

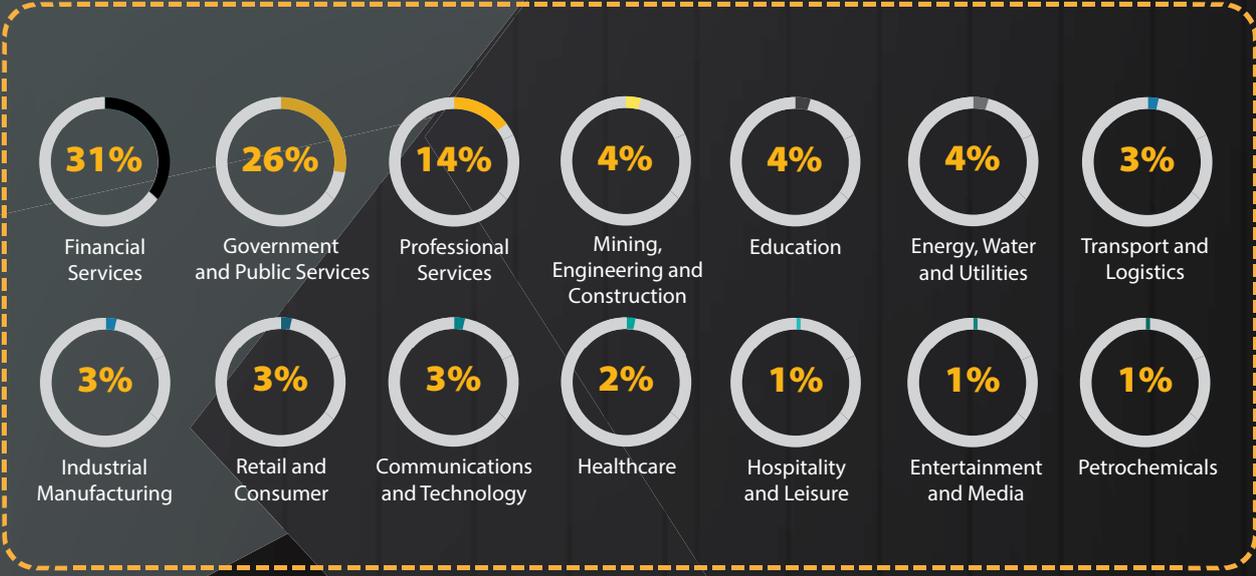


IRMSA Risk Report South Africa Risks **2017**

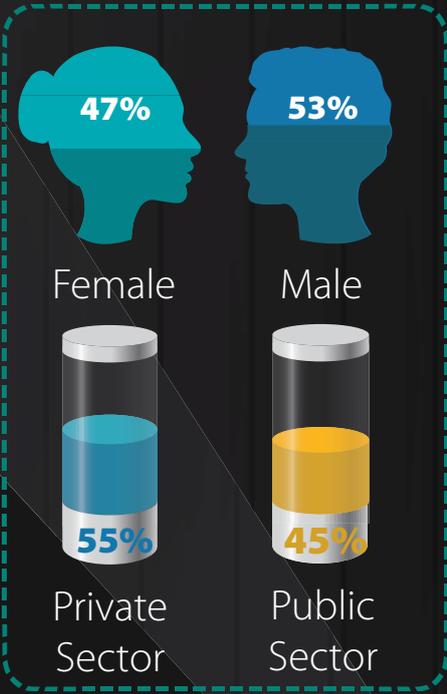
Third Edition



The Institute of Risk Management
SOUTH AFRICA



Industry participation



Who participated?



How we collected data

▶ Top 10 South African **Country** Level Risks



▶ Top 10 South African **Industry** Level Risks



▶ What does the IRMSA Risk Intelligence Committee do?



▶ Next milestones for this report

Financial Services

1. Fiscal Crisis/Credit Rating Downgrades
2. Economic Slowdown or Recession
3. Escalation in Large-Scale Cyber Attacks

Government and Public Services

1. Water Crises
2. Increasing Corruption
3. Massive Incident of Data Fraud/Theft

Consulting and Professional Services

1. Economic Slowdown or Recession
2. Skills Shortage
3. Increasing Corruption

Mining, Engineering and Construction

1. Water Crises
2. Economic Slowdown or Recession
3. Skills Shortage

Education

1. Increasing Strike Action
2. Skills Shortage
3. Failure/Shortfall of Critical Infrastructure

▶ Top 3 Industry Risks

South Africa's risk landscape continues to evolve at a rapid rate. Political, economic and societal risks still dominate the national top 10 risk profile. Several negative consequences of these risks were experienced throughout 2016, making it increasingly difficult for the country's international reputation to remain in a positive light. These consequences also indicate that the achievement of the South African Government's National Development Plan (NDP) priorities and objectives for 2030 could become a more arduous task.

The political climate, described as 'noisy' by Moody's Investors Service, remains volatile as the country transitions to greater democratic maturity. Key institutions have remained resilient despite the profound political uncertainty, demonstrated by the National Prosecuting Authority of South Africa (NPA) dropping its charges against the Finance Minister Pravin Gordhan in October, followed by the Public Protector's office releasing an investigative report on state capture a few days later. The parties implicated in the State of Capture report, such as the Gupta family and former Eskom CEO Brian Molefe, reflects why widespread corruption in both the private and public sectors is such a concern for the South African risk management fraternity. It is not surprising that corruption has moved from the second highest national risk following surveys carried out between June – August 2016 to the highest risk after the November 2016 – January 2017 risk surveys.

