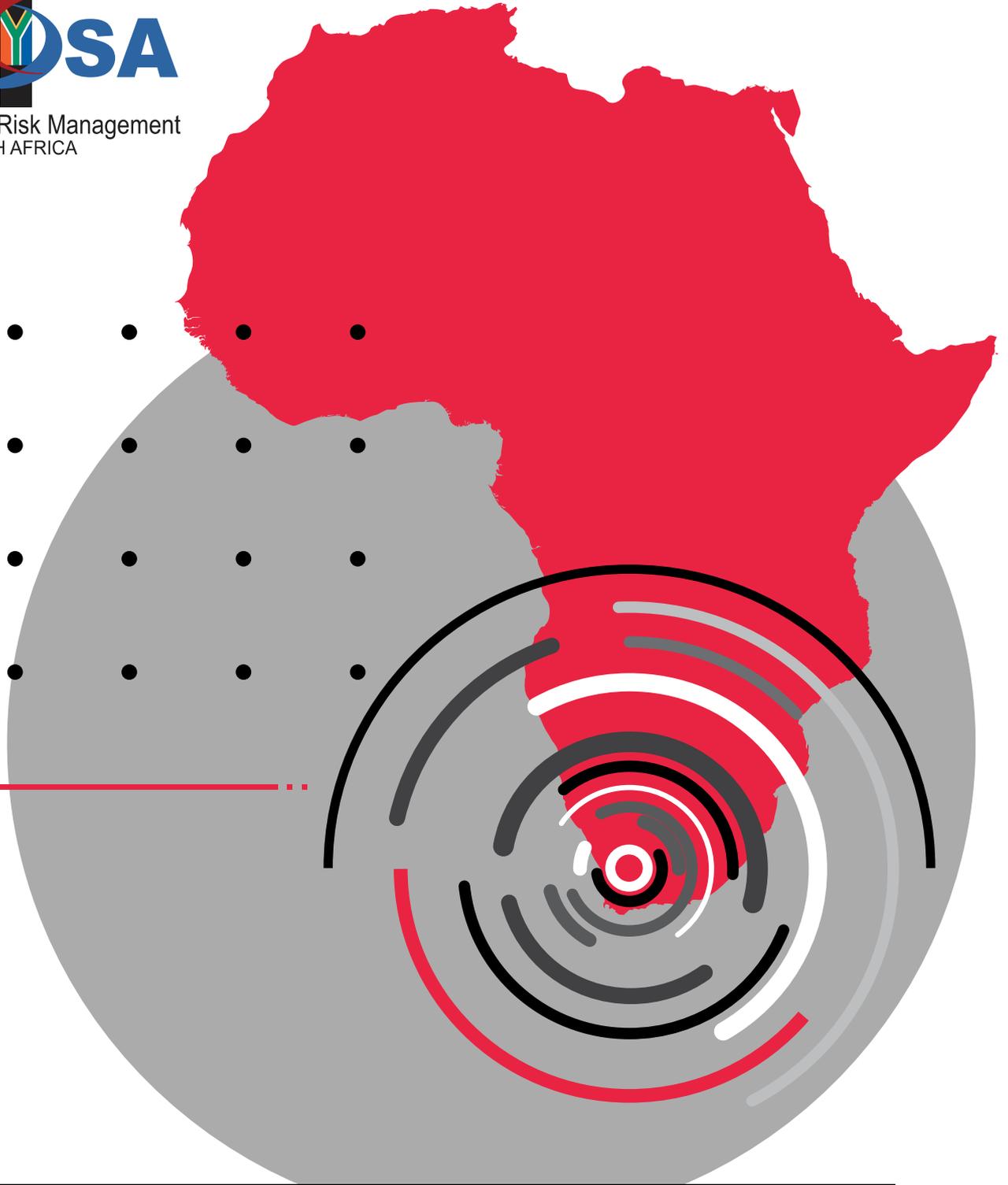




The Institute of Risk Management  
SOUTH AFRICA



IRMSA RISK REPORT

**SOUTH AFRICA**

**RISKS 2020**

6<sup>TH</sup> EDITION

# INFOGRAPHIC

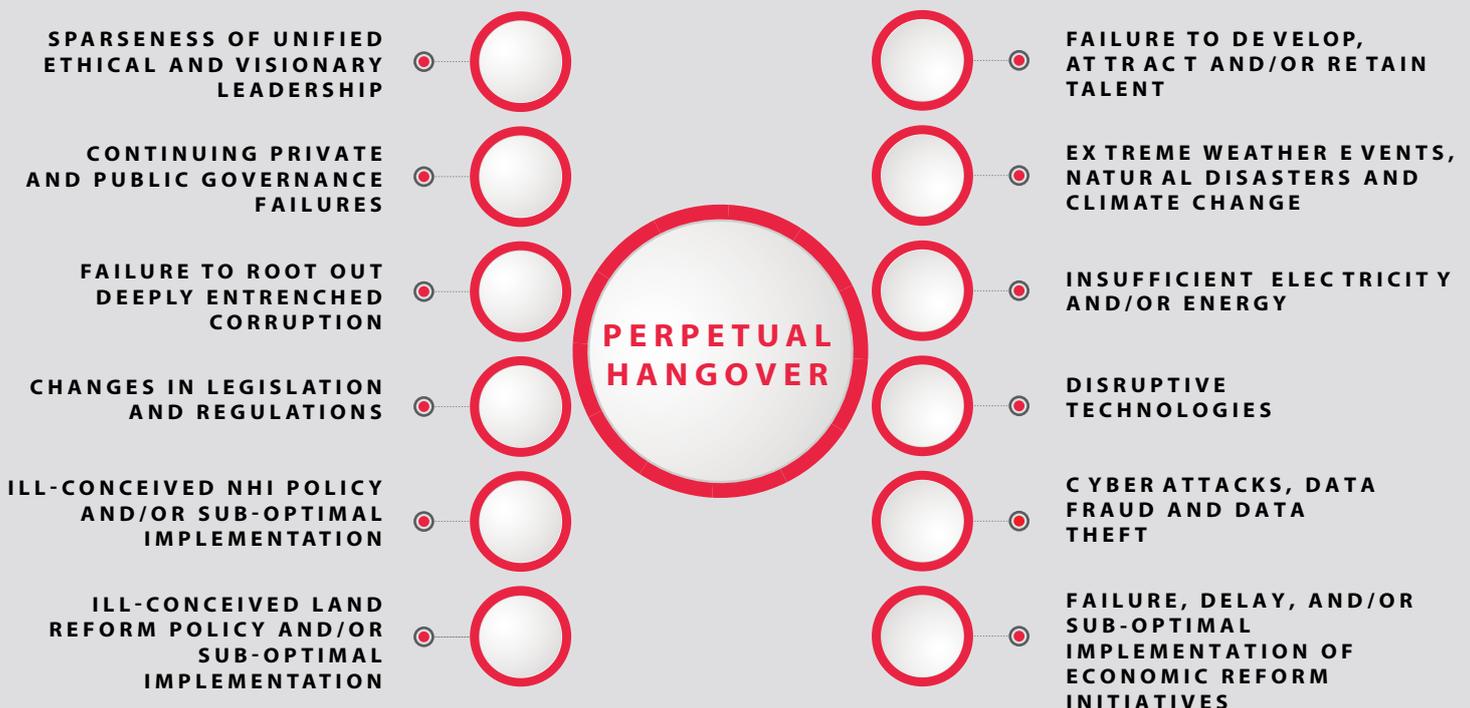
## SOUTH AFRICA SCENARIOS

From our analysis, all the risks we face as a country will lead to the realisation of our worst-case scenario, "Perpetual hangover", if not dealt with decisively. There is significant work to do to manage our overall country risk profile to a more acceptable level and achieve "Spring of hope!".

