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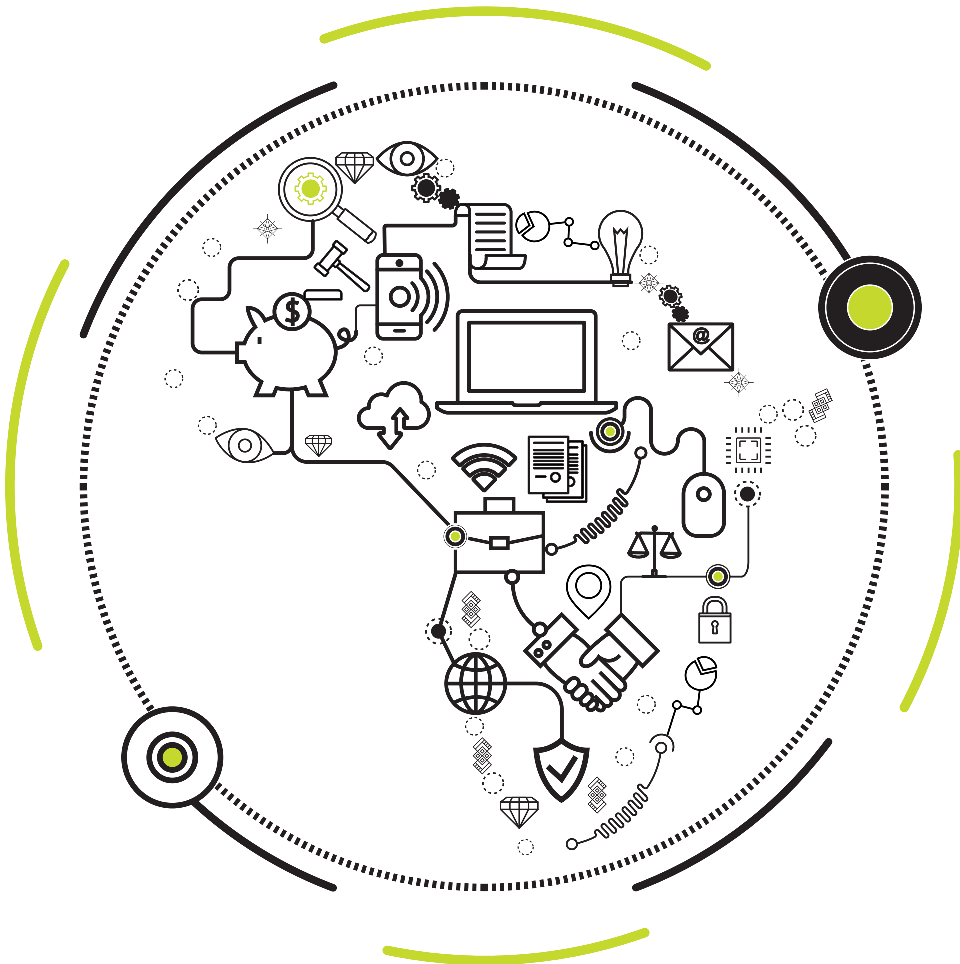
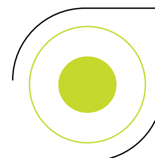


2016 Deloitte Africa Risk Conference (ARC)

Summary Report

1 November 2016

Welcome
and Context



Deloitte's Africa view is informed by a myriad of factors which range from our firm's strategic positioning and century-long network of integrated clusters collaborating together to service 53 countries across the African continent. In order to better understand and serve these markets, Deloitte optimises the mix of highly qualified local talent and global teams.

The Deloitte Africa Risk Conference is designed to give participants the opportunity to understand the Africa risk landscape and to continue the dialogue on how businesses may navigate the African continent and how to chart the path of success in light of these risks. The deliberations on risk in Africa at present are relevant given the socio-economic instabilities at a local, regional and international level.

Amongst the risks and challenges that the African continent faces such as extreme weather conditions, interstate conflicts, failure of national governments, unemployment or underemployment, lie the opportunities. The issues that the continent is facing are not new issues, but the dynamics of these issues are rapidly evolving.

Understanding the evolving risk landscape is as important as constant organisational introspection, investing in innovation, embracing disruption and self-disruption within organisations in order to manage risks and opportunities in a way that is both opportunistic and sustainable.

The key talking points for the Deloitte Africa Risk Conference include a discussion on global development and how it will impact the African continent; macroeconomic and financial risks; the changing regulatory environment; and a reflection on cyber risk, cyber crime and the impact of cyber crime on doing business in Africa.