Political and economic consequences seldom occur in isolation, and these events have not been ignored by international observers. Ratings agency Standard and Poor's, for example, downgraded Eskom's corporate credit from BB+ to BB in November demonstrating a vote of no confidence in the state power utility and its leadership. South African organisations have been on tenterhooks about the country's ratings in recent times, having narrowly escaped three downgrades within the past year. In November, Fitch revised its outlook for South Africa to negative, but kept its rating unchanged at BBB-, Moody's kept its sovereign rating unchanged at Baa2, and in December Standard & Poor's downgraded South Africa's local debt by one notch to BBB but kept its sovereign credit rating unchanged at BBB-, one level above "junk" status. The economic environment remains challenging, characterised by high public debt and low GDP growth, investment and trade. Growth of around half a percent was experienced during 2016, and is expected to pick up to just over one percent in 2017.

The societal context has been vibrant throughout 2016 and is expected to continue this path during 2017. Much of this centres around students that have been protesting at universities across South Africa for more than a year. #FeesMustFall is a student led protest movement that began in mid-October 2015 in response to an increase in fees at South African universities and is a reflection of divisions and inequality in society. The protests are showing no sign of stopping during 2017. Politically-motivated protests and industrial strike action can also flare up at any time, which makes the fact that the lack of leadership is a top five national risk more of a concern.

A worsening of the current drought affecting much of the country remains one of South Africa's greatest risks. Closely tied to this is the longer-term water crises risk which has been receiving increasing attention during 2016. El Niño (dry) and La Niña (wet) are opposite phases of the El Niño-Southern Oscillation (ENSO) cycle. La Niña is expected to continue to March 2017 and will be accompanied by extreme wet-weather conditions and floods. The dry phase is expected to resume after that again, which means that organisations need to be flexible enough rapidly transitioning to the opposite set of controls in a very short window.

Flexibility is a key requirement for South Africa, as well as for organisations operating within its borders, to remain resilient and thrive in an ever-changing context and associated risk landscape. A brief illustration of this uncertain environment is demonstrated by insufficient electricity supply shifting from its ranking as the top national risk in 2016 to a ranking of 20th a year later.

The Institute of Risk Management South Africa's (IRMSA) [South Africa Risks Report 2017](#) continues to adopt the improvements implemented in the 2016 second edition and has implemented several new enhancements through the provision of a causal loop diagramme, risk readiness assessment, NDP implementation scenario plotting, quarterly national risk profile monitoring, opportunity identification, and full risk descriptions.

The report remains the IRMSA Risk Intelligence Committee's flagship project and is carried out through a series of workshops and surveys throughout the year with 1557 of South Africa's top risk management professionals spanning every major industry within the public and private sectors. The risk management fraternity respondents examined South Africa's top risks over a two-year time horizon across five categories, namely economic, environmental, geopolitical, societal and technological risks. The report is created within the context of 51 identified global risks derived from the following key sources: 2015 and 2016 IRMSA Risk Reports, WEF Global Risks 2016 Report, World Bank Sub-Saharan Africa Outlook 2015, Aon Global Risk Management Survey 2015 and PwC Risk in Review 2015.

The report will continue to refer to the NDP in an effort to link the national risk profile to the country's developmental objectives. During the initial survey, risk management fraternity respondents were asked to select the top 10 risks from the list of 51 risks which they believed could adversely affect the achievement of the South African Government's NDP priorities and objectives, which aims to eliminate poverty and reduce inequality by 2030, as summarised overleaf. They were then asked to select the top 10 risks that could adversely affect the achievement of their organisation's objectives within their respective industries. The industry level risk ratings aggregate the ratings that each respondent provided for the industries in which they practice. The IRMSA Risk Intelligence Committee could compile a list of the top 20 national and industry-level risks following this without having prioritised or ranked them. Full risk descriptions were created prior to the initial survey so that they could be better understood by respondents.

The following five risks appear both on the national and combined industry level top 10 lists:

- Increasing corruption
- Fiscal crisis/credit rating downgrades
- Increasing strike action
- Profound political and social instability
- Governance failure

Increasing corruption is the top South African risk for the second time in three years and is the fifth highest industry level risk for 2017. **Water crises** and **structurally high unemployment/underemployment** are the second and third highest national level risks for 2017, increasing modestly from their respective positions as the fifth and sixth most prioritised risks the previous year. Last year's top risk, **insufficient electricity supply**, has almost fallen out of the top 20 list of national risks completely. The top three industry level risks for 2017 have risen to prominence dramatically in the last year. **Increasing strike action** is the highest industry level risk, having climbed 17 places. **Exchange rate fluctuations**, the second highest industry level risk for 2017, did not feature in last year's top 20 and **lack of innovation** has risen from 20th to 3rd in one year.

The evolving South African risk landscape, 2015 - 2017

	2015 - January	2016 - January	2016 - July	2017 - January
1st	Increasing corruption	Skills shortage	Increasing strike action	Increasing corruption
2nd	Unemployment or underemployment	Increasing corruption	Increasing corruption	Unemployment or underemployment
3rd	Failure/shortfall of critical infrastructure	Insufficient electricity supply	Economic slowdown or recession	Water crises
4th	Profound political and social instability	Unemployment or underemployment	Droughts in Sub-Saharan Africa	Droughts in Sub-Saharan Africa
5th	Major escalation in organised crime and illicit trade	Severe income disparity	Lack of leadership	Severe income disparity

Figure 1: Top 5 South African Risks in Terms of Likelihood

	2015 - January	2016 - January	2016 - July	2017 - January
1st	Increasing corruption	Water crises	Droughts in Sub-Saharan Africa	Water crises
2nd	Governance failure	Insufficient electricity supply	Lack of leadership	Increasing corruption
3rd	Unemployment or underemployment	State collapse or crisis	Increasing corruption	Droughts in Sub-Saharan Africa
4th	Critical information Infrastructure breakdown	Education and skills development	Water crises	Lack of leadership
5th	Failure/shortfall of critical infrastructure	Increasing corruption	Governance failure	Fiscal crisis/credit rating downgrades

Figure 2: Top 5 South African Risks in Terms of Consequence



The Subject Matter Experts (SMEs) were asked to indicate which industries will be most affected if the risk that they were asked to review materialises. The percentage spread of the industries affected, should the top 20 South African and industry level risks materialise, is captured in figure 3. The three industries that are exposed the most by the South African risk landscape include the following:

- Government and Public Services
- Mining, Engineering and Construction
- Energy, Water and Utilities

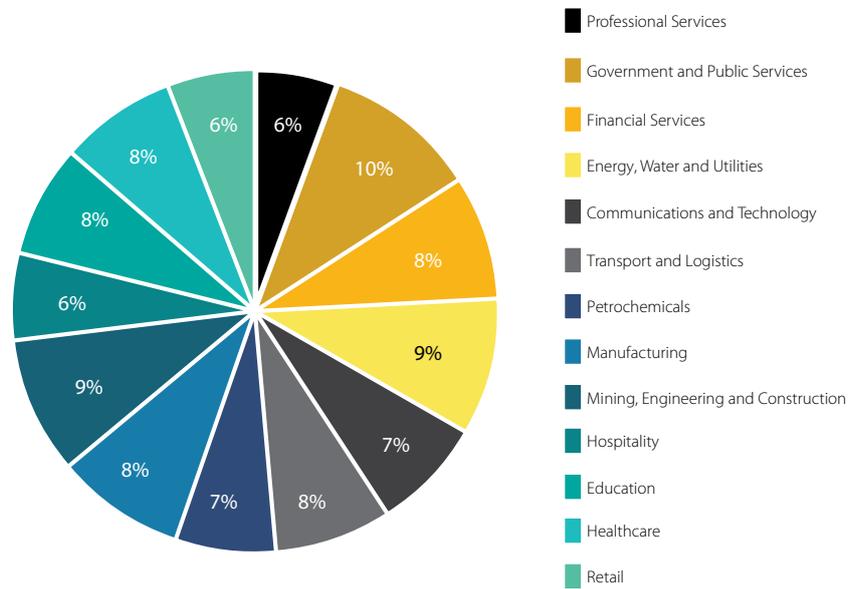
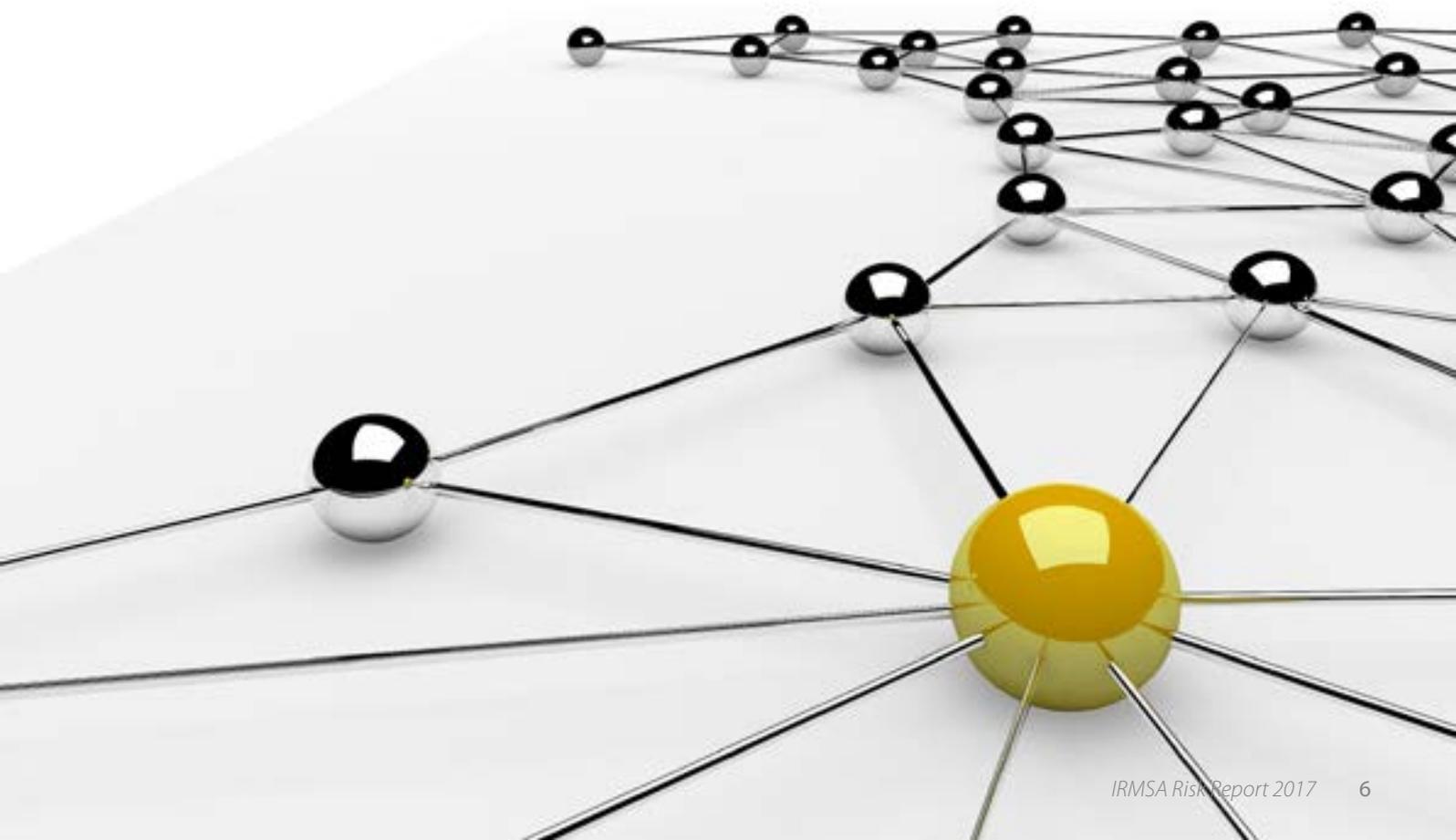


Figure 3: Percentage Spread of Industries Exposed to the Top 20 South African and Industry Level Risk Profiles



Survey Results and WEF Comparison

The top 10 risks comparison between South African and WEF respondents' views are similar in that the respective profiles are spread across all five risk categories but differ significantly in the actual risks identified (refer to figures 4 and 5 below)



Figure 4: Comparison between Top South African (National and Industry Levels) and WEF Risks by Likelihood



Figure 5: Comparison between Top South African (National and Industry Levels) and WEF Risks by Consequence



Analysis of South Africa's Top 20 Risks Causal Loop and Risk Interconnectedness

Dr Dana Gampel

As part of the analysis determining what influences the South African risk profile, a causal loop technique and relationship mapping tools were applied to the 20 risks noted by members. The challenge is to determine which issues are drivers or causes, and which risks are actually outcomes of these drivers.