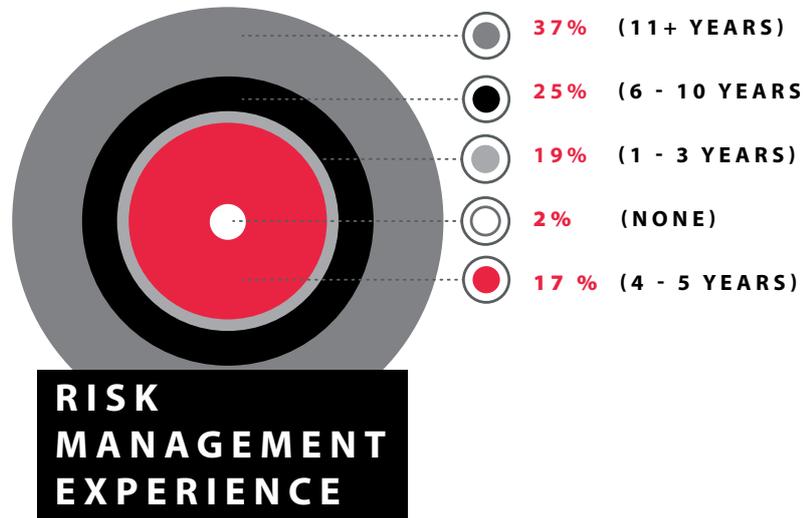
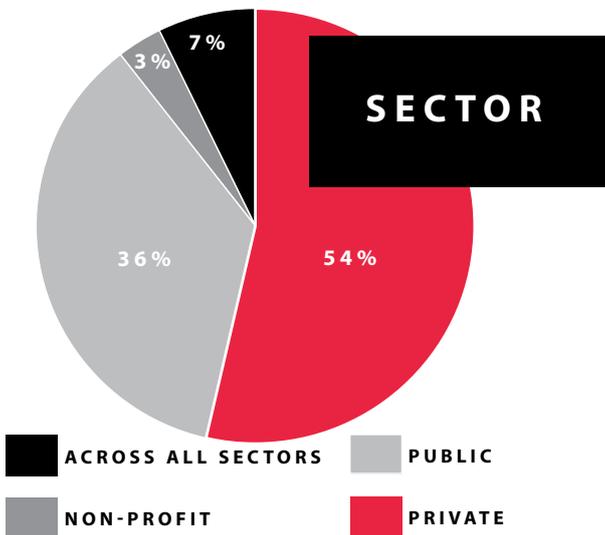
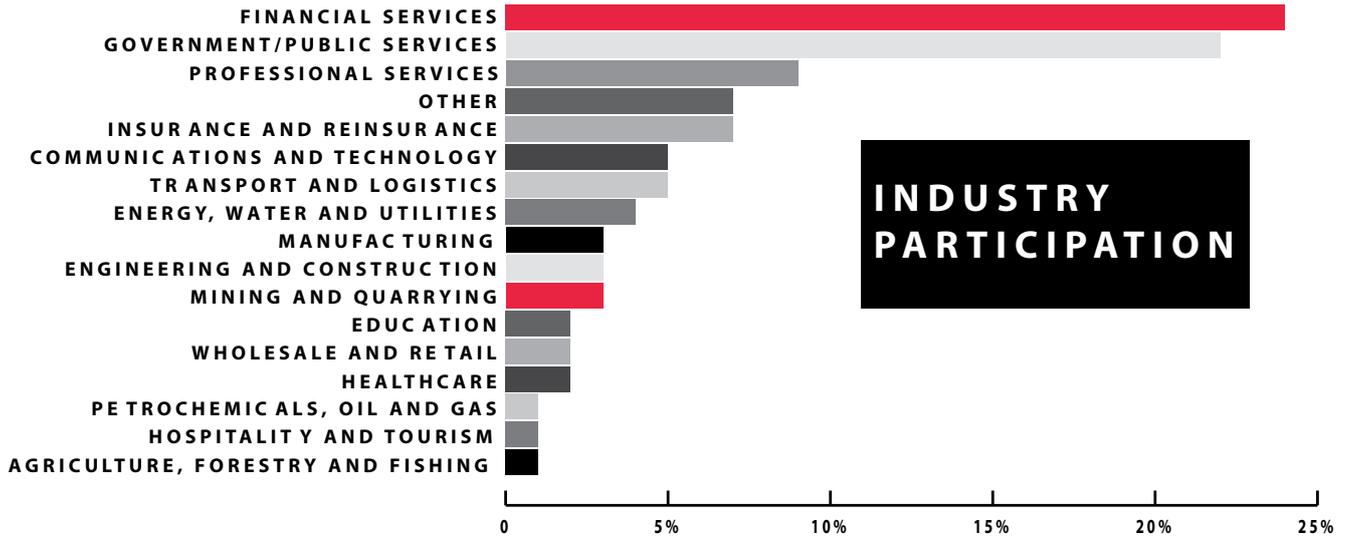


## SOUTH AFRICA RISK PROFILE

We conducted a robust "look-back" analysis of the risks included in our risk reports for the last five years (2015 to 2019). We also evaluated key current developments and forward-looking views and considered the scenarios of our experts. From this, we defined the 12 top risks South Africa will face in 2020.



