Commercial Risk Africa
Insurance & Risk Management News

Risk Frontiers Africa 2019

African Risk Management Survey

SPONSORED BY

RISK MANAGEMENT MORE IMPORTANT THAN EVER FOR BUSINESS TO THRIVE

Risk managers across Africa see an ever-greater interconnectedness of risk, with a spider's web matrix of risks facing every business.

They admitted it makes the job that much more difficult in terms of keeping track of all the risks facing the organisation, but also makes their jobs more relevant to the main boards.

As one said: "It is a silver lining. Our boards want to hear from us more often."

Another risk manager from Nigeria added: "We have to have those soft skills in terms of communication because risk is no longer a back-office function but something that sits at the core of the business."

Reflecting that, the good news is that 86.7% of risk managers surveyed for the *Risk Frontiers Africa 2019* survey said their organisation is increasing its focus on risk management, while a further 9% said there had been no change from last year and only 3% said there had been a decrease.

The increased focus on risk management was probably a good thing they agreed, as 88% of them said their organisations were facing an increase in risks from last year. The vast majority also agreed that they are facing new (or newly identified) risks from last year.

Anecdotally, they reported, the changing risk landscape has brought them further up the corporate ladder and brought their role under greater scrutiny from the board.

SKILLS AND TALENT

Most welcomed the opportunity to rise to the challenge and said developing their soft skills alongside their technical skills would be crucial in the coming year.

Each year, the *Risk Frontiers Africa* survey has asked about the level of available skills and each year risk managers have said the talent is out there, but there were real question marks about workforces having the necessary skills.

This year is no different, with some 73% of those surveyed saying they believe that risk to business generally is increasing – matching the previous peak at 73% in 2016 and compared to a low of 63.2% in 2017.

Interestingly, the risk mangers score this a six out of ten in terms of a direct threat to their own business – a sign that they are more confident they are managing the risk than their peers.

Technical risk management skills are not forgotten, however, as they say they will need those to negotiate if the insurance market was to turn (or to continue to get tougher).

Some 43.7% of those surveyed reported a tougher insurance-buying environment and some 48% predicted the insurance market would continue to harden in both pricing and also terms and conditions, but 8% said it would not last and 43% were unsure as to whether it would fall back.

Encouragingly, 40% of risk managers felt they had the skills to cope with the changing insurance environment and 46% felt their brokers were well positioned to negotiate with the insurers on their behalf.

And there is good news for the insurers in that the majority of respondents report cover is available if they want it.

There were a few gaps, however. For example, a number mentioned professional indemnity as an area in which they miss cover and also in credit insurance. A number of respondents from across the continent said non-payment by clients was causing problems for their business, and finding the right insurance to protect themselves at an affordable price would be useful.

CYBER COVER

The *Risk Frontiers Africa 2019* survey this year asked more questions about cyber cover, after several years in which risk managers reported cybercrime as a fast-growing threat.

Some 82.8% of respondents reported cyber crime as an increasing threat again this year. This almost matches the figures from the past two years (82.4% in 2017 and 82.3% in 2018).

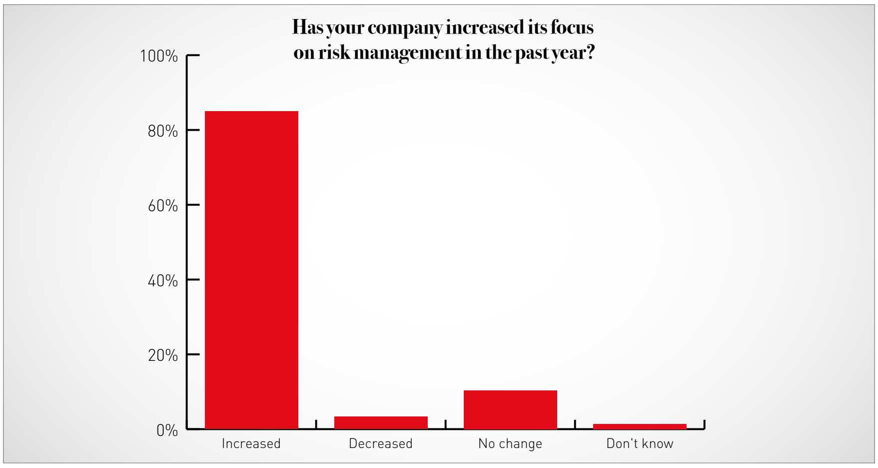
Interestingly, however, on a scale of one to ten, the risk managers said cyber risks were an average six out of ten in terms of a threat directly to their own business. Slightly fewer than 10% gave this a ten out of ten score – a sign perhaps that risk managers and their senior executives are confident that they are managing the risks fully.

> "We have to have those soft skills in terms of communication because risk is no longer a back-office function but something that sits at the core of the business"
> ***Risk manager, Nigeria***

In stark contrast to recent moves by the insurance sector to bring cyber cover into bespoke policies and reduce the risk of so-called silent cyber cover (cover that is included within other policies such as property), the risk managers continue to want cyber cover wrapped into traditional policies.

More than 82% said they believed cyber should remain wrapped into other policies and only just below 6% thought it was a good idea for cyber to sit in a bespoke policy.

Anecdotally, risk managers said they still believe cyber cover is too costly and they do not understand how the limits are set. They are not sure if a major cyber breach would actually be covered by the available policies.



A MATTER OF TRUST

Many risk managers are responsible for making sure claims are paid in full and on time. While some work closely with their finance teams, there was a feeling they would be under pressure internally if insurance policies failed to perform as expected.

So, concerns remain and the risk managers are cautious about recommending such covers. There still remains an issue with trust in the concept of insurance, most notably in markets like Nigeria where insurers have huge opportunities to build a stronger portfolio of customers.

However, the risk managers admitted that experience with claims on personal lines, such as motor, was dictating their buying habits at work. As one said: "If an insurer can't settle a simple motor claim, how can I trust them to pay out for a major event at work?"

Elsewhere on the continent, such as in Kenya and South Africa, there is a better appreciation of the value of insurance among risk managers but, notably in Kenya, they continue to struggle with buying power internally and too often the insurance-buying decision is ultimately made by others, usually on price.

EVOLUTION OF THE PROFESSION

Commercial Risk Africa editor Liz Booth reflects on how the insurance markets and risk management community in Africa are evolving as our survey marks its sixth year

This is the sixth year in which *Commercial Risk Africa* has run its *Risk Frontiers Africa* survey.

In that time, we have heard from thousands of risk managers across Africa about the issues that are top of mind for them and for their organisations. In that time many things have changed, but it seems one constant remains – political risk continues to dominate the risk agenda for the vast majority.

Of course, political risk can cover many things and that is reflected in the responses from participants again this year – expropriation, exchange rates and investor sentiment are all heavily influenced by political changes.

However, what has become even more clear this year is that political uncertainty is the most challenging risk of all. Risk managers in both Nigeria and South Africa were extremely nervous in the run-up to their respective presidential elections.

Neither country was sure of the outcome and, although thankfully both escaped election violence, only time will tell how election promises will play out.

This is particularly true in South Africa, where the very real risk of land confiscation without compensation could become reality and where tough new employment laws are already impacting the marketplace.

The other thing to become clear this year was the way in which risk managers are viewing risks. No longer is there a single list of risks – today it is an extremely complicated spider's web of risk, each and every one impacted by a whole range of other factors and risks.

And there is a more nuanced view of risk emerging. Cyber risk, for example, is not a new challenge any more, however the way it is being handled internally is changing and that is producing new risks.

For insurers, the risk of 'silent cyber' buried in other covers has emerged and that is not being reflected in the way insurers are asking insureds to protect the risk.

The insurance market itself is changing more broadly, with increasing signs of a tougher environment.

The question has been whether risk managers, brokers or even insurers are primed and ready to deal with a new environment in terms of their negotiations. Some are reporting that their costs of insurance are remining fairly static – however risk managers report they are getting less cover for that money and, if they want the same coverage, the overall cost is up.

The good news for risk managers is that all the talk of good risk management resulting in lower premiums appears to be coming true – insurers want to see a well-disciplined and risk-managed organisation.

Those that cannot produce evidence of attention to detail and a vibrant and reactive approach to risk management are unlikely to find the right cover.

That said, cover is plentiful, the risk managers report, with few saying they cannot access the necessary insurances. There is also a degree of scepticism – will the tougher approach really hold in an environment in which insurers still have plenty of available capacity?

In the mean time, a significant majority say their organisation is placing more emphasis on risk management – some of that driven by regulation but true even in unregulated sectors, as directors and officers are asked to take more personal responsibility.

Risk managers still say the quickest way to get the attention of the board is to remind them of their personal responsibilities and the risk of a claim against them personally. So, no wonder directors' and officers' insurance is a fast-growing cover.

Six years on from our first study, it is interesting to see how markets are evolving and the risk management community along with it. So I hope you enjoy the read.

All that is left for me to do is to give a huge thanks to the many risk managers across the continent who actively contributed to this year's survey, and to our sponsors – Africa Re and Sanlam. Without them, we would not be able to do this.

Liz Booth
Managing Editor
Commercial Risk Africa

THE SURVEY: NEW ISSUES ON THE AGENDA

This year's *Risk Frontiers Africa* survey was the sixth in succession, conducted by *Commercial Risk Africa* across the continent.

For the first time, we asked risk managers to identify their key risks and whether they expected to interact with their boards on these risks in the future, as well as whether they do currently.

There was no one risk that the respondents felt they were not talking to their boards about currently that they would like to in the future. A sign perhaps of confidence that they have identified the risks that might face them in the future.

For the first time this year, environmental and sustainability issues emerged in large numbers.

While few of the risk managers listed environment or natural catastrophe in their top three risks, business continuity emerged as the third-most likely risk that they would discuss with their boards, with supply chain risks coming fourth in the list.

Both of these have environmental aspects – natural catastrophes being an obvious problem in supply chains.

But more widely, risk managers are beginning to factor sustainability into their risks from an environmental perspective – and with that comes the more immediate risk of damage to reputation, which topped the list of risks that risk managers engage their boards on.

35.4%
Said reputational damage is the number one risk to raise with the board

Some 35.4% said it is the number one risk to discuss with boards currently, while 38.7% expected it to be the number one risk to discuss with their boards in the future.

In the past, the majority of our respondents have come from South Africa and again this year, the South African risk managers number almost 50% of those taking part. Nigeria represented about 25% of those who took part, while about 20% of respondents came from across southern Africa (excluding South Africa). The increasing numbers of risk managers from other countries continues to grow, particularly in smaller markets where risk managers were harder to find historically – perhaps a sign of a blossoming profession elsewhere on the continent.

There are also signs of risk managers taking a more prominent role in their businesses. The fact that they will be discussing issues like reputational damage with their boards is perhaps confirmation of that greater maturity – it is definitely not a simple health and safety issue, as risk managers were sometimes defined in the past.

Increasing numbers of those surveyed have a more senior role in their organisation and the number of chief risk officers is also appearing to grow, as the risk community joins an increased number of boards.

THE TEAM

EDITORIAL

DIRECTOR
Adrian Ladbury
aladbury@commercialriskonline.com

MANAGING EDITOR
Liz Booth
lbooth@commercialriskonline.com

WEB EDITOR
Ben Norris
bnorris@commercialriskonline.com

REPORTERS
SENIOR REPORTER
Steve Mbogo — East Africa
smbogo@commercialriskonline.com

Prince Cookey — West Africa
pcookey@commercialriskonline.com

Gareth Stokes — South Africa
gstokes@commercialriskonline.com

Abdou Diaw – Francophone Africa

Rodrigo Amaral
ramaral@commercialriskonline.com

Garry Booth
gbooth@commercialriskonline.com

Stuart Collins
scollins@commercialriskonline.com

Tony Dowding
tdowding@commercialriskonline.com

Sarah Jolly
sjolly@commercialriskonline.com

Nicholas Pratt
npratt@commercialriskonline.com

DESIGN & PRODUCTION

ART DIRECTOR
Alan Booth
abooth@commercialriskonline.com

PRODUCTION EDITOR
Chris Morrish
cmorrish@commercialriskonline.com

COMMERCIAL

DIRECTOR
Stewart Brown
sbrown@commercialriskonline.com
Tel: +44 203 858 0190

DIRECTOR
Hugo Foster
hfoster@commercialriskonline.com
Tel: +44 203 858 0191

GROUP OPERATIONS MANAGER
Annabel White
awhite@commercialriskonline.com
Tel: +44 203 858 0193

EMAIL ADDRESSES
Editorial
news@commercialriskonline.com

Sales
sales@commercialriskonline.com

Events
events@commercialriskonline.com

Subscriptions
subs@commercialriskonline.com

General Enquiries
enquiries@commercialriskonline.com

SWITCHBOARD
Tel: +44 203 858 0192

ADDRESS
Rubicon Media Ltd, Unit 5,
Parsonage Farm Business Centre,
Ticehurst, East Sussex, TN5 7DL, UK

EXECUTIVE DIRECTORS
Hugo Foster, Adrian Ladbury,
Stewart Brown

POLITICS AT HOME AND ABROAD STILL DOMINATE **AFRICAN RISK MAP**

Risk managers across Africa continue to worry most about political risk from an increasingly long list of angles with risks intertwining ever more closely, as respondents to the Risk Frontiers Africa 2019 survey reveal

What a difference a year makes – or does it?