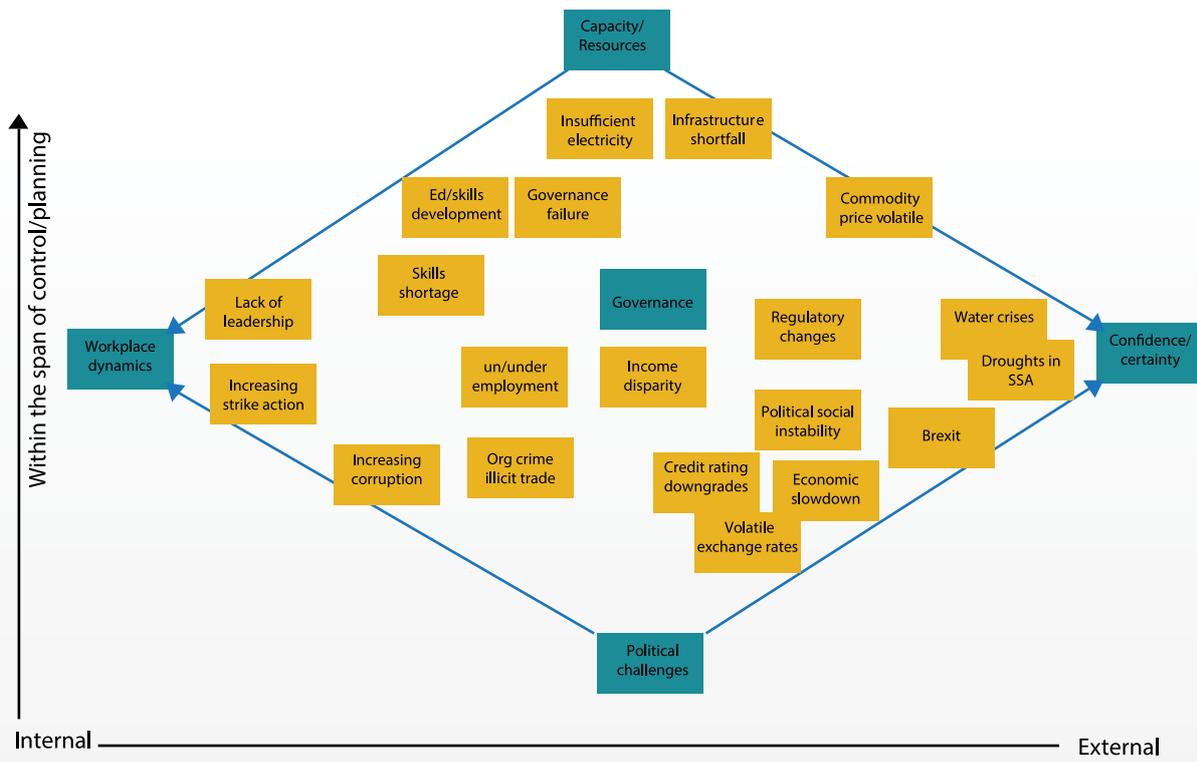


Figure 6: The Relationship Between the Top 20 Risks

Figure 6 highlights the relationship map developed using the risks prioritised by IRMSA members. Risks are positioned on the graphic according to whether they are internal or external to the organisation. They are also grouped according to whether the organisation can or cannot plan and/or control these risks.

The risks noted have been grouped into five key areas: workforce dynamics, confidence/certainty, capacity/resources, political challenges and governance.

Unfolding of the Top 20 Risks - 18 Month and 10 Year Horizons

IRMSA asked respondents and SMEs to predict how the top 20 South African risks were likely to unfold in the next 18 months and 10 years by providing risk ratings for both points in time.