# 585 PARTICIPANTS





# TABLE OF CONTENTS



## DISCLAIMER

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INSTITUTE OF RISK MANAGEMENT SOUTH AFRICA

The report and e-book are available on IRMSA's website  
Institute of Risk Management South Africa  
Tel.: +27 11 555 1800  
[www.irmsa.org.za](http://www.irmsa.org.za)

<b>INFOGRAPHIC</b>	<b>1</b>
<b>EXECUTIVE SUMMARY</b>	<b>6</b>
<b>1 FOREWORD</b>	<b>17</b>
<b>2 MESSAGE FROM THE IRMSA PRESIDENT, BERENICE FRANCIS</b>	<b>21</b>
<b>3 SCENARIOS FOR A RISK-RESILIENT SOUTH AFRICA</b>	<b>23</b>
3.1 Positioning ourselves for a risk-resilient future	25
3.2 Indlulamithi South Africa scenarios 2030 – A QUEST FOR SOCIAL COHESION	26
3.3 Frans Cronje – A TIME TRAVELLER’S GUIDE TO SOUTH AFRICA IN 2030	27
3.4 Clem Sunter’s GLOBAL FLAG WATCHING – BREAKING FUTURES	29
3.5 IRMSA’s Risk-Resilient scenarios for South Africa	32
<b>4 SOUTH AFRICAN TOP RISKS</b>	<b>35</b>
4.1 Value of our risk report	37
4.2 Our risk analysis approach	38
4.3 Risk analysis	39
4.3.1 Sparseness of unified ethical and visionary leadership	41
4.3.2 Continuing private and public governance failures	43
4.3.3 Failure to root out deeply entrenched corruption	45
4.3.4 Changes in legislation and regulations	47
4.3.5 Ill-conceived NHI policy and/or sub-optimal implementation	49
4.3.6 Ill-conceived land reform policy and/or sub-optimal implementation	51
4.3.7 Failure to develop, attract and/or retain talent	53
4.3.8 Extreme weather events, natural disasters and climate change	55
4.3.9 Insufficient electricity and/or energy	57
4.3.10 Disruptive technologies	59
4.3.11 Cyberattacks, data fraud and data theft	61
4.3.12 Failure, delay, and/or sub-optimal implementation of economic reform initiatives	63
<b>5 COMPETENCIES TO BUILD A RISK-RESILIENT COUNTRY</b>	<b>65</b>
5.1 Risk management maturity survey	67
5.2 Management of risk survey insights based on “OUR COLLECTIVE STORIES”	75
<b>6 OUR CALL TO ACTION</b>	<b>85</b>
6.1 Gillian le Cordeur – IRMSA’S CONTRIBUTION TO ACHIEVING “SPRING OF HOPE”	87
6.2 Graeme Codrington – A FUTURIST’S PERSPECTIVE	91
6.3 Dr. Leila Fourie – A PERSPECTIVE FROM BUSINESS	94
6.4 Parmi Natesan – A YEAR OF ETHICAL AND EFFECTIVE LEADERSHIP	95
6.5 Sonja Bignaut and Robert Koch on NAVIGATING COMPLEXITY: THE FRONTIER OF RISK MANAGEMENT	98
<b>7 ACKNOWLEDGEMENTS</b>	<b>106</b>

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**CHRISTELLE MARAIS**  
CHAIR: IRMSA RISK  
INTELLIGENCE  
COMMITTEE

# EXECUTIVE SUMMARY

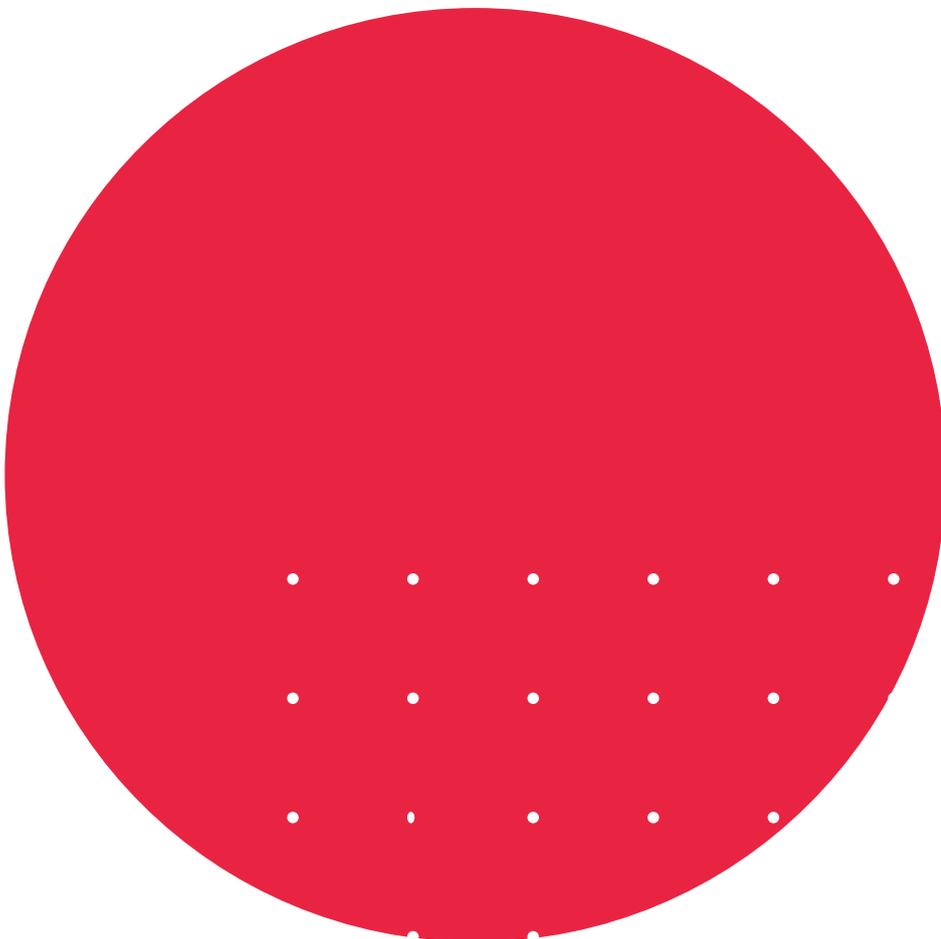


**CHRISTOPHER PALM**  
IRMSA CHIEF RISK  
ADVISOR



**“IT WAS THE BEST OF TIMES, IT WAS THE WORST  
OF TIMES, IT WAS THE AGE OF WISDOM, IT WAS  
THE AGE OF FOOLISHNESS, IT WAS THE EPOCH  
OF BELIEF, IT WAS THE EPOCH OF INCREDULITY,  
IT WAS THE SEASON OF LIGHT, IT WAS THE  
SEASON OF DARKNESS, IT WAS THE SPRING OF  
HOPE, IT WAS THE WINTER OF DESPAIR, WE HAD  
EVERYTHING BEFORE US, WE HAD NOTHING  
BEFORE US, WE WERE ALL GOING DIRECT TO  
HEAVEN, WE WERE ALL GOING DIRECT THE  
OTHER WAY...”**