Political risk has topped the risk agenda for every year in which the *Risk Frontiers Africa* survey has been conducted. And 2019 has proved no different, with risk managers across the continent factoring political threats into their risk agendas as never before.

That perhaps should come as little surprise – 2019 has already seen presidential elections in two of the continent's largest economies: Nigeria and South Africa.

Although the incumbent Presidents won in both cases, neither election was without controversy and inevitably promises were made to the electorates. Risk managers in both countries are still waiting somewhat nervously to see the eventual fallout from both the results and the promises.

In South Africa, for example, the ongoing threat of land expropriation is of real concern to many corporates.

It affects them at many levels, warn the risk managers, whether it be because they own large tracts of land that may be taken without compensation, whether it be the impact on investors sentiment, or whether it be the impact on recruitment.

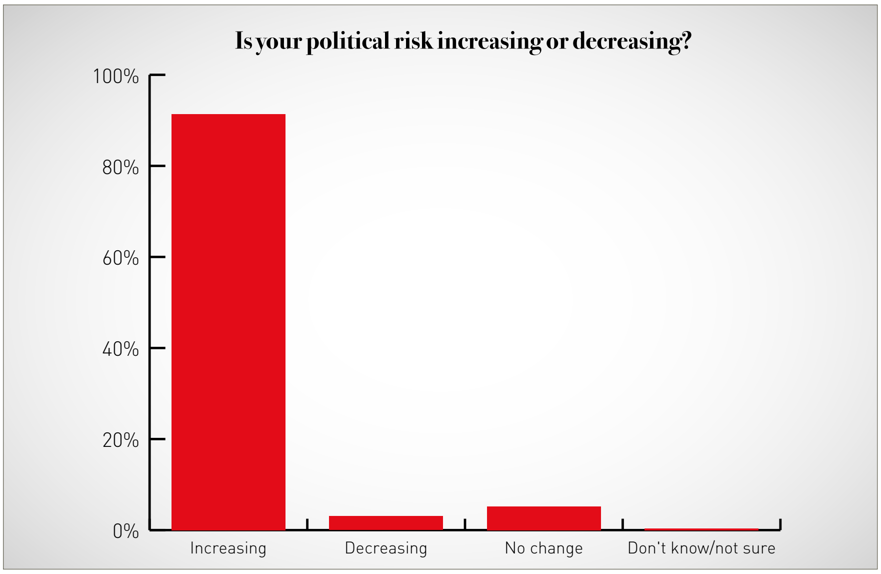
Losing land without compensation has its obvious consequences and one of the problems for risk managers in the commercial agricultural sector in particular, is simply not knowing what might happen next.

In terms of investor sentiment, the rand has been struggling to improve for the past year and there is talk of a possible ratings agency downgrade to come later this year. That would impact every business operating in country, hitting the economy hard and causing a loss at every level.

Finally, the impact on recruitment comes at a time when the government is under immense pressure to solve the unemployment crisis, but at a time when so far, little has been achieved. But risk managers worry that it will become harder to recruit experts from overseas, as well as facing the threat of the best talent leaving the country.

By contrast, in Nigeria there was much nervousness around the election itself. Election day was postponed after a problem with the Electoral Commission, leading to instant fears of election violence.

In the event, the day passed off relatively peacefully but not before large numbers of Nigerians had chosen to take holidays. Risk managers said that impacted in two ways – firstly people chose to travel home to vote or to leave the country completely to avoid any violence, so the ability to do business was slowed down; and secondly, with so many people away, the number of consumers fell and demand dipped.



After the results were announced, Nigerians were faced with even more political uncertainty, after the losing candidate took the winning side to court, citing electoral irregularities. Again, the upshot for business was extended uncertainty and a dip in consumer demand while the country held its breath.

So, it is no wonder that political risk was so high on the risk managers' agenda.

Nigeria President Muhammadu Buhari won another term in office in February 2019

INCREASING RISK

A massive 91% of risk managers who completed this year's *Risk Frontiers Africa* survey agreed political risk is an increasing risk.

This percentage has risen since the 2018 survey, when 90% of risk managers believed political risks were rising.

Go back a few years and the number saying political risks were increasing sat at 75% in 2014 – a point in time when many African economies were growing fast and oil prices were high.

In 2015, the figure rose rapidly to 89.5% and peaked at 92% in 2016, a time when many economies were falling back quite dramatically and when oil prices dropped to low levels, resulting in many oil majors reducing or dropping production across Africa.

Throughout the six years of the *Risk Frontiers Africa* survey, there has been a clear link between political risks and exchange rate risks.

Just ahead of this survey being published, a new report claimed that access to foreign exchange continues to hamper African opportunities.

According to the report from the Economist Intelligence Unit and commissioned by the CDC Group, businesses in some of Sub Saharan Africa's largest economies have been forced to close or reduce production as they struggle to access the hard currency or working capital needed to keep their import-dependent operations afloat.

It found the decline of commodity prices in 2014-2016 restricted foreign exchange (FX) liquidity, causing local currencies to depreciate and leading to FX shortages. At the same time, sovereign debt has risen sharply across the region, raising the prospect of greater pressure on hard currency availability and currency devaluations.

However, despite the challenges posed by FX shortages, currency volatility and rising debt levels, interviews across Ethiopia, Kenya, Nigeria, Tanzania and Zambia revealed a sense of opportunity remains, according to the report.

It found resilient businesses were able to mitigate these challenges through a wide range of operational and strategic adjustments.

The study explained that the continent's two most populous nations (Nigeria and Ethiopia) closely manage their exchange rates, through a crawling peg, and a peg combined with a system of multiple exchange rates.

"This has caused crippling FX shortages due to weak balance-of-payments positions. In turn, this has slowed the operations of import-dependent businesses and bankrupted companies which have been unable to source inputs locally or pass on rising costs to consumers," the report noted.

Adding: "Survivors complain of squeezed margins and long waiting times for FX at banks. Some have experienced difficulties remitting local profits overseas, or hedging against commodity price fluctuations, since they do not have control over when purchases in foreign currency can be made."

It also warned: "Chronic shortages in Nigeria and Ethiopia have forced some businesses to turn to black markets for FX, where they must pay enormous premiums for hard currency. Other coping strategies have included relying on offshore third parties for dollar funding, and applying to as many local banks as possible for FX allocations.

"Some businesses may choose to exert pressure on authorities through embassies and law firms, while others reportedly fall back on less legitimate channels such as bribing officials for preferential treatment. Import-dependent businesses are particularly at risk."

The impacts of FX shortages can be long term, as firms struggle to source supplies or pay their workers. Rising costs may be passed on to consumers, whose demand for retail products can fall if they are sensitive to pricing; and if goods are consumed by low-income households, higher prices will increase poverty.

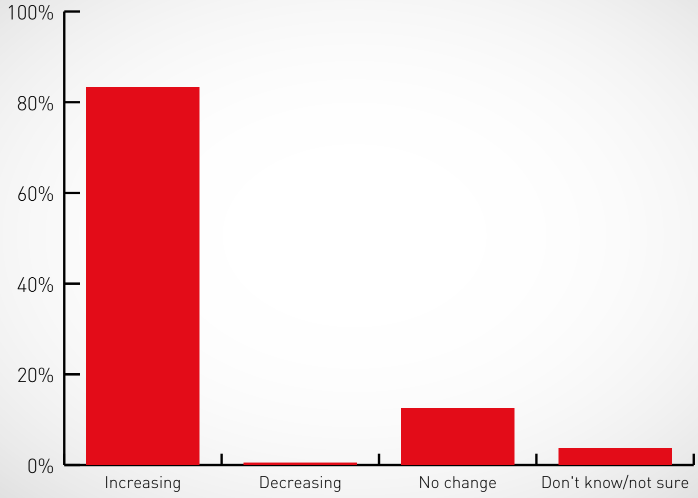
The report also noted: "Inward investment stalls as firms become wary of dedicating capital to countries where shortages are rife. Existing investors may exit countries in crisis, prompting capital flight such as that experienced in Nigeria."

Overall, the report found: "Access to finance is a pervasive problem across Sub Saharan Africa's shallow financial markets, for multiple reasons. In Kenya, Tanzania and Zambia, interviewees talk about government crowding out credit. In Tanzania, businesses noted that a growing fiscal deficit has pushed up commercial interest rates, as internal public debt grows.

"In Zambia, government securities are absorbing too much of domestic savings. In Kenya, the situation is exacerbated by a cap on interest rates that has had the unintended effect of drying up credit for local businesses."

Finally, it warned: "Beware of policy uncertainty and protectionism. Policy instability can impact the business climate and supply of hard currency alongside an exchange rate regime.

Is your exchange rate risk increasing or decreasing?



"In Nigeria, for instance, the government banned a list of imported products in a bid to defend the naira in 2015, with severe implications for the economy.

"Kenya's cap on commercial interest rates has caused working capital shortages for small and medium-sized enterprisess.

"And in Tanzania, investment by foreign mining companies has fallen in the wake of a ban on unprocessed mineral exports. Interviewees there complained of abrupt tax increases, erratic regulatory changes and a lack of transparency."

91%
Of respondents put political risk as an increasing risk

So, again, there should be no surprise that 83% of the risk managers surveyed by *Risk Frontiers Africa* warned the exchange risk is increasing, while the risk managers reported it lies just below seven out of ten in terms of the risk it poses to their business.

This number is on the rise once again. Back in 2014, 66% of risk managers said exchange risks were increasing, while this rose to a dramatic 94% in 2016, when the oil price crisis hit hardest. Since then, it has slid slightly from 85.4% in 2017 to 81.1% in 2018.

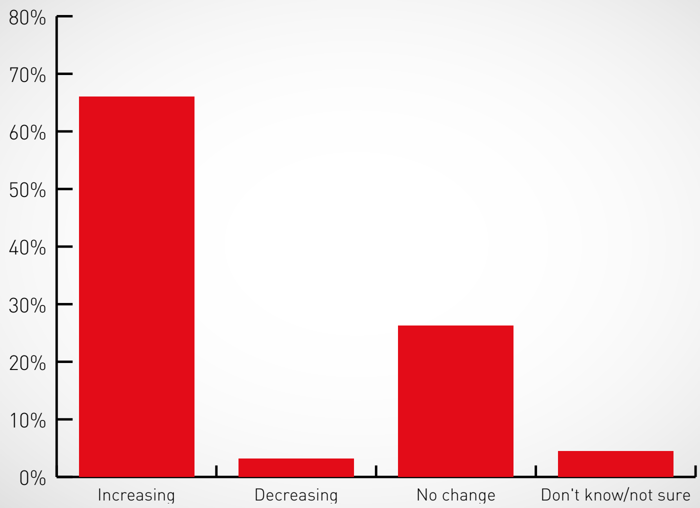
REGULATION RISK

Another political risk is that of regulation.

Through the six years of the survey, risk managers have increasingly pointed to regulation as a major threat to their business. Most agree there is a need to drive standards upwards and to improve customer experience.

However, many fear overregulation or regulation that is inappropriate to the size and strength of the market.

Is your compliance risk increasing or decreasing?



In all, some 65% of those surveyed said regulation was an increasing risk, while 27.5% said there was no change in risk levels from last year. The risk emanating from increased regulation appears to have peaked in 2016, when 73% of risk managers said it was an increasing risk – perhaps no coincidence as that was also the year that many economies changed for the worse and when recession hit some of the major economies, including Nigeria and South Africa.