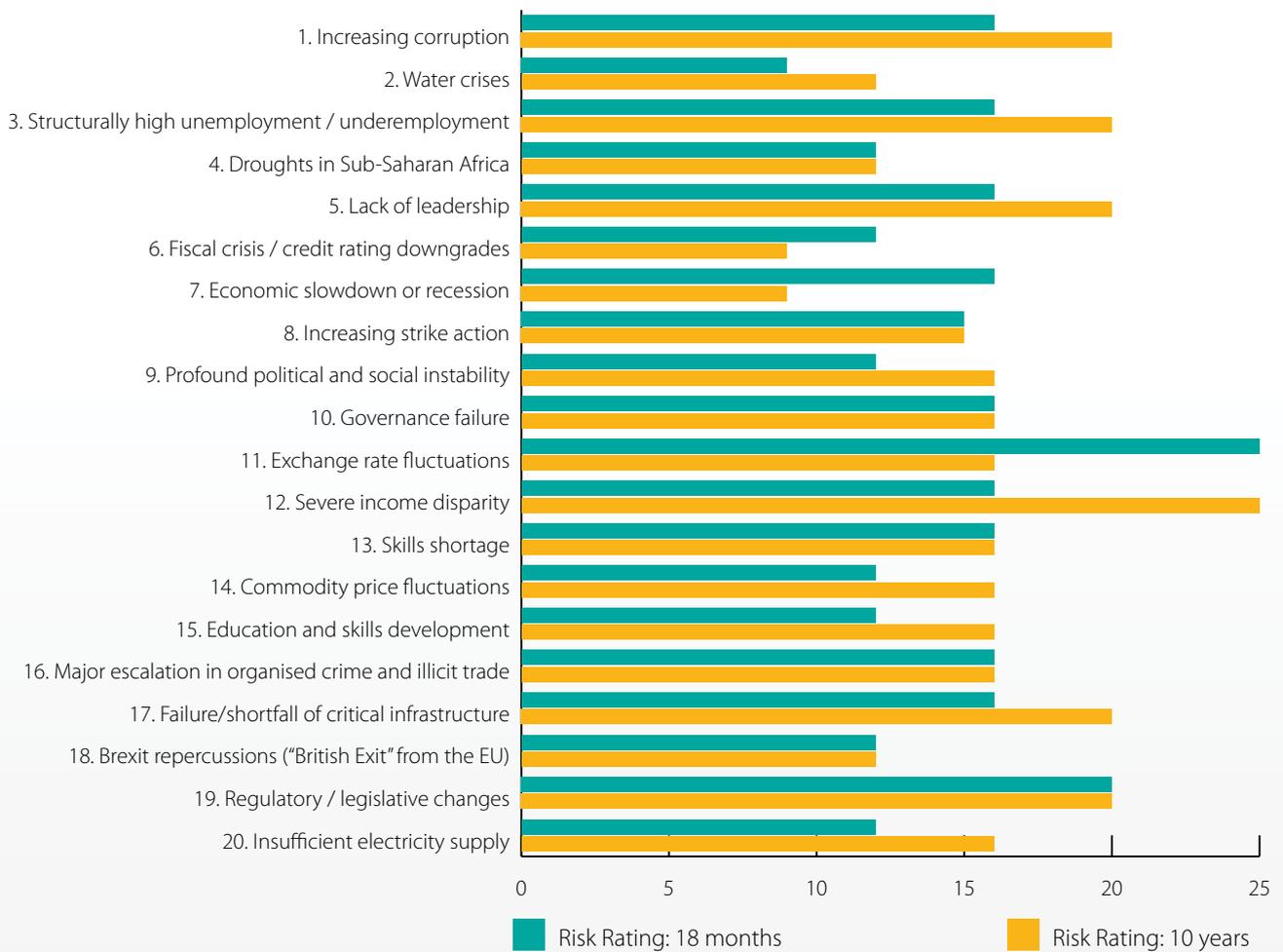


Figure 7: Future Projected Risk Ratings for the Top 20 South African Risks for 2017

The scatter diagramme below illustrates that half of the top 20 risks (10 in total) are expected to become even more of a concern over the next ten years.

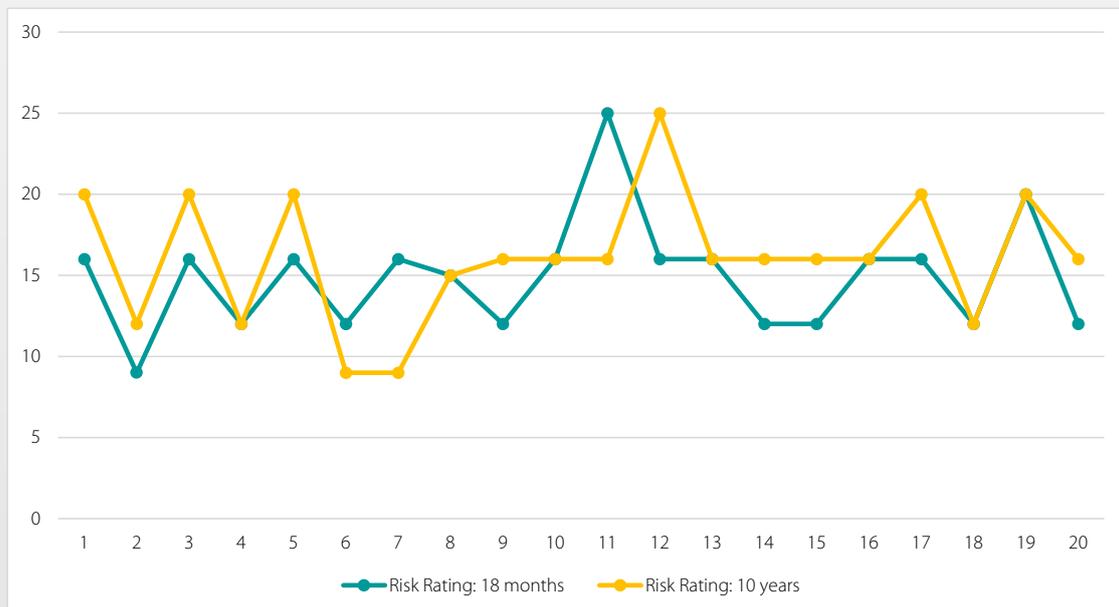


Figure 8: Scatter Diagramme Illustrating Future Trajectory of Top 20 South African Risks for 2017

The two charts below indicate the spread of NDP exposure to the top 20 South African risks. 'Bringing about faster economic growth, higher investment and greater labour absorption' is the most exposed interlinked priority again this year and is affected by fifty percent of the top 20 risks. The same two developmental themes 'economy and employment' and nation 'building and social cohesion' are dominant again and are exposed to almost half of the top 20 risk profile.