**CHARLES DICKENS, A TALE OF TWO CITIES (1859)**



Ours is a tale of two countries. Where we find ourselves at a crossroads: despite our progress over the last 25 years, we are struggling to deal with the combined impacts of slow economic growth, widespread unemployment, sharp inequalities, and a fragile social fabric. We are at a point in time where our ability to prosper as a nation should be our paramount focus, irrespective of the government of the day. Our actions as a nation from here onwards will determine the future we face. At IRMSA, we believe that our success as a country is dependent on “big-picture” and “far-horizon” and “sustainability” thinking to ensure a prosperous future for all our people. This requires the inclusion of as many stakeholders as possible to create a positive, but realistic, national narrative aimed at finding collective solutions that are underpinned by visionary leadership and technical competence. One such competency is the ability to manage our risks and create a resilient country that can deal with the uncertainties we face. The provision of a quality risk report to leaders in the public, private, labour and civil society sectors of our economy is a privilege that is not available in many other parts of the world. In fact, most other regions rely on the World Economic Forum’s Global Risks Report, whereas in South Africa this is overlaid with our very own risk insights.

As our team interviewed experts on the top risks that we have identified, one key area became clear: the cross-cutting concern that relates to our country’s ability to deliver on large mega projects, in a sustainable manner. In this regard, three themes were revealed:

**OUR ECONOMIC WELL-BEING DEPENDS ON OUR ABILITY TO UNDILUTEDLY FOCUS ON PROVIDING ELECTRICITY (ENERGY) TO OUR ECONOMY; GROW OUR GROSS DOMESTIC PRODUCT; AND PROVIDE OPPORTUNITIES FOR MARGINALISED INDIVIDUALS TO PARTICIPATE IN THE ECONOMY;**

**OUR SOCIAL WELL-BEING DEPENDS ON OUR ABILITY TO SUCCESSFULLY IMPLEMENT THE NATIONAL HEALTH INSURANCE PROGRAMME AND RESPONSIBLY REDISTRIBUTE LAND, BOTH OF WHICH COULD HAVE MULTIPLE BENEFITS FOR THE REST OF OUR ECONOMY;**

**THE ABOVE (AND MANY OTHER CRITICAL PROJECTS IN OUR COUNTRY) DEPEND ON OUR ABILITY TO PUT THE RIGHT PEOPLE IN THE RIGHT JOBS. AS ONE EXPERT EXPLAINED, “IT IS NOT THAT WE DO NOT HAVE THE SKILLS, IT IS THAT WE ARE UNABLE TO UNLEASH THEM IN THE RIGHT ROLES TO BUILD OUR FUTURE.”**

In this context, the IRMSA Risk Report takes a different shape this year. We have structured a storyline that we hope will guide our readers in considering their own contributions in our country:

1. The IRMSA President, Berenice Francis outlines what is required from IRMSA to support a risk-resilient South Africa;
2. The Key Message from the 2019 IRMSA Annual Conference positions what we face as a nation and how we should move forward;
3. We analyse various scenarios for our country (developed by eminent experts) to position IRMSA’s perspective on the scenarios our country may face should we continue to do what we do now; which is tantamount to admiring our risk, without taking real action.



**TABLE 1 : IRMSA’S SOUTH AFRICA SCENARIOS.**

4. We identify the top risks we believe our country faces, based on our analysis of the last five years' reports as well as forward looking information;
5. Based on these scenarios, we examine the top 12 risks below and how we believe our response to these risks could influence our ultimate fate.

## **SPARSENESS OF UNIFIED ETHICAL AND VISIONARY LEADERSHIP**

### **TOP CHALLENGES**

- Lack of political courage.
- Lack of real action to unequivocally link consequences to wrongdoing.
- Insidious effects of corruption and collusion impact on every aspect of South African life.
- Very few real arrests are made, despite the mounting prima facie evidence of grand level corruption and theft.
- Slow speed of action and lack of decisive leadership.

### **TOP TREATMENTS**

- Consistently mobilise and publish evidence-based data that illustrate the many cases of want and wastage that recur because of unethical leadership in all sectors of our society.
- Re-empower and resource the various State organs to breathe life into the laws we already have.
- Build the businesses that will build Africa by creating sustainable jobs and empower the communities in which they operate; and the conservation of the environment.

## **CONTINUING PRIVATE AND PUBLIC GOVERNANCE FAILURES**

### **TOP CHALLENGES**

- Absence of ethical and effective leadership.
- Lack of consequences for unethical behaviour.
- Not appointing the right leaders in the right positions.
- Not recognising the interdependencies between good governance, technical competencies, and sustainable business practices.

### **TOP TREATMENTS**

- Significantly strengthen technical competencies in all areas of public, private, labour, and civil organisations.
- Strengthen SA's ability to, through an unwavering approach to law enforcement from all parties involved, root out corruption and the circumstances that make it possible.

## **FAILURE TO ROOT OUT DEEPLY ENTRENCHED CORRUPTION**

### **TOP CHALLENGES**

- Continued underperformance of corruption-fighting entities.
- Current leadership structures seem helpless to arrest these practices, due to a lack of political will or because they themselves are implicated.
- Not having an effective National Corruption Prevention Plan/Strategy.
- Key public sectors remain vulnerable to corruption.

### **TOP TREATMENTS**

- Hold people accountable for performance.
- Hold people accountable for unethical behaviour.
- Implementation of consequence management.
- Strengthen the State's capacity to successfully investigate and prosecute corruption.

## CHANGES IN LEGISLATION AND REGULATIONS

### TOP CHALLENGES

- Unconstitutional changes to legislation and regulations to serve different (political) agendas.
- Regulators' lack of proper analysis of the impact/s of proposed legislative changes.
- Companies are unprepared for/unaware of legislative changes.

### TOP TREATMENTS

- Robust and open debate and obtaining inputs from relevant stakeholders before promulgating legislation.
- Active lobbying by affected parties and stakeholders to influence the legislative changes to achieve a mutually beneficial outcome.
- The performance of scenario analyses to demonstrate and understand the impact of legislative changes.
- Companies should ensure that business strategy is aligned with regulatory change and take future sustainability into account.

## ILL-CONCEIVED NHI POLICY AND/OR SUB-OPTIMAL IMPLEMENTATION

### TOP CHALLENGES

- Significant capital funding (at low rates) is required to build proper public health care facilities.
- Shortage of the general practitioners and specialists required to service all the people in SA.
- High levels of distrust and resistance to change in both public and private sectors.
- Increased potential of "underservice" to save costs and stay within budget.
- Inability to eradicate systemic corruption and/or deal with labour issues.