It is a mixed picture, however. For example, while risk managers see overregulation as a risk to their business, they also want to see stricter regulations – and enforcement of regulations – on their suppliers.

Some hinted that when their business is the customer, they want standards improved; but when delivering a service, they complain that regulation is too costly and time-consuming. That is a huge generalisation of course. Plenty of businesses are striving to meet the new and exacting standards emerging from regulators' offices.

Many of the risk managers surveyed said increasing regulation should not be seen as a threat but as an opportunity to deliver better services to their customers – and to beat their competitors at the same time.

Others said regulation should not be considered as a risk management issue but as an inevitable part of business life.

However, one South African risk manager from the telecoms sector linked legislation to cyber risks and that of competitive pressures. She said: "Our fastest-growing risk is competition. We have to stay ahead of our competitors in a very competitive marketplace.

"But we also have to remain compliant, particularly when it comes to data protection. The cost of that can become a threat to our ability to compete, so it is key we keep it on our risk radar."

CLIMATE RISKS

Finally, political risk is also emerging in the guise of climate change and sustainability risks.

For the first time, environmental issues were cited as the fastest-growing risk by many of the risk managers responding to the *Risk Frontiers Africa 2019* survey.

Following on from the drought in South Africa, it was no surprise that water scarcity and water security made it onto the survey responses in some numbers.

However, the link is now also being made to broader environmental issues and awareness that climate change is becoming an increasing risk to business at several levels.

Risk managers are unsure of whether government will take action – and what, if any, that action might look like – so it is adding to the general feeling of political uncertainty.

But they are also aware that, regardless of political intervention, their organisations need to address the issue – and to be seen to address the issue.

They cite environmental risks in terms of reputational damage but also in terms of natural catastrophe-style risks to the business; changing consumer spending habits impacting profitability; and in terms of cyber risk as greater dependence on technology might replace more environmentally damaging options.

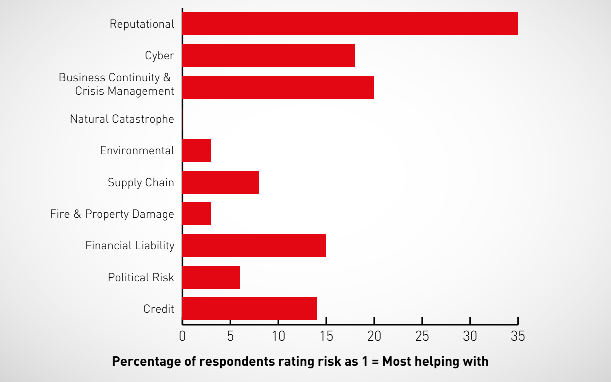
At the moment, only 3% of respondents put environmental risks in the top three areas in which they currently guide the board; interestingly that falls to only 1.7% of risk managers who want to engage the board on the issue in the future.

It will be interesting to watch environmental issues in terms of how they climb the risk ladder in the coming years.

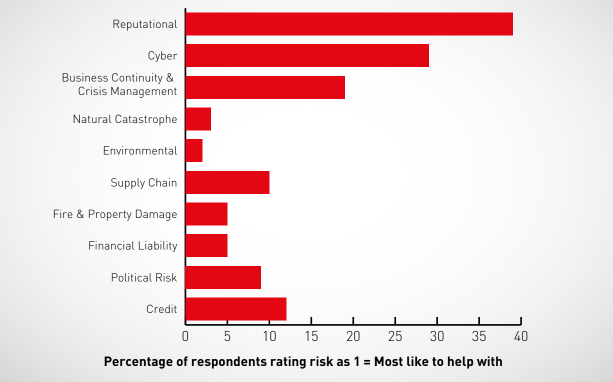

KINGJAMES 46811
Investing in Africa's future
for over 100 years.
33 countries and counting.
This spot in Africa could hold a cure for the common cold, an answer to global warming or a new mode of transport. Then there's 30 million square kilometres more. For over a century Sanlam has seen the potential in Africa, knowing all the greatness it holds. It's why we have and always will be deeply rooted in this continent and why we've invested in 33 countries and counting, more than any other insurer. As the biggest non-banking financial services group in Africa, we'll proudly continue building a better continent for others to inherit.
100 years
For generations to come
Sanlam
Wealthsmiths™
Insurance | Financial Planning | Retirement | Investments | Wealth
Sanlam is a Licensed Financial Services Provider.

RFA 2019: IN NUMBERS

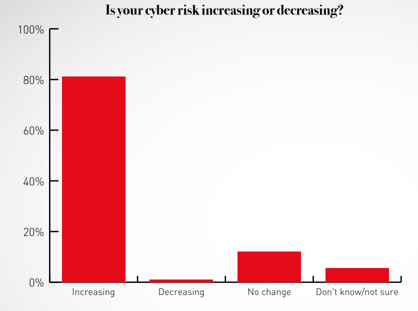
Which of the following risks can/do you currently most help the board with?



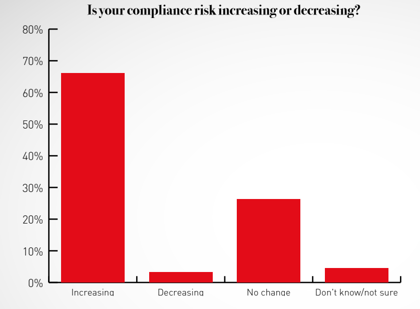
Which of the following risks would you most like to help the board with?



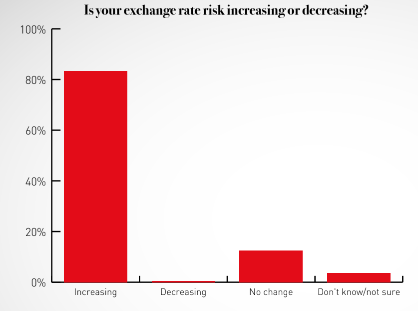
Is your cyber risk increasing or decreasing?



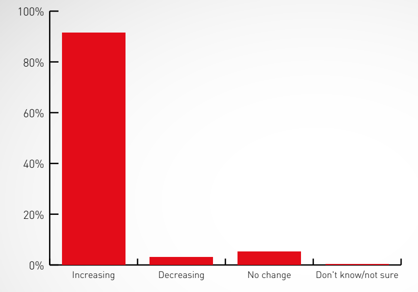
Is your compliance risk increasing or decreasing?



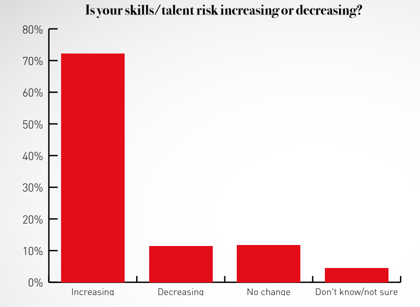
Is your exchange rate risk increasing or decreasing?



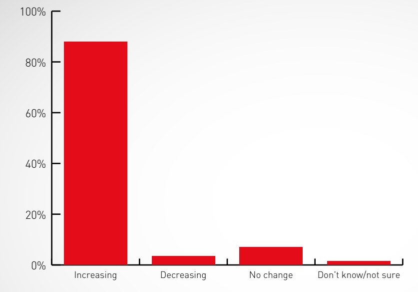
Is your political risk increasing or decreasing?



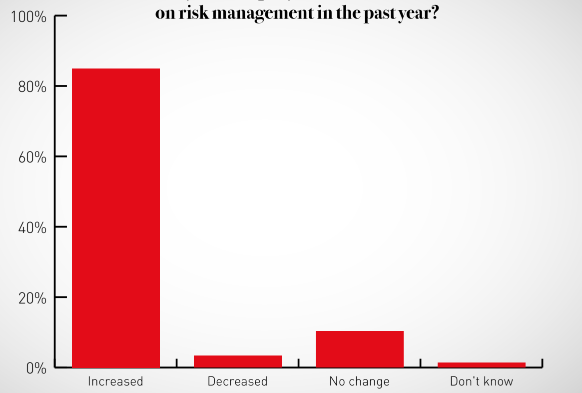
Is your skills/talent risk increasing or decreasing?



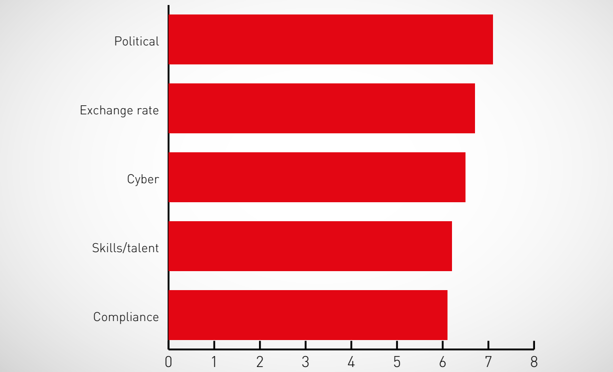
Are your overall business risks increasing or decreasing?

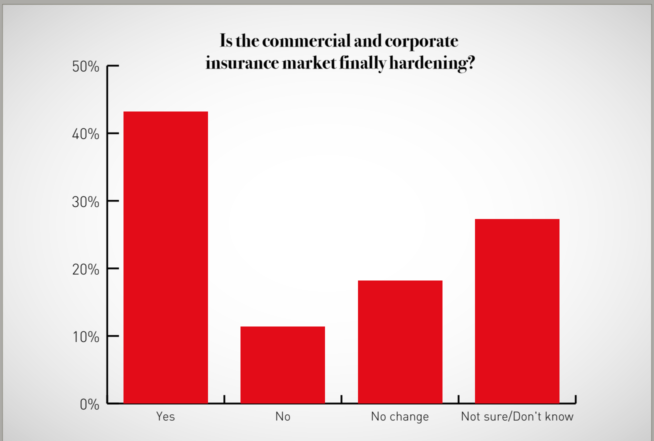


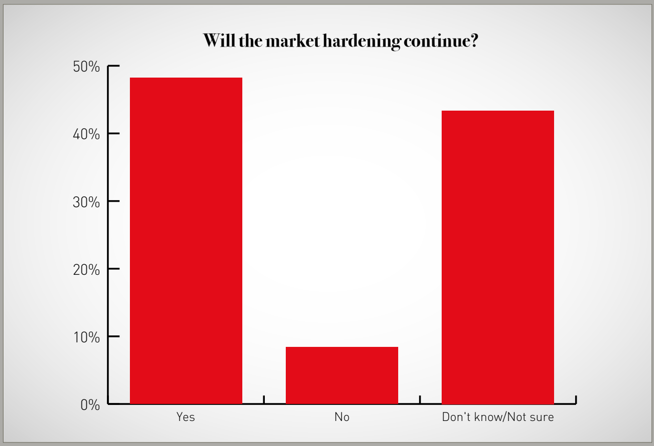
Has your company increased its focus on risk management in the past year?

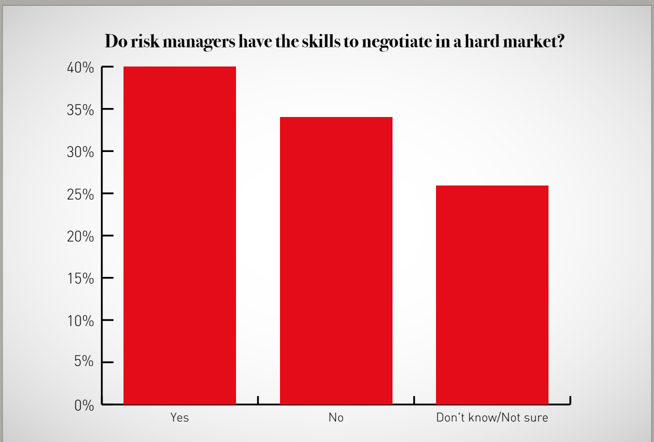


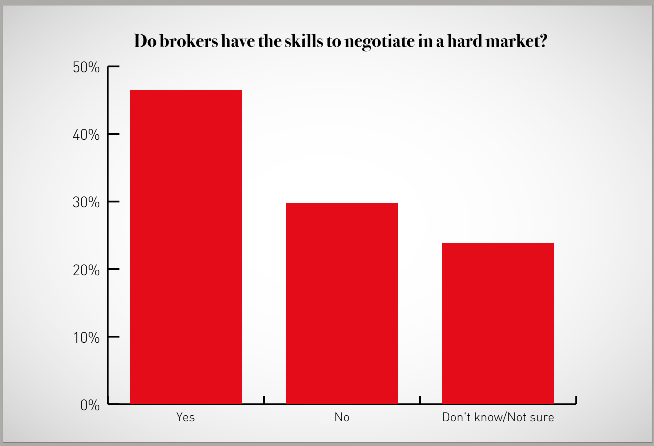
On a scale of 1-10, how high is this threat to your business?