Chart 1: Number of Top 20 Risks Linked to NDP Interlinked Priorities

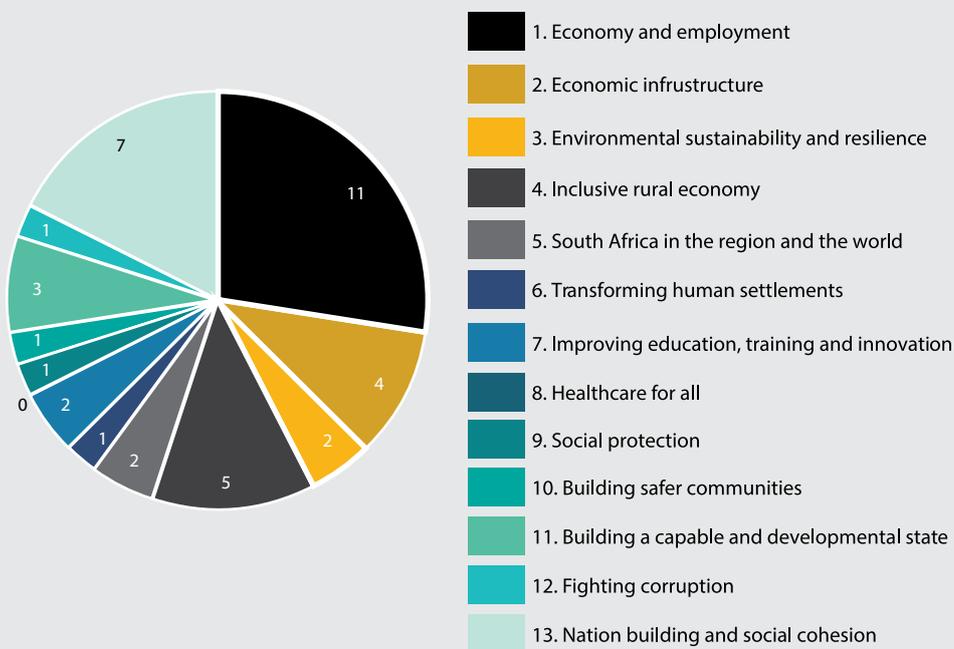


Chart 2: Number of Top 20 Risks Linked to NDP Developmental Themes (2 Themes per Risk)

Risk Readiness Assessment for the South African Risk Profile

The first high-level organisational risk readiness assessment for the top South African risks has been provided below. The first question posed to survey respondents was whether their respective organisations have a plan in place, or whether they have undertaken a review, to address each of the top 20 national risks. The results are presented below.

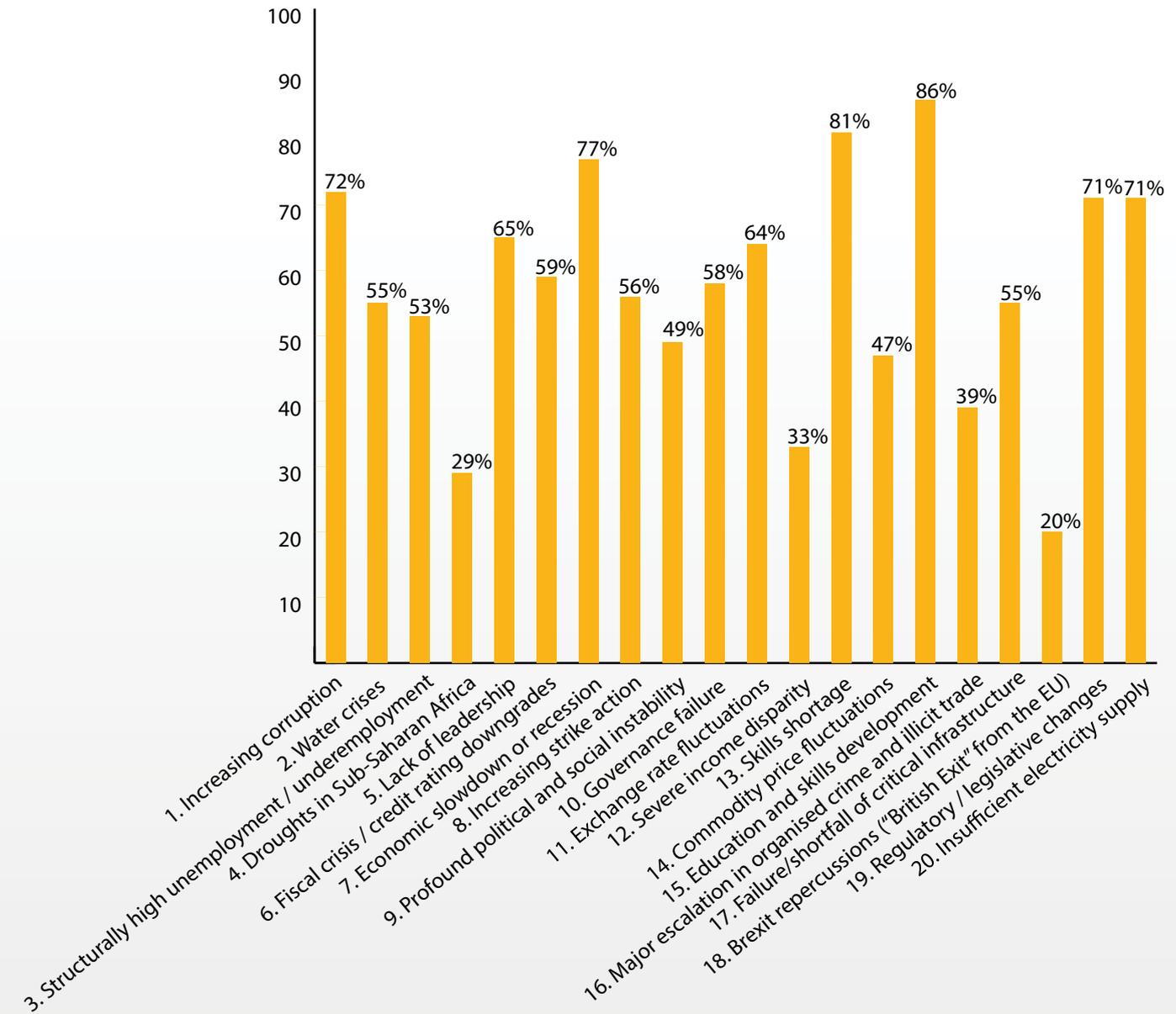


Figure 9: Risk readiness for the top 20 South African risks

The overall organisational readiness for the top 20 South African risks stands at 57 percent following the survey. The result is neither overly positive or negative and will be tracked for comparative purposes going forward. One would expect an uptick in percentage points going forward as organisations operating in South Africa increase their risk maturity levels. IRMSA can attest to the fact that organisational leadership is taking a more active role in managing risks. Interestingly, less than fifty percent of organisations are prepared for six out of the top 20 national risks. The highest reported organisational readiness is for education and skills development, most likely because organisations have a degree of control in this area.