Living in a high tech world implies that there is an increase in data, particularly big data. Insights-driven organisations are organisations that are managing and growing their businesses on the basis of leveraging big data. While risks increase as data increase, insights-driven organisations will be more resilient and more responsive to both threats and market growth opportunities.

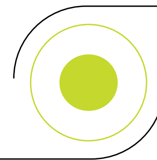
The biggest risk of any business, however, is the risk of becoming irrelevant. Staying hungry and fighting complacency is pivotal for any firm in mitigating the risk of becoming irrelevant on the continent.

The three tips for organisations to stay abreast and fight complacency include:

1. ***Be willing to look like a 'beginner'***: Re-frame the competitor landscape in order to find a benchmark that will inspire you to get better, rather than trying to look good with the current status quo.
2. ***Kill the perception of perfect conditions:*** Address complacency and induce creativity by creating self-imposed constraints.
3. ***"If it aint broke, consider breaking it":*** Create your own disruption in your firm before you get disrupted.

Pramesh Bhana
Chief Operating Officer: Risk Advisory
Southern Africa
Risk Advisory Africa Leader
Clients, Industries & Markets
Deloitte Africa

Keynote **from Geneva**



The Current Global Environment of Risk

The World Economic Forum's Global Risks Report 2016 highlights the most significant long-term global risks, drawing on the perspectives of almost 750 experts and decision makers globally. The global risk survey which informs the report uses an approach that takes into account different risk categories.

In outlining the global risk landscape and major risks for businesses, Dr Margareta Drzeniek-Hanouz defined a global risk as an uncertain event or condition that, if it occurs, can cause significant negative impact for several countries or industries within the next 10 years.

When discussing global risks, the scale of impact and likelihood are key. Based on the general observation of the changing scale of impact and likelihood, societal, geopolitical and environmental risks have taken primacy over economic risks in recent years. Three risks are in focus at a global level, namely, the phenomenon of the (dis)empowered citizen, changing climate and weather patterns, and the outbreak of diseases on a global scale.

The phenomenon of the (dis)empowered citizen is a result of the interplay of technology empowering citizens to find information, connect with others and collaborate. At the same time, despite this ubiquity of techonology in society, citizens feel disenfranchised from meaningful participation in traditional decision-making processes as they are disempowered in terms of their ability to influence and be heard by institutions and sources of power. This poses the risk of increased societal uprisings, interstate conflict and even uncontrolled migration that results from such conflicts.

Changing climate and weather patterns is another key risk in focus. Increased extreme weather could jeopardise food security and agricultural production across geographies. The potential is high for climate change to exacerbate water crises with impacts including conflicts and more forced migration, resulting in a call for improved water governance for instance. This is more probable in areas that already have fragile communities on the continent.

The third risk in focus is the outbreak of diseases at a global level. Population growth, rapid urbanisation and transnational commodity flows intensify the risk of infectious transmission of diseases across geographies, while equally diminishing the ability to respond accurately to these infections. This is all occurring at a time of growing resistance of microorganisms to today's most effective medicines.

In addition, other key risks such as economic (asset bubbles, the energy price shock, fiscal crises and unmanageable inflation), technological and geopolitical risks are noted to affect business on a global scale.

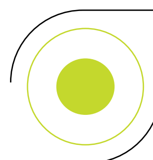
In some parts of Africa, South America, Europe and Asia, the failure of national governance poses the greatest risk for doing business in these economies. However, in more developed economies such as Canada, the United States (US), Japan and Singapore, cyberattacks pose much more risks in comparison to environmental risks for instance.

Dr Margareta Drzeniek-Hanouz further highlighted that the global risk landscape will likely be led by technological risks in the future and that there is a continued risk of failing to fully understand the challenges of the Fourth Industrial Revolution (better known as the Digital Revolution) and how this transition will impact countries, economies and people at a time of persistently sluggish growth globally.

Overall, as risks are becoming more imminent and increasingly felt by societites, institutions and economies need to urgently advance resilience. Society as a whole needs to be part of the process of risk identification and risk mitigation planning and execution, especially in response to the risk of the failure of national governments.

Dr Margareta Drzeniek-Hanouz
Head of Global Competitiveness and Risks, World Economic Forum

Presentation
Risk in Africa



With the world's continued slump in economic activity and growing political and foreign policy uncertainty not just in the US but also in Europe, the coming year raises several risks for Africa. In this context, ten key risk factors to watch out for across the continent include:

- Rising global protectionist sentiments;
- Eurobonds and Africa's fiscal cliff;
- China's hard landing;
- Domestic political risk and governance;
- Prolonged low commodity prices;
- Currency volatility risks;
- "Captured capital" risks;
- Regulatory uncertainty;
- Credit ratings downgrades; and
- Climate change.