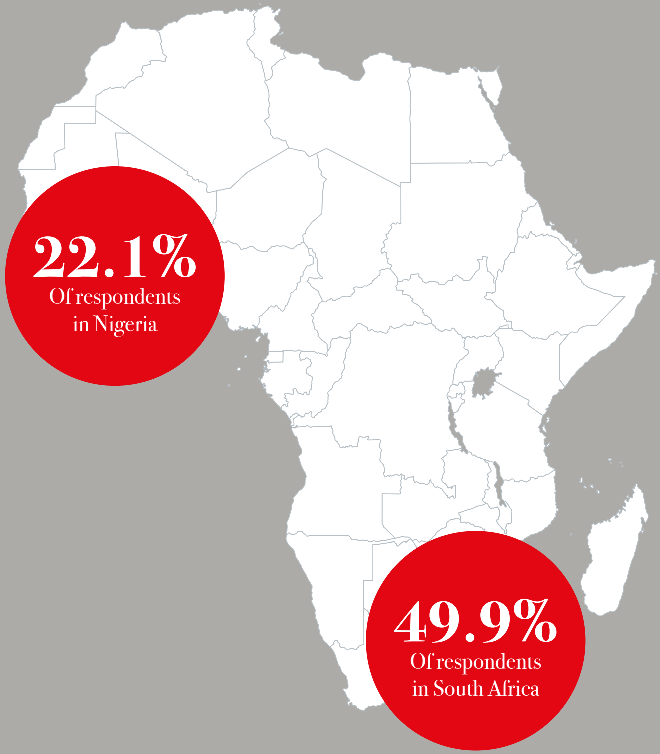


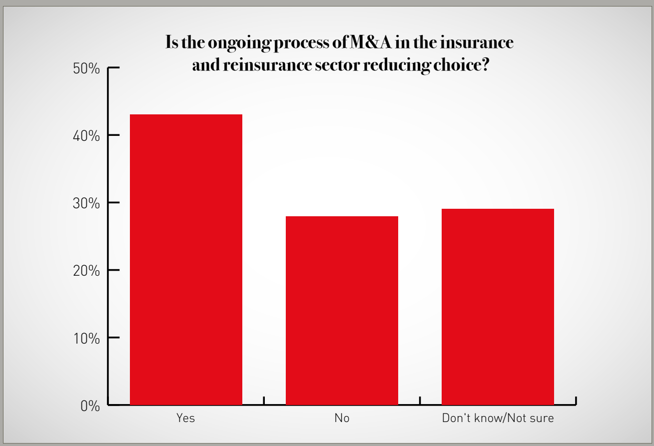






Respondents in key African markets





Year-on-year comparison

2018
87.4%
Said overall risks to their business were increasing

2019
88.0%
Say overall risks to their business are increasing

CYBER THREATS: HERE TO STAY

Cyber threats have been moving up the risk agenda for several years and, as this year's survey reveals, has now become part of everyday life for risk managers and their organisations. More than that, cyber risk has become intertwined with almost every other threat on the risk list

These days it is easy to assume that everyone is aware of cyber risks to their business and will be taking the necessary precautions.

However, with some 83% of risk managers admitting their cyber risk is increasing and with all the risk managers considering the risk a seven out of ten in terms of threat to their business, it seems there is still work to be done.

In the past few years, the insurance industry has been stepping up its cyber coverage and in the past year there has been a move to reduce the so-called 'silent cyber' risks, encouraging business to take out standalone cyber risk coverage.

As one risk manager said: "It is no surprise really. I want to know that my cyber risks are properly covered and don't want a property underwriter trying to interpret the risk and sweep it into the property bundle."

It seems that insurers agree, as more are trying to separate out the cover.

However, some 85% of African risk managers are still not convinced that the insurance cover is value for money – mostly because they are not convinced the limits available will be sufficient in the face of a major cyber breach.

They also have questions around the way in which a policy would react in the face of a fine from the regulators.

Indeeed, 85% of those surveyed said they would prefer that cyber insurance remains within other existing, traditional policies.

NEW REGULATIONS

South Africa and the European Union have both instigated far-reaching legislation designed to protect consumers. Most risk managers are now aware of the rules – a step forward from last year when many had yet to factor the new regulations into their practices.

And news that the EU's General Data Protection Regulation (GDPR) has handed out €56m in fines and brought 200,000 cases in 31 countries during its first nine months, is further evidence that the risk managers need to take the threat of fines seriously.

Broker Marsh said the fines so far have been limited to Europe and have yet to reach the maximum allowable, but it expects EU countries to take an increasingly aggressive stance as companies fall under further scrutiny.

So, no wonder then that the risk managers surveyed placed cyber risk at the top of their list in terms of risks they would most like to help their board with. Again, almost eight out of ten said it is the top risk in terms of wanting to help the board more in the future.

In terms of current support, nine out of ten said they support their boards in understanding and managing the risk.

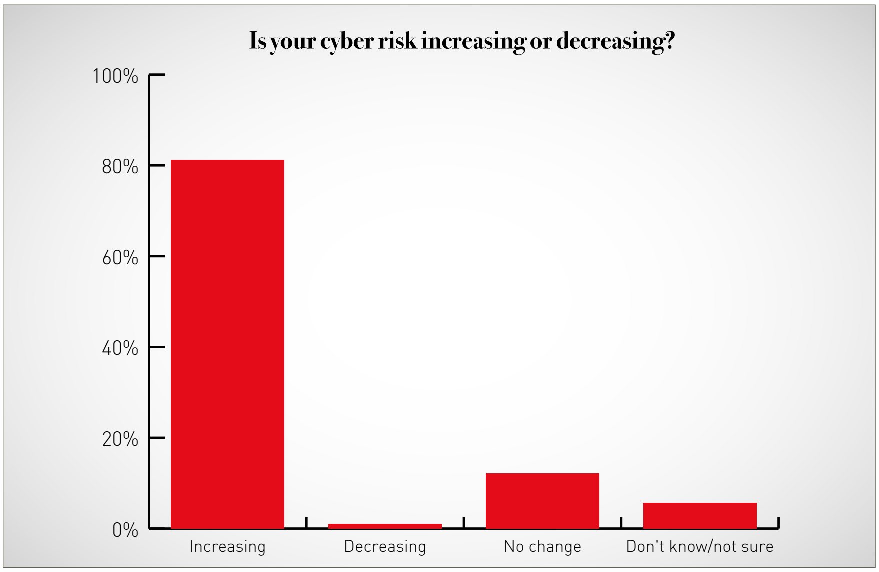
Interestingly, reputational risk topped even the cyber threat – although the risk managers said it can in many ways be a consequence of a cyberattack or event. Some 35% of risks managers placed it at the top of their list in terms of current support given to the boards, while just over 39% said it was the number one risk they would most like to support their boards with in the future.

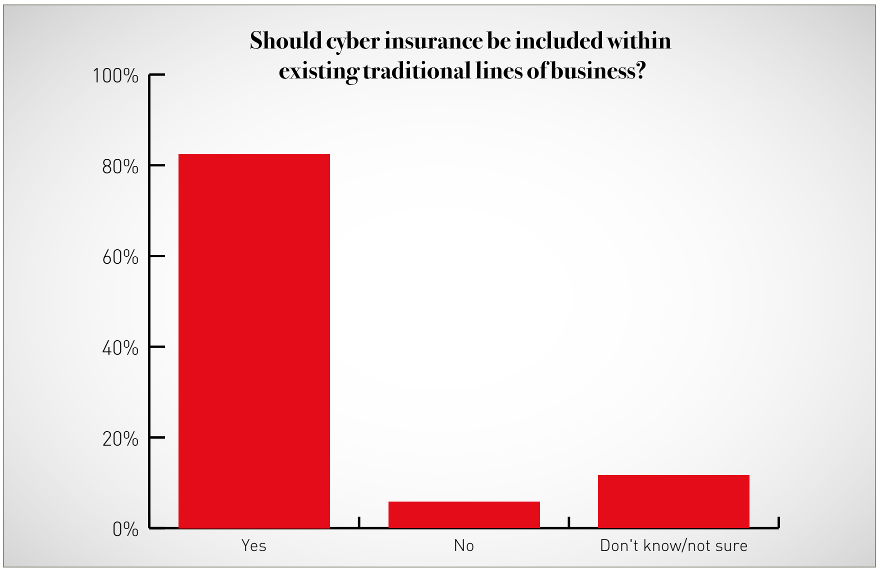
Many made the link between reputation and social media. As one South African risk manager said: "It is all about agility and systems. Cyber is our fastest-growing risk, but that is beyond our own system and includes third-party integration, third-party security and due diligence on our part."

She was not alone in identifying third party risks as key to cyber security and managing the fall out in terms of damage to reputation.

Too often, said one, the damage to reputation is "caused by a failure in the supply chain that is out of our control, but we are the touchpoint with the consumer so it us who takes the blame".

7/10
Respondents gave cyber this rating as a threat to their business





INTERTWINED RISKS

Another cited business continuity as his fastest-growing threat but said cyber risk lies behind that risk, because it is service interruptions that concern him the most.

In fact, business continuity and cyber were linked by almost every risk manager who cited business interruption as their fastest-growing threat.

As one Kenyan said: "Cyber, regulation and business interruption are all fast-growing and are all intertwined."

For one South African risk manager, cyber risks are most heavily linked to the risk of crime.

He said South African business was constantly under attack from organised criminals.

He added that the idea of a grumpy teenager in a bedroom hacking into systems for fun was outdated – businesses now had to fear constant attack from highly skilled and motivated hackers who were out to cause financial harm.

And if they are not out to cause direct financial harm, they will often be hacktivists, looking to deliberately damage reputations by 'outing' some confidential information, which could be anything from the CEO's salary to commercially sensitive information.

A fair number of risk managers from the public sector responded to the survey this year and they were among those who linked cyber to political risks, warning of deliberate cross-border sabotage and the risk of government secrets becoming exposed.

Overall, what the survey showed this year was that cyber risks are not only here to stay but are now intertwined with almost every part of the business, internal and external.

SIX YEARS OF RISK IN FOCUS

Commercial Risk Africa has been hosting roundtables and conducting surveys across Africa for the past six years, giving us a picture of how the risk management community is changing

Six years on since we held the first Risk Frontiers Africa survey, a lot has changed and not much has changed.

Risk managers across the continent report myriad challenges facing them and their organisations. There is a clear and growing awareness of how the nature of risk is changing. The spider's web of risk has become more challenging, while risk management itself has moved up the corporate agenda.

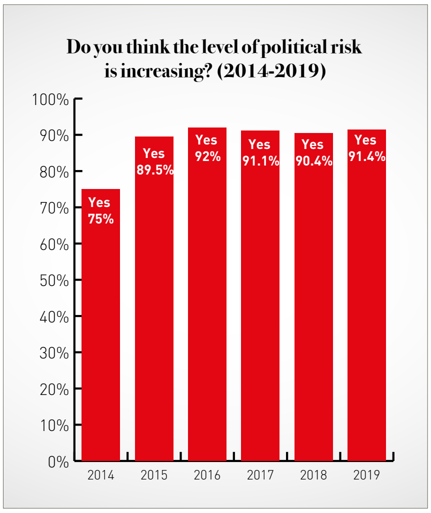
However, with greater recognition comes greater responsibility. Risk managers are being asked to step up to the board and also to report to the CEO more directly. Part of this is being driven by regulators who want to see well risk managed entities but also part by responsible directors who want the fullest possible picture.

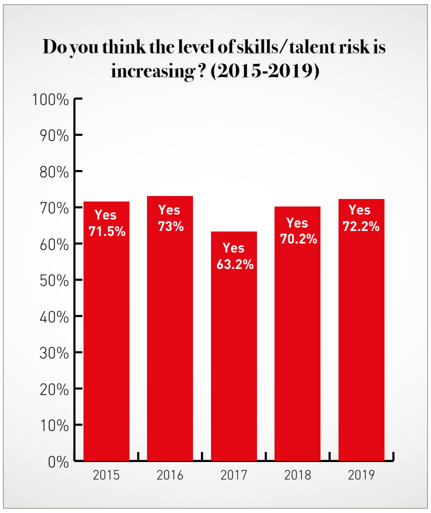
Across the years, political risk has remained the leading risk reported by risk mangers across Africa and the figures again this year are high, but slightly up on previous years.