### TOP TREATMENTS

- Call on big business to set up low cost/affordable capital funding to build much needed health care facilities.
- Robust stakeholder engagement plans and public awareness campaigns.
- Set up proper governance, controls and monitoring systems to ensure appropriate service levels and manage the potentially higher corruption risk.
- Leverage technology to ensure control of information, service levels, and costs across the value chain.

## ILL-CONCEIVED LAND REFORM POLICY AND/OR SUB-OPTIMAL IMPLEMENTATION

### TOP CHALLENGES

- Historical conflicts, emotional sensitivities, and politicisation of the land issue combined with the lack of a national compact to respond and treat such conflicts.
- Uncertainty around the best way to define and then implement land reform.
- Lack of skills, competencies, and capabilities to execute any specific land reform policy.
- The "wait and see" approach adopted by the private sector, instead of robust, constructive participation to achieve a common purpose.
- Absence of legal precedent to inform policy on issues of land reform.

### TOP TREATMENTS

- Basing the land reform policy on principles of inclusivity, social cohesion, social compact building, and benefits for all.
- Continuous, robust, and clear communication to extensive stakeholder groupings to build a common purpose.
- Establishment of an empowered and enabled Land Reform Agency that is legitimate and credible in the eyes of all affected stakeholders and society at large.
- Appointing honest, credible, and competent individuals in all public sector entities that play a role in land reform.
- Strong leadership in all levels of society – including public sector, private sector, labour, and civil society.

## FAILURE TO DEVELOP, ATTRACT AND/OR RETAIN TALENT

### TOP CHALLENGES

- The South African education system as it currently stands.
- Inadequate teacher content knowledge and significant reading deficits in primary schools.
- Rapid technology change in production creates an increased bias towards skill-intensive employment demand.
- Highly stressed education infrastructure due to increasing urbanisation and immigration.
- The concentration of unemployed among the youth and individuals without tertiary education contributes to the persistence of inequality.

### TOP TREATMENTS

- The proposed NHI has creative solutions to addressing Early Childhood Development requirements.
- Link education opportunities to the country's needs, as identified in SONA and the NDP.
- Increase absorption rates through workplace skills development and work integrated learning programmes.
- Stepping up efforts to encourage learners to pick vocational training over university degrees, specifically in the agricultural and services industries.

## EXTREME WEATHER EVENTS, NATURAL DISASTERS AND CLIMATE CHANGE

### TOP CHALLENGES

- Land-use planning falls on local municipalities that are under tremendous pressure.
- Climate is changing quicker than cities can adapt, and there is a lack of scientific decision-ready data to inform and prioritise effective interventions.
- A rapidly urbanising and growing population that must be accommodated in an environment of low economic growth.
- A lack of knowledge about how our daily actions affect our future exposure to these climate change and weather-related events.

### TOP TREATMENTS

- Good planning practices for land-use combined with targeted climate adaptation interventions, aligned to the mandates of local authorities.
- Adapting cities to the anticipated effects of climate change, including retrofitting high-risk cities to become climate-resilient/hazard-resistant.
- Public-private partnerships that focus on lessening communities' exposure to climate risks and protecting infrastructure investments.
- The adoption of sustainable practices by all: water sensitive practices, energy efficient design, passive design principals in buildings, resource use reduction, etc.

## INSUFFICIENT ELECTRICITY AND/OR ENERGY

### TOP CHALLENGES

- Deteriorating plant performance, due to inadequate investment in maintenance and mid-life refurbishment.
- Poor performance of Medupi and Kusile due to design problems as well as delays in commissioning.
- Funding and capacity constraints impacting the ability to undertake plant maintenance.
- Decision-making processes and long lead times for the development of new infrastructure.
- Lack of effective leadership and long-term strategic thinking in a highly complex sector.

### TOP TREATMENTS

- Prioritisation of maintenance and the space needed in a constrained system to increase the reliability of plants.
- Clear direction on industry structure and market rules to encourage investment.
- Integrated planning and frequent iterations to deal with uncertainty and change.
- Energy efficiency to reduce demand and energy diversity to increase supply.
- Electricity generation or storage by private individuals, where possible, to reduce pressure and reliance on the grid.

## DISRUPTIVE TECHNOLOGIES

### TOP CHALLENGES

- Disregard for the “organic”/“silent” intrusion of disruptive technologies.
- Failure by risk management teams to fully comprehend this risk and/or to incorporate new technologies into their risk management methodologies.
- Non-recognition of the interrelationships between new technologies and environmental risk, health and safety risks, ethics and compliance risks, and others.
- Silo-thinking in organisations that limits their responses and the full utilisation of integrated thinking to treat technology risks.
- Not understanding the ethical responsibilities and secondary risk exposures that come from disruptive technology opportunities.

### TOP TREATMENTS

- Carry out a full “risk context and maturity study” to understand and determine the impact of this risk on the organisation.
- Incorporate “smart-tech” into risk decision making and internal audit processes.
- Complete a “disruptive technology audit” with skilled advisors.
- Upskill risk and executive teams in understanding and dealing effectively with potential disruptive technologies.
- Extend governance obligations to oversee technology beyond information technology.

## CYBERATTACKS, DATA FRAUD AND DATA THEFT

### TOP CHALLENGES

- Cyber risk discussions of oversight and executive bodies do not include the identification of risks to avoid, risks to accept, and risks to treat or transfer.
- Oversight and executive bodies approach cybersecurity as an IT issue and do not plan adequately to prevent, respond, and recover from a potential cyber event.
- Human error is still the most common cause of successful cyber breaches.
- Cyber risk is dynamic in nature and the pace of technological innovation remains rapid.
- Incidents, innovations, and lessons learnt are not shared across industries and organisations.

### TOP TREATMENTS

- Oversight and executive bodies must show intent and action and ensure that the whole organisational awareness programme is driven relentlessly.
- Oversight and executive bodies must set clear expectations of their appetite for cyber risk. This must be linked to performance measures and a mature risk response, with adequate resourcing and budget.
- Understand the consequences and legal implications of cyber risks and how these relate to their specific circumstances.
- Impact and vulnerability analyses, information classification, and alignment with the system of control are key.
- Cybersecurity awareness training is critical as most vulnerabilities are caused from within an organisation.

## FAILURE, DELAY AND/OR SUB-OPTIMAL IMPLEMENTATION OF ECONOMIC REFORM INITIATIVES

### TOP CHALLENGES

- The inability of government to deal decisively with state capture.
- Rising debt to Gross Domestic Product.
- Falling business confidence sentiment.
- Ongoing inability by government to deal with State Owned Enterprises.
- Policy uncertainty/market unfriendly policies.
- Failure to attract foreign direct investment.