The oil price collapse has fundamentally shifted the continent's economic trajectory. Strong economic growth has moved from mostly oil and resource-exporting (hard commodity) African economies to mostly soft commodity states.

At a global level, it is becoming increasingly difficult to find western political leaders in full support of free trade and thus the shift towards a more protectionist global environment will have negative impacts, especially on the poorest countries.

Officially, Africa currently owes just more than US$35bn in Eurobond debt and there is increasing fear about the ability of states to meet debt obligations given the continued issuance of sovereign debt as debt–to-GDP ratios across most of the continent's economies reach (in some cases surpass) dangerous debt levels post the commodity price collapse.

There is no clear consensus on how China's economic slowdown is going to unfold in the medium term. Some analysts point to a soft landing (i.e. managed economic growth slow down) while others point to a hard landing. What is clear is that China is going through a rebalancing phase shifting from an overly fixed asset investment-based economy to a more consumer and services–driven economy. Resource-driven African states will continue to face debt overhangs and bear the brunt of China's shift if they do not diversify their economies.

In the short term, poor governance and political instability on the African continent is likely to persist given the lack of transition of leadership to the next generation.

On commodity price risk, countries like Angola and Nigeria have minimal export complexity and as a result no resilience to weather the continued low commodity price environment. Even South Africa whose export basket comprises of much less hard commodities (60%) is struggling.

As a result of prolonged low commodity prices, exchange rate instability has risen in resource-centred economies, with currencies devaluing by between 20% and 60% since January 2014. Currencies worst affected include the Mozambican metical, the Nigerian naira and the Angolan kwanza. The severe drop in currency values has also driven inflation in these economies as a result of higher import costs. Resultant forex shortages make it even more challenging for these economies to diversify, being trapped in a state of stagflation.

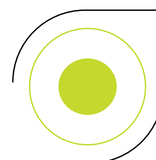
Investors on the continent will thus be faced with more questions on how to mitigate the currency risk, as well as "captured capital" risk as foreign exchange restrictions are imposed on them by authorities, limiting the repatriation of dividends or returns.

The effects of climate change stretch far beyond food security and food inflation. Zambia, Malawi and Zimbabwe for instance, are currently facing more than eight hours of load shedding per day as a result of little or no output from their hydropower dams.

In conclusion, in the difficult times the world is going through, looking through the lenses of some of the risks outlined, firms need to carefully identify and target markets that are agile enough to survive the challenges and constantly review their risk mitigation strategies to match an ever-changing and diverse set of territories across the continent.

Dr Martyn Davies
Managing Director: Emerging Markets & Africa
Deloitte Africa

Panel **Discussion**



The Financial and Macroeconomic Risk Outlook for Africa

Based on the IMF's 2016 regional outlook, Africa's GDP growth in 2016 is going to be the lowest recorded in nearly a generation at about 1.4% and is only expected to increase modestly next year to about 3%.

Despite overall slow growth, non-resource intensive countries are still performing well with reports of growth rates of around 5%. Countries such as Kenya, Senegal and Côte d'Ivoire are driving growth on the continent – each projected to grow above 6% this year.

Largely overshadowing gains made by smaller non-resource economies and contributing to about 90% of the region's GDP decline, Nigeria, Angola and South Africa are the biggest drivers of Africa's current growth downturn. For the first time in many years Africa's regional growth is at a lower level than global growth, which is estimated at about 3% in 2016, according to Montfort Mlachila.

In agreement with the IMF's view that resource-driven economies are now the riskier economies from a growth perspective, Sylvia Chahonyo emphasised that with the shift of traditional growth drivers across the continent, investors have to readjust their risk assessment. Investors also need to see beyond common political and socioeconomic cycles such as presidential elections and drought amongst others whose impact, based on historical trends, are quite predictable.

In terms of capital markets, the JSE sees the lack of liquidity and low financial depth as the main risks across Africa as this has heavily limited its expansion efforts into regional markets outside South Africa. To highlight the extent of the lack of depth in African financial markets, compared to the 2 600 listed companies in South Africa alone, there are only 1 600 listed companies across the other 23 African bourses put together, according to Dr Alicia Greenwood. As the JSE's revenue models depend on high levels of liquidity and trade volumes, efforts to enter African markets are limited due to low volumes and liquidity levels in most regional capital markets.