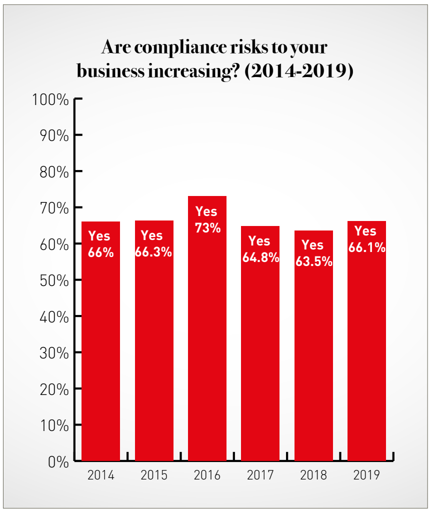
Cyber risk has been a new feature in more recent years and it is interesting to see ow risk managers have approached this. At first it was seen as an IT problem, many risk managers were not directly involved but then, as the risk emerged more completely, the challenge was in breaking down the communication barriers with those IT teams. Now the risk is acknowledged as a staple part of business life, so many risk managers don't see the risk as an increasing threat but firmly as one that is here to stay.

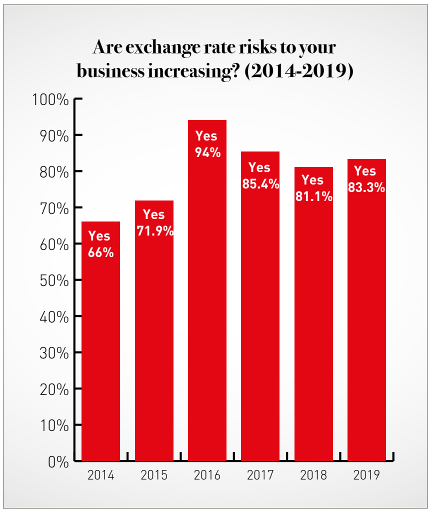
Exchange rate risks is an interesting one. Across the years, the risk managers have changed their minds, reflecting fairly perfectly the rising or falling of their own national rates.

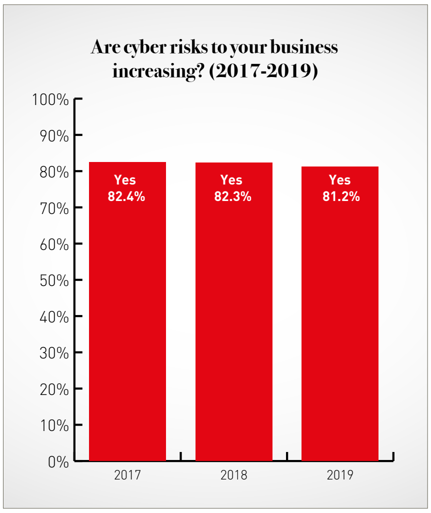
Below is a summary of how views have been changing during the 2014 to 2019 period that we have been running the *Risk Frontiers Africa* survey

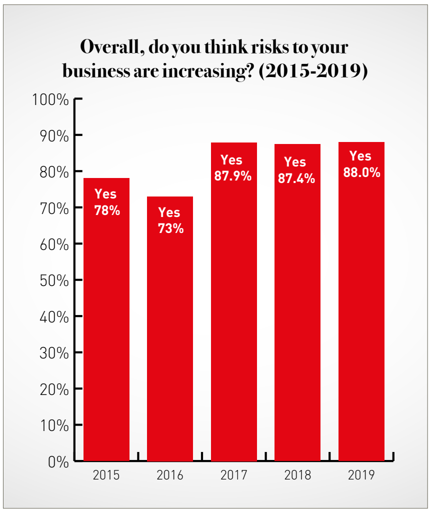












Note: Please remember that we have asked a growing set of questions each year, so some questions were not asked in the earliest surveys.

WEST AFRICAN STATES FACE CHALLENGE OF RISK MANAGEMENT AND CLIMATE CHANGE

Across Africa, countries are grappling with the potential impact of climate change. Risk managers are no different, facing the same challenges in discussing the future costs to their business. This year as part of the *Risk Frontiers Africa 2019* survey, we have been asking risk managers for their views on how they can play a role in helping their businesses. So far, the conversation appears to be at a very early stage. However, help is coming from major institutions. Abdou Diaw takes a look from a francophone perspective

In Africa, climate change risk management remains a major concern for African states. There are, in fact, a number of constraints relating to prevention, the identification of types of risk and their management.

However, institutions such as the African Union and the West African Economic Community (ECOWAS) have set up initiatives for disaster risk management.

In west Africa, some countries remain exposed to the risks of natural disasters caused by climate change. Therefore, integrating comprehensive risk management strategies into development processes becomes imperative and necessary.

In this part of Africa, the economies of many countries are based on climate-sensitive sectors such as agriculture, infrastructure, forestry and fisheries, among others. This poses a real challenge for the prevention and management of these risks.

A recent World Bank study found that today, more than 90% of the world's poorest people live in countries exposed to natural disasters. This amplifies the impact of shocks. The same study added that natural disasters push more than 25 million people into poverty each year.

The resulting economic losses are close to $100bn a year, equivalent to more than two thirds of net aid flows ($142.6bn in 2016), and most often damage is not insured. Although there is an urgent need to address the structural causes of climate change and the vulnerability of countries, there are also various risk-pooling mechanisms, including insurance, that can play a key role in shaping strategies to deal with natural disasters.


Malika, Senegal: The country benefited from insurance against climate risks, after being hit by drought

AFDB CONTRIBUTES

Financial institutions such as the African Development Bank (AfDB) have come to the fore in the fight against natural disasters caused by climate change. In October 2018, the AfDB gave the go-ahead for the launch of the Disaster Risk Financing Program in Africa, the first-ever programme dedicated to climate risk management, which it is putting in place to strengthen the resilience of 54 African countries and help them cope.


Atsuko Toda, AfDB

Dedicated to the bank's regional member countries, this programme will enhance their capacity to assess the risks and costs of climate change, respond to disasters and review national and sub-national adaptation measures. It will also facilitate initial funding for countries in need of assistance.

The first phase of the programme is expected to take place between 2019 and 2023. Increased resilience and better adaptation of countries to the adverse effects of climate change, as well as disaster risk insurance coverage, will reduce the vulnerability of disadvantaged populations exposed to climate change and will protect communities against the loss of their livelihoods – especially among smallholder farmers.

Nine countries have already indicated their interest in the programme: Burkina Faso, Gambia, Madagascar, Malawi, Mali, Mauritania, Niger, Senegal and Chad.

"Africa is the continent most vulnerable to climate change, exposed to all kinds of natural disasters, be they droughts, floods and tropical cyclones. Yet disaster risk management suffers from insufficient funding and difficulties in using available funds," said Atsuko Toda, director of agricultural finance and rural development at the AfDB.

> "Africa is the continent most vulnerable to climate change, exposed to all kinds of natural disasters, be they droughts, floods and tropical cyclones. Yet disaster risk management suffers from insufficient funding and difficulties in using available funds"
> ***Atsuko Toda, AfDB***

AFRICAN UNION LEADING THE WAY

In addition to the AfDB, there is also the African Union, which in 2012 led the way and created African Risk Capacity (ARC), a pan-African mutual fund specialising in the fight against natural disasters.

Its objective is to provide African countries with financial solutions to fight climate-related natural disasters. The ARC allows countries to benefit from early intervention through a risk transfer mechanism based on an insurance contract. Providing assistance to households in the critical three months following a disaster could save some $1,300 per household.

In addition, a cost-benefit analysis by the International Food Policy Research Institute and the University of Oxford shows that every dollar committed to the ARC before the drought saves $4 in traditional humanitarian aid.

Given the diversity of climatic conditions and agricultural practices in west Africa, such a risk transfer and insurance mechanism could be effective in terms of rapid interventions following a natural disaster.

JOINT EFFORT

In the wake of COP23, ECOWAS and the ARC have strengthened their cooperation. The two institutions signed a memorandum of understanding on the sidelines of annual meetings with ECOWAS technical and financial partners.

Their partnership is in line with ECOWAS's natural risk management policy, as well as with its agricultural policy and climate change adaptation initiatives. It focuses on exchanging knowledge, data and early warning methods between the ARC and ECOWAS member states, with the aim of strengthening their capacity to prepare for and respond to disaster risks.

Since the creation of the ARC in 2012, three west African countries – Mauritania, Niger and Senegal – have benefited from insurance against climate risks, after being affected by droughts.

Africa Re Foundation

Mobilising resources
for the development
of the insurance industry
and risk management in Africa

Contact

www.foundation.africa-re.com | Address: 1, Cybercity, Tower A, 6th floor, Ebène, Mauritius

LACK OF TRUST DOMINATES RISK AGENDA

Nigeria has always been considered a challenging environment in which to operate, with fierce competition and highly motivated people. But, as a group of risk managers recently explored, the future could hold another raft of risks that they are yet to fully understand and mitigate

A group of risk managers in Lagos warned that too many people still do not trust insurers to provide the right products, particularly in the face of environmental, social and governance challenges brought on by climate change.

Meeting for the *Risk Frontiers Africa 2019* survey, risk managers said that even they were among those who trusted in God rather than insurance.

They feared insurance would not pay out in the event of a disaster and were still not buying insurance to cover a natural catastrophe.

"There is a view that God will take care of us," one said, "so why do we need insurance?"

The lack of trust also impacts the way in which companies view their risk managers, warned the group.

While risk management as a profession is growing rapidly in Africa's most populous country and leading economy, the risk managers admitted there is still work to do in convincing their boards of their value.

There is no sweeping generalisation, however. Plenty of well-qualified risk managers are making it into the c-suite and have a recognised and valued voice on their board.

Most risk managers in Nigeria have qualified as something else and then added to their qualifications to move into the risk space, the group said. They valued that extra experience but also acknowledged they need risk management-specific training to take on all the risk challenges within their organisations.

"We need to understand the data and properly analyse it from a risk perspective. We need to communicate that to our boards and to the rest of the business," said one.

On top of that, they agreed, it is a combination of qualifications and experience that makes them right for the job – and that is why it cannot be handed over to other departments such as procurement.

"I know of at least one person who has all the qualifications in the world and 20 letters after his name but he has been so busy studying he hasn't had time for doing, and he is not making a good risk manager," admitted one of the group. "It has to be a balance."

"You need to truly add value," said Adewale Akinwale, senior manager, enterprise risk management, risk and compliance at MTN.

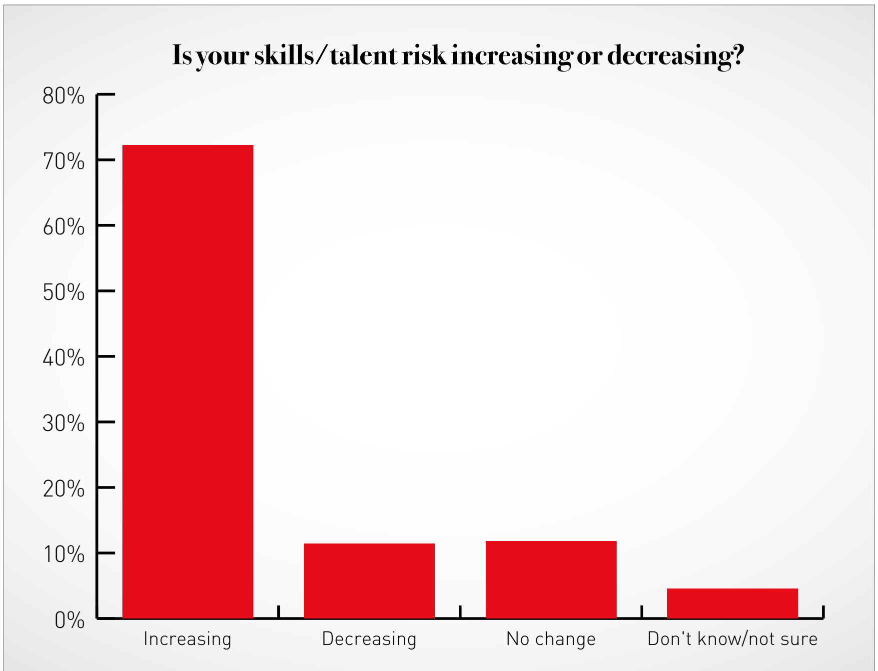
He is a self-proclaimed aspiring chief risk officer, but knows he will need a blend of qualifications and experience to make the grade.