### TOP TREATMENTS

- Design market-friendly policies that can attract both foreign and local investment.
- Create viable public-private partnerships to deal with State Owned Enterprises and boost investor confidence.
- Prioritise state spending in strategic areas such as public health and education.
- Implement austerity measures, re-deploy youth to invigorate state departments and dispose of state assets.
- Deal decisively with state capture through the National Prosecution Agency’s arrest of high-profile individuals.

**TABLE 2: SOUTH AFRICA TOP 12 RISKS – CHALLENGES AND RISK RESPONSES.**

6. Based on surveys we conducted across all sectors of the economy as well as various role players in organisations, we evaluated the competencies of, and the perceptions held by, top leaders and risk professionals in our country and how these position us to respond to our risks. Some key actions to address urgently are listed in Table 3 below:

**FOR ATTENTION RISK PROFESSIONALS, BOARDS, EXECUTIVE AND OVERSIGHT COMMITTEES**

- Expect risk management to be more real-time and less driven by the annual plan or the quarterly reporting opportunities.
- Request a risk culture and risk maturity assessment at least every three years to assess, independently the organisation's risk culture and risk maturity.
- Expect risk management to fulfil a significant role in strategy setting. This includes context setting, scenario planning and predictive data analytics.
- Expect risk management to confidently comment on the performance of an organisation and contribute to the company's agility by delivering quality, timeous and relevant information.
- Critical to integrate a company's strategy, business objectives and performance with risk management.
- Adopt a risk management approach and framework that is sound and flexible enough to effectively respond to the risks and opportunities in a rapid changing business landscape.
- Developed risk management skills to incorporate data analytics, quantification of risk and opportunity as well as the development of predictive capabilities ensuring speed, agility and coverage expected in a dynamic business landscape.
- Better understand the concept of combined assurance and the impact it may have on the level of confidence boards, executive- and oversight committees can place on the information reported to them.
- Ensure that the risk management function is adequately resourced to support effective risk-based decision making in the organisation.
- Implementing performance and consequence management across the entire organisation.

**IRMSA'S CONTRIBUTION AS THE PROFESSIONAL BODY FOR RISK MANAGEMENT**

- The Institute is taking the lead on the integration of risk and strategy.
- Updated IRMSA new best practise framework and guideline which will be further developed and produced in 2020.
- IRMSA continues to provide education and training to members, organisations, boards and business leaders.
- IRMSA has a stronger presence in the media since 2019 and intends to have an even stronger voice and our message educating the public and business leaders.
- The South Africa Risk Report will be a tool to start the conversations that we need with all organisations and their leadership.
- IRMSA assisting organisations with risk maturity assessments allowing them to successfully understand the gaps that they have within their structures as well as their strengths and weaknesses.
- Capacitating risk practitioners with the skills to lead the integration of strategy setting and risk management, the increased use of data analytics and quantitative risk management in improved communication of the risk message and the development and implementation of predictive capabilities and scenario work.
- IRMSA will continue to align its professionalisation strategy with the various designations, board exam processes and continuous professional development.

**TABLE 3: CALL TO ACTION – FOR BUSINESS AND THE PROFESSION.**

7. We conclude our report by positioning the key elements we believe are needed to ensure an inclusive, resilient, and successful future for South Africa and all who live in it; our call to action is for us to work together to optimise our resources across all political, social and economic boundaries to achieve our common purpose. Some highlights in Section 6 – OUR CALL TO ACTION. "Must read" learning if we want to get our country to a "Spring of hope!"

**IRMSA'S CONTRIBUTION TO ACHIEVING "SPRING OF HOPE"**  
**GILLIAN LE CORDEUR**

A strong message to the leadership of our country, is to influence the way decisions are made – risk management should be involved before a decision is made. It is too late to bring in risk management once an issue has revealed itself due to bad planning and implementation. Our risk professionals understand this as it is the core value that we work towards, but it is now important for the right conversations to be had to ensure that the big picture is affected. How do we build towards a risk intelligent environment?



**A FUTURIST'S PERSPECTIVE**  
**GRAEME CODRINGTON**

In South Africa, we have a multitude of examples from recent years of just how quickly seemingly stable organisations can be damaged and even collapse – sometimes by their own decision making, sometimes by external forces beyond their control, and often by both at the same time.

The question for risk officers is whether any of this was preventable, and what the role of the risk function is in a world that is increasingly unstable, unpredictable, fast-paced and disruptive. The answer lies in a fundamental rethinking of risk and strategy in the 2020s.



**A YEAR OF ETHICAL AND EFFECTIVE LEADERSHIP**  
**PARMI NATESAN**

We are all aware of the huge risks and challenges that our country, and thus our organisations, face. Poor leadership got us into this situation; good leadership is the only way out of it. As directors, we have the opportunity—and privilege—of providing that leadership within our organisations and thus contributing to the necessary change in our corporate culture.

King IV places this leadership at the centre of everything, and it is embodied in its first, foundational principle: The governing body should lead Ethically and Effectively.



## **A PERSPECTIVE FROM BUSINESS**

### **DR. LEILA FOURIE**

Reducing the top risks identified in the IRMSA Risk Report – specifically within the themes of leadership, a culture of ethical conduct, and consequence management towards greater accountability the private, corporate and public sector citizens of South Africa need to transfer skills and knowledge as it is essential and critical to ensure long term sustainability and empowerment. Both the private and public sector transformation is critical, along with ethical and socially responsible leadership where there is collaboration and partnerships.



## **NAVIGATING COMPLEXITY: THE FRONTIER OF RISK MANAGEMENT**

### **SONJA BLIGNAUT AND ROBERT KOCH**

In the last decade, complexity has gone from an obscure science to a main-stream topic. The acronym VUCA (Volatile, Uncertain, Complex and Ambiguous), whilst used since the 1980's by the armed forces, now describes the lived experience of decision-makers in virtually all industries and societal spheres. The reason is that we live in an increasingly connected world, with many of those connections in near real-time; and the more connected the world becomes, the more complex it becomes.



This report, therefore, aims to be different. It aims to be a working tool: supported by various initiatives throughout 2020. Our Risk Intelligence Committee will continue to apply its mind to stimulate continuous national debate with various partners and resultant action to respond to the risks and opportunities to which our country is exposed. During 2020, we will run a Risk Intelligence Programme to encourage participation in round tables, case studies, opinion pieces, forums, and other engagement programmes with various other players in our economy.

Our aim with this is to contribute to our country's body of knowledge and to optimise the synergies relating to risk management throughout our economy. We aim to encourage alignment and optimisation of our national narrative and resources to deliver a society where all people have a sense of belonging, can take constructive part in our economy, build a better life, and feel that they can influence outcomes, irrespective of who is in power.