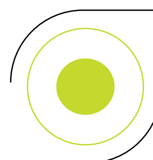
Besides other economic risks, regulatory reforms and social risks associated with investors trading in these markets is hampering development of capital markets. At the moment African capital markets do not meet all the criteria sought after by international investors and are seen as higher risk destinations for capital due to persistent volatility.

For Yvonne Mhango, the biggest concern is the tight foreign exchange liquidity environment in countries such as Angola, Egypt, Ethiopia and Nigeria. There have also been some diversions between official and parallel exchange rates. For instance, the Egyptian pound currently traded at about EGP18/USD on the parallel market and EGP9/USD on the official market, and the naira traded at about NZN450/USD unofficially and NZN320/USD officially. Such wide spreads are hindering foreign investment in some African countries as they increase uncertainty for portfolio investors by distorting asset valuations.

Furthermore, currency volatility also diminishes profit margins for companies operating in Africa that have US dollar or euro denominated costs. Controlling the volatility of political and socioeconomic events thus remains paramount to maintaining stable capital markets in Africa.

Montfort Mlachila, Senior Resident Representative, Interntional Monetary Fund (IMF) South Africa
Yvonne Mhango, Sub-Saharan Africa Economist, Renaissance Capital
Dr Alicia Greenwood, Director of Post-Trade and Information Services, Johannesburg Stock Exchange (JSE)
Sylvia Chahonyo, Country Manager, Moody's Investors Service South Africa (Pty) Ltd.

Panel
Discussion



Rising Regulatory and Compliance Risk in Africa: What corporates need to know

There are vastly different compliance risks faced by firms across the continent. Different countries and regions have different risks associated with them. Rather than trying to develop a risk compliance strategy that is applied at the group level, companies need to make sense of the local environment and develop a local compliance strategy.

Across different countries, regulatory obligations affect different institutions in different ways. The stability of the political and economic environment, the supervisory regime and plans for regulatory reform all need to be taken into account, according to John Omollo.

In some cases, regulators are trying to plug the fiscal gap with punitive regulatory penalties. However, this seems to be the exception, rather than the norm. For the most part, regulatory changes across the continent are being implemented as governments try to adhere to global best practises.

As a result, regulatory obligations are evolving. As the impact of compliance – or lack thereof – becomes more evident, firms have begun transferring regulatory obligations into all business activities, explained Abi-gail Marshman. Synergies between compliance obligations and cost management are becoming more important as some firms on the continent have faced substantial fines in recent months. Although the cost of compliance is significant, this cannot be used as an excuse not to comply. Firms can no longer afford to be complacent about compliance.

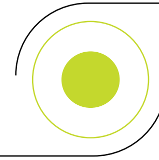
Compliance obligation needs to be built into day-to-day operations from the start; rather than being applied retroactively. A lack of awareness and appreciation of compliance at important milestones of business design often result in non-intentional non-compliance. As a company's strategy changes, as its products change, or as it expands, these changes need to be monitored vis-à-vis compliance obligations. Anthony Smith explained that ownership of compliance rests within the business as a whole. Risk, compliance and controls need to be integrated within one system and need to cut across the firm.

It is important to note that reforms in the regulatory space tend to follow those made in the US or Eurozone. Regulatory changes that become prevalent and receive a lot of media attention will often cascade into Africa, either through policy or practice. However, the stability of regulatory frameworks are affected if institutions are weak. Africa still has pockets of inconsistencies and the lag time between jurisdictions is problematic.

As governance on the continent improves, regulations will start to improve too. Although the pace and nature of these changes will differ, improving governance structures and transparency, especially within the regulatory space are becoming apparent across Africa.

John Omollo, Acting Chief Risk Officer, Export Credit Insurance Corporation (ECIC)
Anthony Smith, Director: Risk Advisory Africa Regulatory and Compliance
Abi-gail Marshman, Managing Director, Marshman Consulting

Panel **Discussion**



Cyber-Risk: Cybercrime and Data Protection in the Era of Big Data

The rate of cyber growth is strongly correlated to the rate of growth in cybercrime. As individuals and institutions incorporate technology in their day–to-day functions, greater risks also emerge.

Cyber risk, broadly defined as any risk of financial loss, disruption or damage to the reputation of an organisation from an information technology systems failure has increased on the continent as a lot of organisations have access to big data and are evolving to insights-driven organisations.

Phishing scams were identified to be the most prominent form of cybercrime primarily due to the fact that these are the easiest to commit.