"It is also important," Mr Akinwale said, "to be able to evidence your value to the board. First, you need to get yourself into a position where you understand the characters of the board members and are able to support them in the right way.

"If you can prove your value, they will take you seriously and give you the opportunity. If you are coming from a position of understanding the risks and have risk management processes correctly in place, you can prove your value."

An increasing number of regulatory codes require Nigerian entities to have risk managers in place. The risk managers acknowledge that this helps their cause, but they also need to evidence their requisite skills.

> "We need to be good communicators and we need to be good at building relationships so we have trust – you will never make [it onto] the board if they don't trust you"
> ***Olayinka Odutola, Association of Enterprise Risk Management Professionals***



Olayinka Odutola, CEO of the Association of Enterprise Risk Management Professionals, said risk managers must not underestimate the combined need for technical and soft skills.

"We need to be good communicators and we need to be good at building relationships so we have trust – you will never make [it onto] the board if they don't trust you," he said.

INSURANCE BUYING

When it comes to insurance buying, however, relatively few of the risk managers are involved. They might advise the financial director on what is needed but relatively few are actively involved in pressing the button to buy the policy.

Many in smaller firms – and even some from larger groups – admitted they do not buy insurance beyond the compulsory covers, because there is not enough trust.

As one of the group said: "We have 180 million-plus people and only 60 insurers. If we had more people buying insurance, the picture would be different.

"Right now, we have too many insurers for the numbers of people buying insurance [Nigeria's penetration rate sits at 0.4%]. That makes it extremely competitive among the insurers and prices are being driven down."

"There are too many insurers for the size of the market now, but not for its potential," agreed another.

If prices were to rise as a result of global changes, the risk managers wondered whether the industry would be able to sell itself to a sceptical public.

"We are so used to prices going down and we still don't understand the value of insurance in the way other markets do, so it would be hard to raise prices and maintain even the existing volume of business," said one.

However, they do value the arrival of international players. The Nigerian insurance market has seen plenty of change in the past few years and most risk managers believe that change has been for the better.

It has driven up standards and resulted in premiums actually being paid to the insurers, rather than resting with brokers until a claim arises.

Importantly, said the risk managers, the foreign players have brought innovation to the market, with new products and new ways of looking at traditional risks.

"Service is much better too," said a risk manager from the manufacturing sector. "We can trust them to pay and it is creating traction for the market. They don't compromise standards or premiums."

Another added: "They want you to stay with them so they will engage when you have a problem and will discuss the issues. They monitor what has happened, they follow up with you. This proactive stance makes me more interested in buying insurance beyond the compulsory covers, because they are invested and I feel they will deliver."

Plenty of the risk managers still have stories of claims not being paid, however, and of lengthy arguments.

One said: "I was involved in a relatively minor accident, but my insurer refused to settle the claim. A few months later, we went out to tender on our multinational insurance programme. That same insurer was on the list but I dismissed them instantly because if they can't pay the small claims, what chance is there on a large claim?"

Another said: "We talked about professionalism among risk managers, but we need professionalism among insurers too."

SUSTAINABILITY TOPS AGENDA

In the past year across the country, more than 200 people have died in floods that have also made thousands homeless and stopped business for days at a time.

Some of the most affluent parts of Lagos have proved to be extremely vulnerable to flooding. The upmarket suburb of Lekki, for example, flooded in September last year, trapping thousands of middle- and upper-class Nigerians in their high-cost homes for up to a week.

Not only did this impact them directly but it also hurt hundreds of businesses, which were left unable to function until their employees could get out.

With the threat of climate change, this part of Lagos remains extremely vulnerable and risk managers meeting in the city recently admitted they are having to factor flood risk into their thinking.

"When it rains in Lagos, we are used to it bringing the city to a standstill – the roads gridlock and people are stuck for hours, but the risks from climate change are even more serious," said one.

However, the risk managers also argued that the government needs to take a more proactive role in mitigating the risk of disasters, such as the recent Lekki flooding, and that insurers should have a role in promoting private-public partnerships.

They said insurers might ask developers to change construction – or improve drainage – but often it was ignored, and it needed government to drive better governance through the construction sector.

The group also suggested that insurers needed to do more in terms of education. Mr Odutola said there was plenty of business potential for insurers if they would spend more on education, both of the public and businesses.

Damilola Owoeye, head, personal banking credit at Stanbic Bank, was among those to stress the need for better education – in the rural areas as well as in the cities.

Farmers, he said, were often unaware of what insurance could offer. He cited Kenya as an example of a country where there has been far more in the way of education and it has resulted in a higher take-up of insurance.

Anthony Tippa, chief risk officer and chief actuary at Custodian Insurance, said there is a growing awareness of climate change and how it might impact the country.

"People are complaining how hot it is in Lagos at the moment," he said, adding that more people are being personally affected by extreme heat and also by flooding.

He rebuffed suggestions that insurers were not willing to offer cover for areas such as Lekki where there was a known risk of flooding, but he said insurers would be careful to calculate the risks and to price it accordingly – it was then up to insureds if they were prepared to pay a fair price for that cover.

Mr Tippa pointed to the US, where the government acts as the insurer of last resort on flooding and suggested the Nigerian government could take a more active role.

There is money available, according to Adewale Balogun, from VT Leasing, but he admitted it could be hard to access without persistence.

One positive said, Mr Akinwale, is that Nigerian companies are becoming much more aware of the need to take a sustainable approach to their business. Those with multinational interests are already doing this, and the regulators are beginning to make demands of them, but increasing numbers of smaller firms are beginning to take the issue seriously too, he said.

For others, it is a matter of defining sustainability. "For us, being sustainable is a question of remaining able to compete effectively with our peers," said Oluwayemisi Da-Silva, chief operating officer at Crownrise Finance.

For Ngozika Akunne, of Sunu Assurances, sustainability is something that is being incorporated into their governance for the first time. "Social responsibility is high on the agenda for the first time too," she said.

In January 2019, the government introduced a new code of corporate governance, similar to the standards set by King IV in South Africa and also comparable with standards set in Mauritius.

Mr Akinwale said there are signs that even companies that operate in unregulated sectors are beginning to use the standards as their benchmark. By January 2020, all companies that are incorporated will have to meet the new code of corporate governance and there was a feeling among the risk managers that, by this time next year, the conversation will sound very different.

But sustainability is about more than complying with regulations, agreed the risk managers. Many of them referenced the importance of the agriculture sector in Nigeria and see better use of the environment as key to the country doing well as a whole.

One risk manager from the dairy sector said that being involved with food production meant his company had no choice but to be in tune with the environment.

For him, food security is an issue that no risk manager should ignore: "No one should ignore the impact of, say, a drought on farming. If food is short it impacts everyone, from the farmer to the consumer."

" If you are coming from a position of understanding the risks and have risk management processes correctly in place, you can prove your value [to the board]"
Adewale Akinwale, MTN

He added: "We are trying to mitigate our risks, but we also have to consider the wider risks to the economy. Climate change is something we need to monitor and react to as the position changes. It is very much part of our DNA."

The financial sector appreciates the risks from climate change, said Kayode Okunjolu, of FITC, who is seeing a major change in behaviour and in attitude, particularly from younger generations.

The risk managers agreed that the younger generations tend to ask more questions about what their employer is doing to remain sustainable – and how it is contributing in a broader social sense.

That creates risks all of their own, the risk managers agreed, admitting that the wider approach to business may be on the cusp of major change as millennials take their place at the work table.

Lekki Ikoyi Bridge, Lagos: The affluent Lekki suburb was hit by floods in September 2018

QUESTIONS ANSWERED

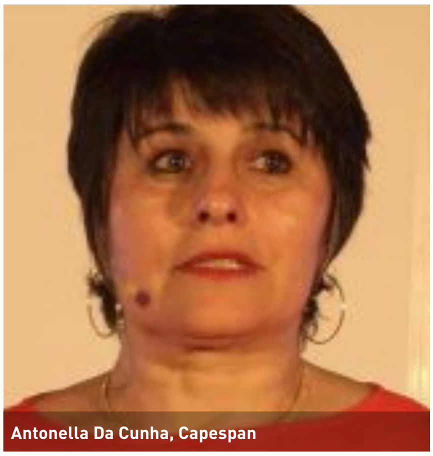
As part of the *Risk Frontiers Africa 2019* survey, Gareth Stokes spoke to three leading risk managers in South Africa to get their views on the state of the market.

PARTICIPANTS

Christelle Marais (CM), executive director, Lucidum
Mpho Modisane (MM), senior manager operational governance, corporate office, Airports Company South Africa
Antonella Da Cunha (ADC), group risk manager, Capespan


Christelle Marais, Lucidum


Mpho Modisane, Airports Company South Africa


Antonella Da Cunha, Capespan

Q WHAT ROLE SHOULD CORPORATE RISK MANAGERS PLAY IN ENSURING ONGOING SUSTAINABILITY IN THE BROADER SOCIOECONOMIC CONTEXT? HOW CAN RISK MANAGERS ASSIST WITH BIG-PICTURE ISSUES LIKE CLIMATE CHANGE?

CM: Sustainability, governance failure (internally and as part of the value chain), third-party risk, economic market participation, etc, are all risks that appear on most organisations' annual reports. In my view, most corporate risk managers would like to contribute to the mitigation of these risks at strategic level, but the gap between what risk managers think they should deliver and what business leaders think they should receive is too big (due to challenges on both sides). It is important to have an open and honest discussion as to the reasons why risk management does not – or is perceived not to – contribute to this discussion. Part of this is probably the distinction between organisations' economic self-interest and the selfless mitigation strategies that these risks require.

MM: Usually, big-picture issues come with a lot of theory and complex discussions. Risk managers can help by simplifying the perceived impact of the risk to allow for realistic mitigation strategies to be put in place.

ADC: They can help build awareness campaigns and risk workshops, with incorporating King IV. Risk managers can also get the board to embrace environmental strategies in their goal and help with linking financial targets to environmental targets.

Q WHAT SKILLS AND EDUCATION DO RISK AND INSURANCE MANAGERS NEED TO ACQUIRE TO BE ELEVATED TO THE ROLE OF CHIEF RISK OFFICER?

CM: Risk managers need business acumen (regional, country, industry and organisational knowledge) around key business strategies and processes. However, they also need regulatory insight (core and generic legislation, international policies, trade blocks, sanctions, codes and standards, internal policies and provisions). On a personal level, they need personal, behavioural and leadership skills (effective communication and negotiations, presentation and facilitation, decision-taking theory, probability theory, game theory, cognitive biases and motivation theory under conditions of uncertainty). And finally, they need theoretical knowledge (risk management, finance, statistics, mathematics, modelling, simulations, decision trees, scoring models).

MM: The managers should have a minimum of eight years' financial services/insurance industry experience, three years of which should be at senior management level. Industry designations such as IRMSA formal certifications should be an essential requirement.

ADC: Risk managers should have qualifications, including professional and risk management qualifications from IRMSA, or have completed RIMS board exams. They need at least five years' experience in executive management. In terms of capability, they need to be an excellent communicator, strategic thinker, effective relationship builder and change manager. They need to have knowledge and understanding of governance practices. Finally, they need to be a natural leader who can work independently.

Q HAS YOUR FIRM CONSIDERED OFFLOADING INSURANCE MANAGEMENT TO A PROCUREMENT DEPARTMENT TO FREE UP RISK MANAGEMENT RESOURCES TO FOCUS ON PURE BUSINESS RISK MANAGEMENT AND REPORTING? COULD THIS WORK, PRACTICALLY?

CM: No, we have not done this. The strict 'procurement' side of insurance should in any event adhere to procurement standards and requirements. However, the specifications should always include the views and requirements of the risk management function. Insurance is a 'one-off' renewal event whereas risk management is a continuous day-to-day process, so the 'freeing up of resources' is theoretical at best. In my experience, most business risk managers are only too glad to be part of the insurance process, which historically did not (and still does not) consider the business risk management view.