Respondents also identified three risks as “the most difficult to manage and the least ready for.” The risks that made the top three the most frequently include: profound political and social instability making the top three lists of 32 percent of respondents, droughts in Sub-Saharan Africa at 25 percent, and economic slowdown or recession at 24 percent. All three risks are external in nature which explains why they are difficult to manage.

South African Scenarios and Flags to Watch for 2017

Dr Chantell Ilbury

Let's re-examine the IRMSA Scenario Gameboard and assess the current probabilities of each scenario playing out. Firstly, a refresher of the forces shaping the scenarios. These are the resilience of South Africa to global shocks - either resilient or vulnerable, and the implementation, or not, of the NDP - and the stability of the global social, political and economic landscape. Expressed as intersecting axes, these produce four different scenarios for IRMSA, as below.

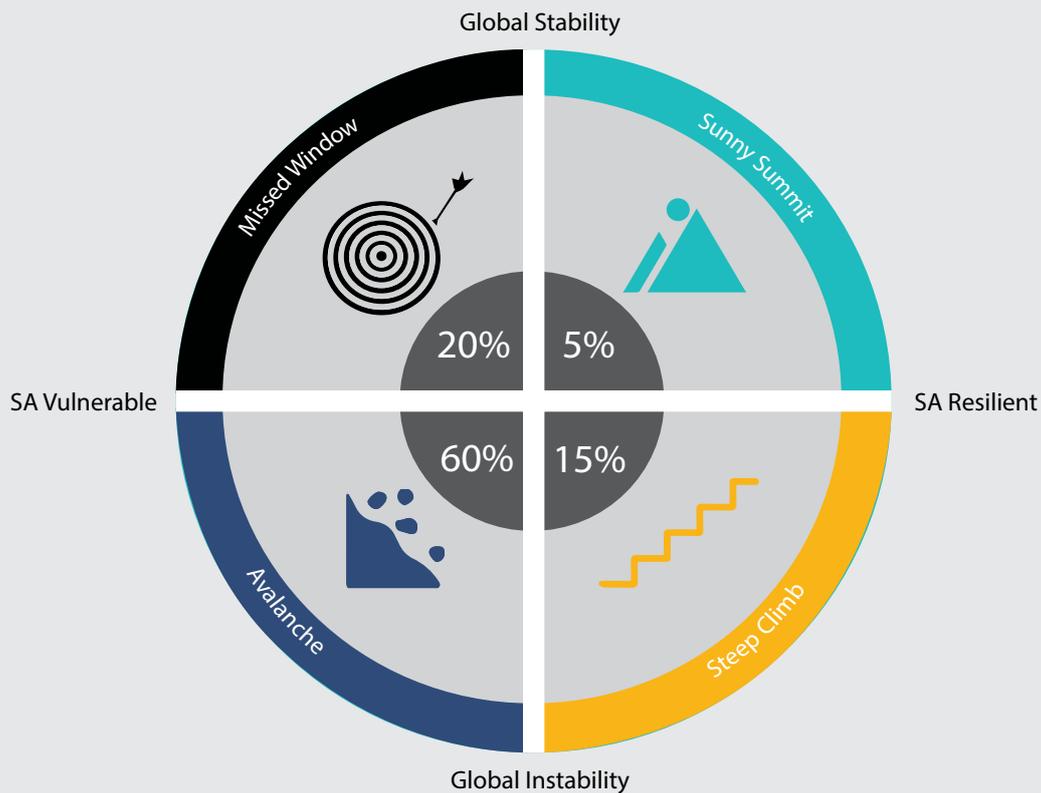


Figure 10: Projected NDP Implementation Scenarios

Working clockwise from the best-case scenario - Sunny Summit - we estimate the current probabilities of the different scenarios playing out to be as follows:

- Sunny Summit 5%
- Steep Climb 15%
- Avalanche 60%
- Missed Window 20%

The current position is in the 'Avalanche' scenario, meaning strategic thinking will be even more important in 2017. But things can change. Let's have a look at the global and local flags that, if raised, could suggest a change in probabilities in the offing. Firstly, the global flags that would signal a shift further down the vertical axis include: the religious flag, the red flag of Russia and China, the grey flag, the anti-establishment flag, the green flag and the porous border flag. The South African Flags for 2017 that will signal a shift along the horizontal axis include the geopolitical, societal, economic, environmental and technology flags.