Big data has become a tool that can deliver competitive advantage to any company. It can be utilised to drive productivity, enhance existing revenue, and even create entire new lines of business based on new business models. Concurrently, the cybercrime industry has also grown. This growth is attributed to the increase in the number of individuals whose primary focus and source of income is to develop and distribute tools used in cybercrime.

A large number of organisations realise cybercrime when its too late and the complexities of the challenges in mitigating the risk increases the risk of re-attack. The active and effective implementation of company policies and regulations as well as constant upgrading of software is key. Inclusive stakeholder buy-in is important in ensuring that cyber risks are mitigated. Even in the face of ideal policies and risk mitigation frameworks, if there is no buy-in and correct implementation by all stakeholders, the exposure to risk still remains.

It was noted that data analytics and data protection are not once-off projects. Cyber risk mitigation requires a change of culture to one that embraces the value and use of data throughout the organisation. In addition, according to Ryan Norris, organisations should rely on multiple sources of data and not just one or two sources.

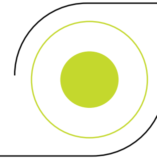
Reputational risk is also channeled through cyber technology. The impact of social media is ernomous and there have been numerous public relations ill-incidences that have resulted from cyber attacks. The important thing to do in such instances is to minimise the extent of damage by having one voice as an organisation in the media and managing what is publicised.

An emerging trend is that organisations are increasingly relying on external service providers for IT services. Instead of employing full-time resources, organisations have begun employing the function as an outsourced service. This is not only due to the cost implications of employing full-time resources, but also the fact that as new technologies arise, corresponding skill-sets need to be developed. Companies would rather employ 'ready-made' skills than to constantly upskill the same resources whose capacity or aptitude might not allow for such training.

In conclusion, a number of organisations on the continent are 'flying blind' and real-time monitoring is essential in knowing what is transpiring in cyberspace. Organisations should not be caught in the technical jargon of cyberspace. Similarly, communicating with all stakeholders that cyber risk has the same level of importance as any other risks that the organisation faces in order to get the required buy-in for effective implementation and ultimate mitigation.

Derek Schraader, Risk Advisory Africa Leader: Cyber Risk Services
Ryan Norris, Associate Director: Risk Advisory Africa Data Analytics
Dr Kamil Reddy, Chief Privacy Officer, Council for Scientific and Industrial Research (CSIR)
Eon Retief, Data Analyst, Corporate and Investment Bank (CIB), Big Data, Analytics and Insights (BAI), Barclays Africa Group Ltd.

Interactive
Dialogue



Risk in Africa – Audience Perceptions and Discussion

Many of the top risks associated with operating in Africa are interrelated. Unemployment is one of the biggest risks facing the continent, as a large share of unemployment is structural.

There is a significant mismatch between what the labour market needs and what the education system can supply as companies often struggle to find qualified and competent people, explained Kuseni Dlamini. Despite being a significant challenge, the lack of available skills also presents a huge opportunity to firms able to assist in fixing the problem.

However, policy uncertainty, especially in relation to labour laws and regulation, is a significant risk on the continent. Despite developing great polices, in general, African governments struggle to implement these. Different risks often 'compete' for attention. Myriad different risks requiring different forms of mitigation often exacerbate the lack of policy implementation. Also, governments, investors and consumers have different perceptions of risk.

There too is a tension between short-term and long-term risks. Political tensions are often a short-term risk, associated with elections, and perceptions can change quickly. These risks are given a lot of airtime and firms need to be able to respond to them quickly. However, long-term risks like climate change or structural issues within a society are often attended to with less urgency and the implementation of mitigation factors is often long and costly. However, these are the risks that can prove to be most damaging in the long term, clarified Ekhosuehi Iyahen.

Thankfully governments are beginning to quantify risks and find financial mechanisms to mitigate against them. In line with this, climate change is becoming a policy focus on the continent as its long-term impacts are becoming clearer. Climate change results in drought and floods, affecting millions of people and most economies on the continent. However, climate change is a global challenge and therefore mitigation needs to harness global resources and collaboration in order to find global solutions.

In order to effectively mitigate both short-term and long-term risks, businesses need to better leverage their insights and manage their data. On-the-ground insights and data need to influence both operations and strategy, argued Pramesh Bhana. The private sector needs to do more to develop the local skills base and invest in and commit to innovation.

To thrive in Africa, organisations need to think long term, but also need to divert resources into protecting their long-term interests. Firms need to identify risks and think critically to develop cost-effective solutions.

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