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# FOREWORD

KEY MESSAGE FROM THE 2019  
IRMSA ANNUAL CONFERENCE

*Photo: Chief Justice Mogoeng Mogoeng speaking at the 2019 IRMSA Annual Conference*

At this stage in our country's history, risk management has never been more important. Already, many risks have materialised but in their wake a whole new set of risks have emerged. We, as a nation, as organisations and as individuals must identify these risks clearly, and put the necessary strategies in place to mitigate them.

This was the overall theme of the address to the IRMSA Risk Conference in October 2019 by Chief Justice Mogoeng Mogoeng. He said that we need “to prevent new risks from emerging while we manage those that already exist – with a view to reduce them or minimise them and to hopefully eliminate or leverage them in the long run.”

The Chief Justice set the context by correctly noting that our approach to risk must be informed by the shared national vision embodied in our Constitution. He emphasised that this vision incorporates the fact that there were injustices in the past, and that they need to be redressed or they will continue to constitute risks to our democracy and erode the social capital on which every nation depends:

*What is it that we are called upon to do as individuals and as the citizenry of South Africa? How will we make sure that those injustices of the past do not continue to pose the risk they posed in the past? How do we eliminate them so that we can become the stable, peaceful and prosperous nation that we all desire to be?*

In order to emphasise the importance of mitigating the current risks that South Africa faces, Chief Justice Mogoeng went on to liken the risk manager or chief risk officer of today to the freedom fighter of yesteryear. He argued that any risk professional who truly did the right and just thing would run into strong opposition; like the freedom fighters of the past, he or she might find themselves under threat and even having to go into hiding. Job security could be threatened.

However, whatever the dangers, it is important that risk professionals, along with everybody who lives in this country, play their part in making sure that South Africa truly belongs to all who live in it. We have to take this commitment to a vision of a shared South Africa as seriously as the freedom fighters took their battle. This level of commitment is essential, he said, for us to “move towards the realisation of a shared, peaceful, stable, and prosperous South Africa for the sake of our children.”

Having set the vision in its proper context, the Chief Justice proceeded to outline what he felt needed to be done in order to make it possible for all South Africans to realise their potential, and to build a united country that has come to terms with its past. He framed his analysis in terms of the major risks the nation faces, and what could be done about them.

**Greed.** He identified greed—for money, for fame and for power—as one of the major obstacles to achieving the South Africa outlined in the Constitution. Corruption, he added, is the direct consequence of greed. “Imagine if every leader at every level was not driven by greed but by the need to have our shared vision realised?” he asked.

Corruption is a direct consequence of greed, as is climate change. The latter is a particularly important risk because Africa is set to bear the brunt of climate change.

Speaking of climate change, the fact is that the environmental laws and the people to enforce them already exist, as do the risk managers who have long identified the risks posed by environmental degradation.

But, said the Chief Justice, many people only do their job if they can see a benefit in it for themselves. Does it improve their chances of promotion, or increase their income? If not, then they simply do not act. Such people ignore things that nobody with a shred of conscience would ignore. And even when people are prepared to speak out, some of them do so more out of a desire to obtain positive publicity, to build their profiles. This “approval addiction” means that we only do what will gain us public acclaim.

**Leadership.** Leadership that is ineffective, and above all unethical, is another of the major risks the country faces. He pointed out that out of the more than 250 municipalities in the country, only 18 received clean audits. It seems as though all levels of leadership in our municipalities, including their risk managers, simply did not notice the downward spiral—or perhaps simply didn't care.

**Crime and corruption.** We have actually allowed crime to become fashionable in South Africa, said the Chief Justice. “When corruption and organised crime flourish, sustainable development and economic growth are stunted,” he added. He quoted Secretary General of the United Nations Kofi Annan:

*Corruption is an insidious plague that has a wide range of corrosive effects on societies. It undermines democracy and the rule of law, leads to violations of human rights, distorts markets, erodes the quality of life, and allows organised crime, terrorism and other threats to human security to flourish. This evil phenomenon is found in all countries big and small, rich and poor but it is in the developing world that its effects are most destructive. Corruption hurts the poor disproportionately by diverting funds intended for development, undermining a government's ability to provide basic services, feeding inequality and injustice, and discouraging foreign investment and aid. Corruption is a key element in economic under-performance and a major obstacle to poverty alleviation and development.*

The real issue here is that crime, including gender-based crime, is not a novel phenomenon. It's always been present but it has been getting worse. Where were we when crime was perpetrated?

Turning to the solutions to these problems, the Chief Justice reminded the audience that accountability, responsiveness and transparency are some of our foundational values as a constitutional democracy. We need to put them into practice.

Based on these values, we need to take the following actions in addition to whatever else we might be doing:

- **Reflect on what we talk about.** In our homes, what do we say to our children about our country and about the people who are different from us? What value system, if any, and what sense of responsibility are we inculcating in our children?
- **Take action.** The Chief Justice urged all South Africans to examine what they are doing to ensure that the country progresses, and moves towards realising its potential to be a prosperous, peaceful and more stable place to live.
- **Take control of your future.** He urged the youth, in particular to seek aggressively for growth opportunities. "Never be complacent. If there is an opportunity to learn and grow your skillset, grab it with both hands and run with it. If there is a leadership position, apply and provide much-needed guidance and leadership and lead with integrity," he said.
- **Hold Government accountable for its shortcomings, and make it take its mandate to transform the economy seriously.** In his view, economic and social redress are pivotal to the future of South Africa. To mitigate the risks inherent in a non-inclusive economy, he argued that Government should assist small to medium-sized businesses by providing work opportunities and funding. Big business could also play a big role by providing more employment.