Global Trends Affecting the 2017 South African Risk Profile

The SMEs were asked to indicate which global trends have a material impact on each of the risks that they were approached to analyse. The percentage spread of the global trends affecting the top 20 South African and industry level risk profiles is captured in figure 11. Interestingly, the previous year's six most influential global trends affecting the South African risk landscape are repeated this year, and in the same order. They include the following:

- Rising income disparity
- Shifts in power
- Increasing polarisation of societies
- Urbanisation
- Growing middle class in emerging economies
- Climate change

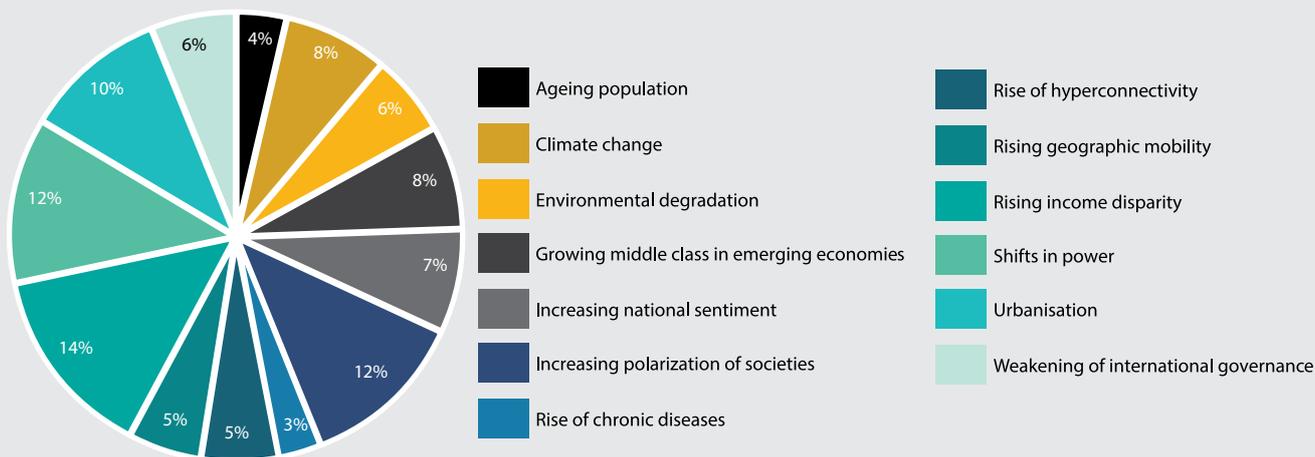


Figure 11: Percentage Spread of Global Trends Significantly Impacting the Top 20 South African and Industry Level Risk Profiles

Conclusion

The South Africa Risks Report has developed a methodology over the past two years to improve the prioritisation and analysis of interconnected national and industry level risks. The quarterly monitoring of the national risk profile introduced in this year's report will also be displayed on an online monitoring platform going forward. This should ensure that dynamic shifts in the country's risk profile is identified within shorter time periods. Interestingly when conducting the first quarterly risk profile comparison, eight of the top 10 risks were repeated. The risk ranking differentials of the repeat risks were also minimal which demonstrates a more modest national risk profile shift during the shorter, quarterly window.

The symmetry in thought across both quarters is encouraging because it reflects a consistent view of the national risk profile that is held by the risk management community. These results, whether compared annually or quarterly, demonstrate that the environment from global to local is constantly evolving. It will be interesting to compare quarterly risk profiles during 2017 to assess whether a larger divergence occurs. Symmetry in thought was also demonstrated by the Subject Matter Experts that identified the same six global trends with highest influence on the South African risk landscape, and in the same order. When considering NDP exposure to the top 20 South African risks, they identified the same interlinked priority and two developmental themes as last year.

Confronting a broad spectrum of risks each with a unique trajectory requires a collaborative country- and industry - wide effort. Healthy debate regarding the ordering of the top South African risks is encouraged and is expected to continue throughout 2017. There appears to be general consensus that the isolated or combined impact of the majority of these risks would be devastating. In 2017, the major risks obstructing NDP implementation include increasing corruption, water availability, higher levels of unemployment as well as prolonged droughts. Dr Chantell Ilbury demonstrated that the implementation of the NDP is becoming increasingly difficult in the current local and global contexts and risk landscapes. The probability of the Avalanche scenario occurring currently sits at 60 percent.

Dr Dana Gampel suggests that many of the risks identified in the report can be adequately addressed both at an organisational and at a country level. She proposes greater sectoral coordination in addressing these risks with more inclusive and collaborative efforts. Not addressing these risks will become tougher going forward, considering that half of the top 20 risks are expected to become even more of a concern during the next ten years.



Acknowledgements and Project Team

A project like the IRMSA Risk Report cannot be accomplished by one individual, but rather it is a collaborative effort by a team of enthusiastic and committed contributors. IRMSA would particularly like to thank its membership, the IRMSA Risk Intelligence Committee, the IRMSA Executive Committee and the Subject Matter Experts who lent their expertise.

Risk Intelligence Committee

We would like to thank those members on the Risk Intelligence Committee who gave considerable time to the project.



Working group



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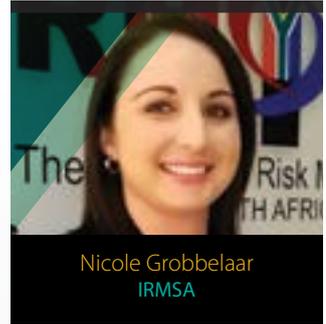




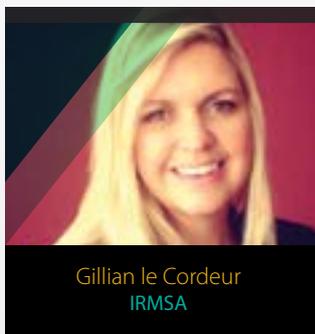
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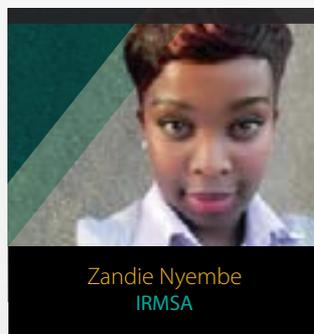
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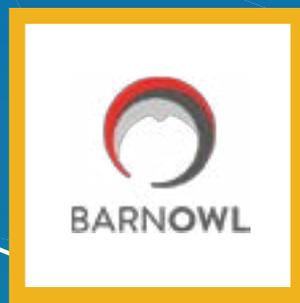
The South African Institute for Entrepreneurship (SAIE)



Umgeni Water



South African Rewards Association



IRMSA Risk Report South Africa Risks 2017

Third Edition

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