MM: Risk management is a company-wide requirement that resides throughout the end-to-end processes of the organisation. Confining the function to the procurement department will not only overburden them with unnecessary work outside their area of expertise, but also rob the company of the multidisciplinary approach that the standalone risk department offers.

ADC: Yes, especially if the operational management of insurance was collapsed into the business. It can work practically if good oversight and governance is applied.

Q MIDWAY THROUGH 2019, WOULD YOU AGREE THE COMMERCIAL AND CORPORATE INSURANCE MARKET IS FINALLY HARDENING AND WILL IT CONTINUE?

CM: I believe it has been hardening for a while and believe it will still continue for a while.

MM: The insurance market is likely to continue hardening because customers are pushing their profits down by continuously asking for cheaper rates. If the insurers don't give in to the demands, the companies will move to other insurers with lower rates. That way, the market will not remain hard for a while.

ADC: Definitely hard in some categories like cold storage and asset risk, liability as well as commercial crime.

Q ARE RISK MANAGERS AND BROKERS READY AND ABLE TO OPERATE IN A HARD MARKET, GIVEN SOME MAY NEVER HAVE EXPERIENCED SUCH CONDITIONS, OR IF THEY HAVE, NOT FOR A LONG TIME? AND WHAT SHOULD RISK MANAGERS AND BROKERS BE DOING TO GET READY IN TERMS OF NEW APPROACHES TO RENEWALS?

CM: Risk managers and brokers have two distinctly different roles to play. Business risk managers will have to work harder to: (i) reduce the amount of cover needed; and (ii) increase the business's risk profile to ensure the company is more attractive as a risk than those it competes with. Brokers will have to work harder to understand their real contribution to the enterprise risk management process, as opposed to their current understanding of the process.

MM: Brokers and risk managers should firstly move away from traditional ways of predicting markets and explore

Gender gap: There are still fewer women in the c-suite than men

> "Women in c-suites in general are limited and risk managers in the c-suite as CROs remain a dream and aspiration for most women"
> ***Antonella Da Cunha, Capespan***

better ways. The managers can play around with out-of-pocket fees and structure the deals better for their customers; that way, they get to keep their rates while making companies happy at the same time. The managers should do more customer relations with their clients to help them restructure their company expenses to make enough provisions.

ADC: Management is ready but insurers are not receptive. We would like to see the conversation start at least five months pre-renewal. We want insurers to be understanding the risk profile. Risk managers would like to have open days with insurers and to see insurance building on operational risk management

Q ARE YOU AWARE OF ANY COVER THAT YOUR FIRM WOULD LIKE TO PURCHASE, BUT FOR WHICH YOU CANNOT FIND AN ECONOMIC PRICE?

ADC: Cyber risk and rejection cover is currently unaffordable, while there are other covers that we do purchase but the entry-level deductibles are huge, such as product recall and commercial crime.

Q IN YOUR EXPERIENCE, HAS THERE BEEN ANY REDUCTION IN CHOICE DUE TO THE ONGOING PROCESS OF M&A IN THE INSURANCE AND REINSURANCE SECTORS?

CM: Probably at a secondary level, yes – in terms of diversifying large portfolios. At a smaller level, it has negatively affected those smaller insurance players that have not been part of M&A and now struggle to develop or maintain credit ratings and capital adequacy levels.

ADC: Definitely, marketing bundling has removed choice and expertise options in both corporate brokers and insurers.

Q WHY WOULD YOU SWITCH BROKER OR INSURER AND WHAT THREE CORE QUALITIES WOULD YOU LOOK FOR IN A REPLACEMENT? WHAT WOULD PERSUADE YOU TO SWITCH?

CM: Reasons one, two and three: I will pay more for a broker who understands enterprise risk management and the minute role that insurance plays in managing an organisation's risk. Brokers who understand this will pay back the premium many times over, through efficiencies in the risk management process (including insurance).

ADC: Service, expertise and speciality knowledge. Cost of service.

Q WHO IS PRIMARILY RESPONSIBLE FOR MAKING SURE YOUR CLAIM IS PAID IN FULL AND ON TIME?

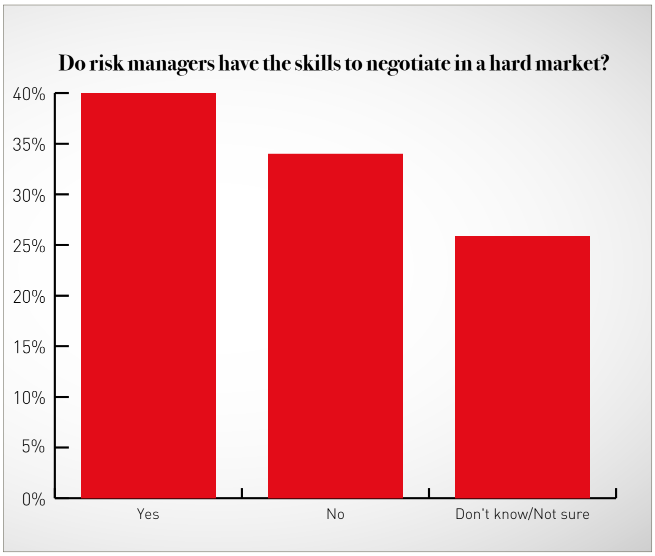
CM: My insurance broker.

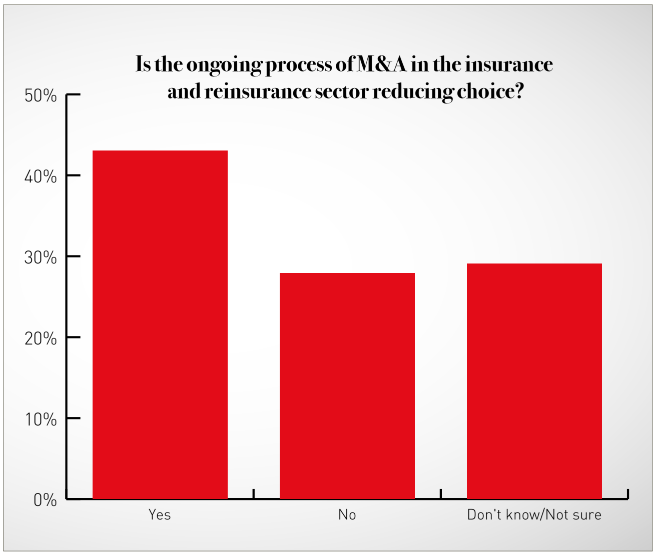
ADC: It's a partnership between insured and broker, claims manager and, where necessary, group risk.

Q EUROPEAN INDUSTRY STATISTICS SHOW THAT THERE ARE FEW WOMEN RISK MANAGERS AT THE TOP, HOWEVER THERE IS A 50:50 SPLIT AMONG THE YOUNGER GENERATIONS. DOES THIS RESONATE WITH THE EXPERIENCE IN SOUTH AFRICA? WHAT ARE THE REASONS FOR THIS DISCREPANCY – AND DO YOU THINK THINGS WILL CHANGE AS THE YOUNGER GENERATION MOVES UP THE RANKS?

CM: There is still discrimination against all corporate roles in South Africa when comparing male versus female at top levels as well as pay levels. However, this is probably less than in Europe. In South Africa, there is in general more tolerance for women leaders than in Europe and the US. It should improve further as the generations move through the world of work.

ADC: Yes, women in c-suites in general are limited and risk managers in the c-suite as CROs remain a dream and aspiration for most women. Younger generations are generally 50:50 split, but in my experience they are not all that committed to this discipline. Maybe the field is not romantic enough – and then there is misalignment with the old guard and generation Z. The younger generation are technology natives – they bring analytics but fail to have the experience that is required. In my opinion, women fill the gaps in middle management but then when it comes to c-suite promotion, very few are successful.





SUSTAINABILITY: THE END GOAL FOR INSUREDS AND THEIR INSURERS

John Melville, chief underwriting officer at Santam, discusses the need for a sustainable insurance industry to enable business to flourish in a fast-changing world where new risks are emerging all the time

Insurers could look back in history to find solutions to some of the challenges posed by climate change and the risk to sustainability.

John Melville, chief underwriting officer at Santam, warned that insurers face extinction themselves if they are unable to step up and provide insureds and governments with sustainable risk management solutions to some of the environmental, social and governance issues facing the world.

Discussing the risks in which insurers have a real opportunity to add value for their insureds, Mr Melville said climate change was an example where not only insureds but insurers will benefit from increased understanding of the risk and how to handle it.

However, he believes there are lessons from history.

Mr Melville said 17th century England provides some clues: "After the Great Fire of London in 1666, insurers employed their own firefighting capabilities to find solutions to the fire risks.

"Since then, government has done much in the resilience space, leaving insurers to focus on the financial aspects, but now we need to step up once again and find workable risk management solutions."

If the sector does not act, he warned, it would quickly lose its relevance. "The danger is that, if this happens, the economy would also be seriously compromised," he added. "Insurance is fundamental to the equilibrium."

He acknowledged that it can be an awkward conversation at the moment as activists push for massive and rapid change, while the insurance industry still insures some so-called "bad industries".

But he stressed: "We will not leave our insureds in the lurch. We will continue to offer insurance, while stressing that the agenda must change. For example, most people acknowledge that coal needs to be phased out as a source of energy, but we cannot abandon insureds until workable alternatives are in place.

"It is understood that coal has no future but it is not the time for a knee-jerk reaction."

He pointed to the oil and gas industry, which has invested heavily in alternative energy sources in the past decade as it seeks to move towards a sustainable future.

Mr Melville stressed the importance of insurance in maintaining the equilibrium and in enabling economic development – both crucial for growth in African economies.

But it is not a passive thing, he said. "We must aggressively reward good risk management and work together to find solutions for the future."

RISK MANAGEMENT

Risk management is a topic that Mr Meville returns to again and again. It is essential, he believes, in managing the relationship between insurer and insured.

Understandably, he said, risk managers are more comfortable when assessing and managing traditional perils, such as fire. However, there is an urgent need to also factor in newer perils, including the impacts of climate change.

He admitted that newer perils create challenges for insurers too.

"In terms of newer perils, the insurance industry has less experience and the data is not so extensive and so the understanding of the risk is not where it should be."

Cyber insurance is another example of this, Mr Melville said, where insurers are developing products and adapting them continually as the understanding of the risk and exposures grows. "There is still more work to be done," he acknowledged, "but as that work is done you will see coverage expanding."

REPUTATIONAL DAMAGE

A third area in which insurance will have a key role in supporting insureds going forward is in terms of reputation.

"This is an area where there is little depth of understanding in the industry," admitted Mr Melville. "I do believe there is scope for coverage but it must be understood and accurately underwritten."

He explained that reputational risks require understanding in the same way as any liability risk needs understanding.

"Underwriters must understand the ethics and culture of an insured, but there also needs to be understanding from the insured that the business itself has responsibilities and it must also step up in terms of mitigating the risk wherever possible.

"Social media has made it more difficult than in the past, because of the speed of any damage and the reach of that damage. It is really about making sure of the depth of understanding, the efforts to mitigate the risk and business taking its responsibilities seriously, and then we will be able to cover the perils through insurance."

He pointed to the example of business interruption. "Insurers were facing big challenges around data and their understanding of the risk. The Thai floods in 2011 showed the industry the risk of accumulation and the spider's web of links between businesses and their supply chains."

Those supply chains had not been properly understood, he said, and the sector learned a lot from that series of claims, enabling underwriters to have a better understanding of that class of business and consequently serve their insureds that much better.

There is a role too for underwriting agencies and brokers in supporting the insured and the underwriter. The more information that is available, the happier the underwriter will be, he explained, and the more willing they will become to take on these newer risks.

John Melville, Santam

> " For the sake of the market, we need prices to change direction. Business might have to take it on the chin but it will be better for all of us"
> ***John Melville, Santam***

CHANGING MARKET

The past couple of years have seen change in the insurance market, Mr Melville said, with premiums rising in some cases and with terms and conditions becoming a little tougher.

Whether that will continue will depend on claims experience in the coming year, he said.

"Where there have been losses, programmes are continuing to harden," he said, but it is not a totally uniform picture, with some insureds seeing little in the way of change.

"Globally, it is still a case of plenty of reinsurance capital and low interest rates, so we are unlikely to see a reduction in capacity," he said "But the level of risks is out of kilter with the prices.

