business models must in turn be reinvented. Rather than simply protecting their existing processes, one of the key risks for TICE companies that are engaged in a constant cycle of innovation and new product launches is the threat that an unforeseen obstacle could derail or spoil the timing of a new offering.

To meet these challenges, TICE companies need to establish a high degree of coordination and communication across business units and multiple lines of defence – something few have achieved thus far.

What this means for your business



Risk imperatives for 2015

The aim of risk management is twofold: To achieve sustainability – making sure the odds favour the organisation’s survival – and have the ability to capitalise on change. This means continuing to look forward and becoming ever more sensitive to the complex interplay of risk and opportunity. This is an evolution through the risk maturity continuum.

The survey identified that most respondents are working towards this goal, addressing the distinct set of imperatives that apply at each stage as they improve their risk maturity.

Early-stage organisations

These companies need to ensure that the right resources are focused on risk management, and begin the process of de-siloing their risk processes by extending them across the organisation. These organisations should:

- Produce a formal risk strategy document and implement it at the business unit level;
- Roll out a formal stakeholder management/communications process to monitor and manage the organisation’s relationship with employees, investors, regulators, community activists and other internal and external stakeholders;
- Develop an internal audit function that provides support in building the risk and compliance infrastructure;
- Transform risk monitoring from an ad-hoc activity to a regular process, starting at the board level;
- Develop a formal risk culture analysis and perform it regularly; and
- Create risk-adjusted performance incentives, starting at the board and senior management level.

Developing organisations

Companies that have passed the early stage can start to develop more robust risk assessments, monitoring and auditing around hot areas including technology risk (especially cybersecurity issues), regulatory risk and business transformation. Developing organisations should:

- Align risk and business strategy documents;
- Apply their risk appetite statement beyond business units, to the entire organisation;
- Continually assess and measure the alignment of risk management posture and activities across the three lines of defence;
- Initiate regular monitoring of risk activities and aggregation of data and analysis at the business unit level;
- Make risk monitoring results and in-depth analysis part of regular reports to senior management;
- Expand risk culture analysis organisation-wide and benchmark the process regularly; and
- Link business incentives and risk strategy and apply across the organisation.

Risk leaders

Maintaining leadership in risk management means regularly reviewing, evaluating and updating the organisation’s processes, incentives and risk culture. Risk leaders should:

- Embed risk strategy across the organisation, and regularly review and update that strategy;
- Apply the risk appetite statement to all business decisions across all business and functional units, dynamically reviewing and updating risk appetite criteria;
- Update and assess the effectiveness of their integrated stakeholder management/communications strategy;
- Regularly test and upgrade their risk monitoring and reporting system;
- Continuously measure the effectiveness of risk culture training tools; and
- Review and update risk-adjusted performance incentives to make sure they remain integrated with strategic and tactical plans at all levels of the organisation.

Even for leaders in risk management, the journey to higher levels of capability never ends. As our survey findings show, leaders are far more likely than other organisations to be planning further risk capability improvements.

Contacts



To have a deeper discussion about this subject, please contact:



Anton van Wyk

*PwC Risk Assurance Leader
Central & Southern Africa*
anton.b.van.wyk@za.pwc.com
+27 11 797 5338



Carmen Le Grange

*PwC Business Resilience Leader
Central & Southern Africa*
carmen.le-grange@za.pwc.com
+27 11 797 5224



Sian Ashdown

*PwC Enterprise Risk Management
Leader
South Africa*
sian.ashdown@za.pwc.com
+27 11 797 4079



Keith Ackerman

*PwC Risk Assurance Leader
Southern Africa*
keith.ackerman@za.pwc.com
+27 11 797 5205



Mark Telfer

*PwC Risk Assurance Leader
East Africa*
mark.telfer@za.pwc.com
+27 11 797 4628



Rob Newsome

*PwC Business Resilience Leader
West Africa*
rob.newsome@ng.pwc.com
+234 (1) 271 1700 Ext 3100

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