"Higher pricing can mean there is a new opportunity for risk mitigation. And we need higher prices for the sake of sustainability.

"The marine market is one area where prices have dropped to ridiculously low levels. For the sake of the market, we need prices to change direction. Business might have to take it on the chin but it will be better for all of us."

Flooded factory in Pathumthani, Bangkok, 2011: The floods showed the industry the risk of accumulation

NOT JUST AN ISLAND PARADISE

As climate change rises up the agenda, we visited one of Africa's island paradises to find out how the sustainability conversation is developing there and to hear of initiatives which might help other countries too

Sustainability means different things to different people. However, when you live and work on a tropical island, known for both its tourism and its financial services, the conversation takes a different turn.

On Mauritius, the government has set out a long-term plan to provide a solid income for its people, deliberately nurturing a nascent financial services industry and developing it to become the financial hub for Africa.

It is still a work in progress, said a group of risk managers meeting for the *Risk Frontiers Africa 2019* survey, however much has already been achieved and the island is on the map for its financial services hub.

Tourism has remained equally important throughout, bringing foreign currency onto the island and creating employment for tens of thousands of the island's permanent residents.

As a tourist, you might be hard pushed to see some of the challenges for those residents – heavy congestion and rush hour jams into the capital of Port Louis, for example.

The risk managers said this is where individual companies are beginning to take responsibility and to manage those risks.

Antich Beedassee, governance, risk and compliance manager at ENL, said it has developed beyond the individuals in that the Mauritius Stock Exchange has created an index rating companies in terms of their sustainability report.

There is an obligation to record corporate social responsibility projects and increasing numbers of local companies are evidencing sustainability in their reports to shareholders.

But Mr Beedassee said it goes beyond shareholders to wider stakeholders. "We always talk about the broader community and the impact on them, as well as on our employees and our shareholders."

Another risk manager added: "There is a drive to transform lives using sustainability. As a risk manager in the hospitality sector, we have serious concerns about rising sea levels so we believe we, as risk managers, have a role to play.

"We can drive local initiatives and help raise awareness of the possible risks ahead within the local communities."

All the risk managers agreed they can have a role internally in asking questions about the company emissions and the use of paper, for example, in terms of reducing waste.

TACKLING POLLUTION

Another challenge has been in reducing pollution thanks to that daily grind into the island capital.

Although home to just 1.26 million people, it can take two to four hours to reach offices in the capital. As a result, the government has built a purpose-built technology and business park at Ebene, in the heart of the island, to encourage firms out of the city.

Some individual firms have gone one step further, opening satellite offices and encouraging homeworking.

As one of the risk managers said: "People can choose between coming into head office or going to our satellite office and working as if they were in their usual office. Technology is enabling this and it allows us to reduce our carbon footprint."

It is a fast-changing conversation, they agreed. Mr Beedassee summed it up: "Fifteen years ago we would not be having this discussion, but we need to now because our clients are demanding it. I think the next generation as a whole will demand change and we have to respect that – they are our future clients and our future employees."

INCREASING REGULATIONS

On a more corporate level, there are increasing regulations to understand and comply with.

A lot of Mauritian companies are family owned, which means the risk management role will effectively be carried out by the MD, CEO or CFO, rather than a bespoke person.

Port Louis, Mauritius: The island's capital suffers from heavy traffic congestion

> "The next generation as a whole will demand change and we have to respect that – they are our future clients and our future employees"
> ***Antich Beedassee, ENL***

The good news about that, they said, is that risk management is automatically on the boardroom agenda. However, the less good news is that risk management is not considered as a standalone role and does not necessarily have enough time dedicated.

The risk managers agreed that risk management should be a boardroom issue at all times and that they should have a voice on the board, if not a seat. Depending on the size of the organisation, they said they report to either risk or audit committees. Smaller groups tend to bring the risk officer onto the board, they agreed.

However, key to the role and its responsibilities is the CEO. They all agreed that without the buy-in of the CEO, risk managers would not have a significant voice.

Regulation has been driving that, forcing boards to consider their risks and to include a risk assessment in their annual reports.

One of the major changes of the past few years, they agreed, was that it is no longer an internal conversation. Not only do regulators want companies to have raised their risk awareness, but so do shareholders and other stakeholders.

In terms of mitigating their risks, the group agreed insurance has a key role to play in transferring the risks off the balance sheet.

Unlike other parts of the world, the relationship between insured, broker and insurer appears to be in good health, with the risk managers saying they can access the required insurance at the right price, with the local brokers playing a critical role in delivering what they need.

CYBER RISK

Menzi Dhurbarrylall, a risk manager with a lottery organisation, said, for him, the key emerging risk is cyber.

He said: "Everything is about technology and we need insurance to cover that. We need to be able to test our policy and ensure it would function properly in the event of a claim."

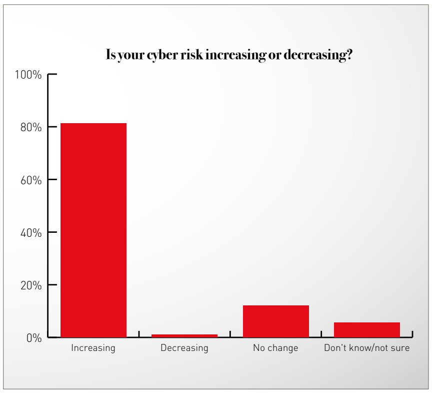
He does not believe this can ever be a role for procurement, but rather should remain within the remit of the risk team. "Whoever buys an insurance policy should be looking at all the risks and how they might play out and how the policy might respond. Now, it's up to you whether you want to give that job to procurement and take a gamble."

Kavish Jaunky, risk executive – corporate office, Swan Insurance, joined the conversation, stressing the importance of the risk management role in understanding how insurance works, from reinsurance to insured and therefore understanding the role of insurance in their business.

As they all agreed, it is also about understanding wider factors such as regulation on the risks to the business.

"Take GDPR," said another, "if you are too hasty in your decisions and buy simply on price, you could have missed the huge risk that this could pose to your business."

Risk management has a key role to play, they all agreed, in not only identifying the risks but in developing mitigation and loss prevention too.



INSURERS STANDING STRONG AS MARKET CHANGES

As part of the *Risk Frontiers Africa 2019* survey, we talked to Seydou Kone, director of finance and accounts at Africa Re, and discussed his views on risk management across the continent and the value of insurance

Seydou Kone, Africa Re

Q WHICH OF THE FOLLOWING BIG RISKS DO YOU SEE THE MOST POTENTIAL TO HELP THE RISK MANAGEMENT COMMUNITY WITH? WHAT WILL YOU DO TO HELP?

SK: For me, cyber risk is undoubtedly the biggest threat to companies operating in our environment in Africa. Therefore, it is the one that needs to get the attention of the risk management community.

According to the Institute of Risk Management, cyber risk means any risk of financial loss, disruption or damage to the reputation of an organisation from some sort of failure of its information technology systems. Such a risk could materialise in various ways, such as deliberate and unauthorised, or unintentional and accidental, breaches of securities to a third-party information system.

There are three important decisions to be made when a risk has been identified:

- To mitigate the risk: some internal actions can be taken such as strengthening the security of the information systems
- To accept the risk: when the likely payout from a risk is small and the company can bear the risk
- To transfer the risk to a third party by purchasing an insurance cover, for instance. That will come at a cost for the company.

Q IS THE COMMERCIAL AND CORPORATE INSURANCE MARKET FINALLY HARDENING AND WILL IT CONTINUE?

SK: The market for insurance is cyclical. It fluctuates between the soft market (when the cost of the cover is steady or decreases) and the hard market (when cost increases.) When the market hardens, insurers tighten their underwriting standards. The hardening of the market is usually driven by the claims experience.

For property and casualty insurance, the last two years' claims experience explains the hardening trend of the market. In the near future, the trend (soft or hard) will depend on some additional factors such as natural catastrophes, interest rates fluctuation, and the economic performance of the African states.

> " Cyber risk is undoubtedly the biggest threat to companies operating in our environment in Africa [and therefore] needs to get the attention of the risk management community"
> ***Seydou Kone, Africa Re***

Q HOW DOES INSURANCE ADD VALUE OR IS IT REALLY JUST A COST TO BE MINIMISED?

SK: Insurers' product portfolios are very similar today. There is a need to differentiate their offerings, by taking into consideration all the rapidly changing risks and customers' new needs, by offering new insurance-related solutions comprising sometimes non-insurance services.

These value-added services are typically delivered complimentary to product offerings, or can be availed as a part of the traditional product itself.

Value-added services in insurance usually fall into one of the following categories:

- Self-service: the insurer provides to the customer a tool that the latter will use to monitor its insured risks
- Advice and assistance: a typical example of value-added service in this category is a roadside assistance or a home-monitoring device in a P&C insurance, for instance
- Anticipation of customers' needs
- Collaboration and engagement.

Q WHAT COVER DO YOU FIND CUSTOMERS WANT TO BUY BUT CAN'T FIND AT AN ECONOMIC PRICE?

SK: Agricultural insurance, which protects against loss of (or damage to) crops or livestock. It has great potential to provide value to millions of African farmers and their communities, both by protecting them when shocks occur and by encouraging greater investment in crops.

An index-based agricultural insurance provides farmers with payouts tied to the performance of an index (such as a rainfall gauge or a level of temperature), rather than indemnifying them for crop or livestock losses experienced.

Q SHOULD CYBER INSURANCE BE INCLUDED WITHIN EXISTING TRADITIONAL LINES OF BUSINESS OR AS A SEPARATE LINE?

SK: No, Cyber insurance is an emerging special risk that should not be included within the traditional lines of business. The market is growing at an extremely fast pace and a standalone line of business will be required to monitor its performance and growth.

Q ARE THE ONGOING MERGERS AND ACQUISITIONS (M&A) IN THE INSURANCE AND REINSURANCE SECTOR REDUCING CHOICE?

SK: 2018 was busy with important M&A in the insurance and reinsurance sector, and a study carried out by Deloitte predicts that the trend will be maintained in 2019.

M&A clearly reduces the customer's choice on one hand, but also introduce new players with a strong capital base. Moreover, a reduction of choice may not necessarily prevent customers from enjoying the consequence of a soft market in some lines of businesses.

Q WHY DO YOU THINK A RISK MANAGER WOULD SWITCH INSURER AND WHAT THREE CORE QUALITIES SHOULD THEY LOOK FOR IN A REPLACEMENT? WHAT DO YOU OFFER THAT WOULD PERSUADE A RISK MANAGER TO CHOOSE YOU AS A LEAD INSURER?

SK: Many reasons can lead a risk manager to switch insurer, such as the downgrading of the company by ratings agencies, the company reputation being tarnished by poor corporate governance, or inappropriate pricing.

To me, the three core qualities to consider when selecting a new insurer are:

1. The financial stability of the company: it should have a strong rating and be capital-based
2. The pricing: it should be competitive and cost-effective
3. The company should be able to swiftly settle claims.

Q WHO IS PRIMARILY RESPONSIBLE FOR MAKING SURE THAT YOUR CUSTOMER'S CLAIM IS PAID IN FULL AND ON TIME?

SK: The head of the claims department is responsible for ensuring that all claims are paid in full and in due course, in compliance with the general insurance code of practice.

Commercial Risk Africa

Insurance & Risk Management News

IN PRINT

Commercial Risk Africa was launched in November 2012 to help support the growing Sub Saharan African risk management community.

The publication is designed to help established and new risk managers with international and local companies identify the main risks, the best ways of managing them and ultimately transferring them to the risk transfer markets.

- Bi-weekly newsletter
- More than 7,000 subscribers in Sub Saharan Africa
- Digital publication
- Print editions for key industry events


Commercial Risk Africa

Africa holds its breath as election season looms

EMAIL: SUBS@COMMERCIALRISKONLINE.COM

IN PERSON

SOUTHERN AFRICA CONFERENCE

WEST AFRICA CONFERENCE

EAST AFRICA CONFERENCE

WWW.COMMERCIALRISKONLINE.COM/EVENTS/LIST

ONLINE

Since 2010, Rubicon Media publications have been the best single source of market intelligence on the global corporate risk management market, written by some of the most experienced journalists in the industry and aimed at risk professionals in today's fast growing and emerging European and international market.

WWW.COMMERCIALRISKONLINE.COM/COMMERCIAL-RISK-AFRICA