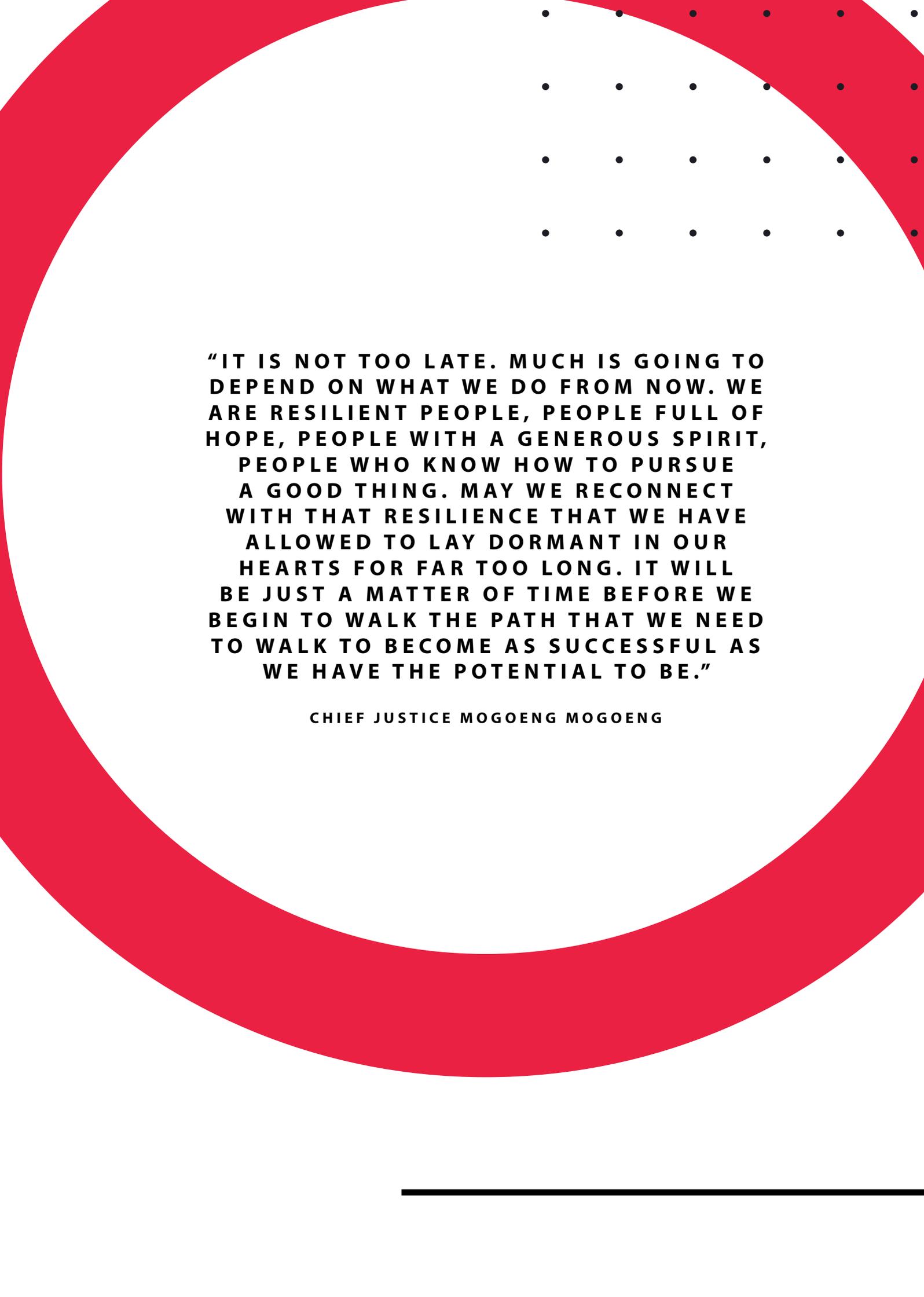
In short, Government and the private sector must make a concerted effort to provide meaningful opportunities.

- **Insist that the institutions on which democracy depends are strengthened.** Only then will we be able to deal with crime and corruption. Only then will the principles of Ubuntu or Botho, which define us as people, permeate our society. Only then will the limited resources at our disposal be used correctly, in a responsible manner and unaffected by greed. If this had happened in the past, we would not be where we are now.
- **Address the real issues.** As a nation, we tend to devote most of our resources to symptoms, rather than root causes. In particular, we should be looking at the reasons why people are corrupt, and what we need to do to turn things around.

The Chief Justice went to outline what he thought would be an effective and immediate intervention: make things very uncomfortable for those involved in corruption, for anybody involved in wrongdoing. We should take our inspiration from the women's march on 1 August 2018, he said. They set out to march on the President's office to make him uncomfortable about their situation.

But, he warned, action will only be effective if it's part of a tangible plan. If we get organised and speak with a united voice against all wrongdoing, then it would be just a matter of time before we see results. Until now, those who have been comfortable doing wrong have relied on there being no consequences—if there are consequences, they will cease to feel comfortable.

It's important to remember that we, as citizens, have keep on speaking out in a consistent manner, he concluded. We have to be better organised, and understand what the risks (and opportunities) are, and work on finding ways to mitigate the risks—mitigations that are implemented. In that regard, the whole risk management profession has a key role to play.



**"IT IS NOT TOO LATE. MUCH IS GOING TO  
DEPEND ON WHAT WE DO FROM NOW. WE  
ARE RESILIENT PEOPLE, PEOPLE FULL OF  
HOPE, PEOPLE WITH A GENEROUS SPIRIT,  
PEOPLE WHO KNOW HOW TO PURSUE  
A GOOD THING. MAY WE RECONNECT  
WITH THAT RESILIENCE THAT WE HAVE  
ALLOWED TO LAY DORMANT IN OUR  
HEARTS FOR FAR TOO LONG. IT WILL  
BE JUST A MATTER OF TIME BEFORE WE  
BEGIN TO WALK THE PATH THAT WE NEED  
TO WALK TO BECOME AS SUCCESSFUL AS  
WE HAVE THE POTENTIAL TO BE."**

**CHIEF JUSTICE MOGOENG MOGOENG**

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2



**MESSAGE  
FROM  
THE IRMSA  
PRESIDENT**

**BERENICE FRANCIS**

## **WE NEED TO THINK ABOUT OUR FUTURES WITH IMAGINATION, EMPATHY AND AGENCY.**

Albert Einstein said “Imagination is more important than knowledge. For knowledge is limited whereas imagination embraces the entire world, and all there ever will be to know and understand”.

As a risk manager, I have learnt that a key foundation to effective risk management is the collective experience of the leaders in an organisation. i.e. you need a team that has been around the block a couple of times. But sometimes that experience is a filter that holds us back, making us risk averse or lacking the imagination of an opportunity unseen. Wim Wenders aptly coined the term “monopoly of the visible” in that we as society take things more seriously when we can or have seen something.

The cynic in us would argue that having been weaned on a diet of instant gratification, we have reduced our once fertile imaginations with deserts filled with brainwashed feeds of Instagram and tweets, our time so engrossed with the business of today we have lost the ability to use a vision of the future as an anchor. It may be more nuanced than that. Given the accelerating rate of change, reality is fast outpacing our vision.

The world is an amazing place – we have news, services and products available at the press of a button. With “predictive everything” we can even bypass thinking – see something, click and it is yours. Technology has allowed us access to the world yet made our definition of communities smaller – we have the power to cut ties with anyone – choosing to surround ourselves with echo chambers that don’t make us uncomfortable. Focused on living your best you, we can have chosen for us our own reality. And why not – South Africa is a scary place and everywhere we look crime, grime and looting abounds. Reinforcing our belief that governments are incompetent, the private sector is filled with miscreants, communities are broken, and nature is punishing us. So, amidst all the pain and angst - we build buffers. Living everyday as passive spectators because “well, we can.” It is time for ordinary South Africans across all walks of life to understand their leadership roles where they work and live, and to take accountability to realise our common purpose. And reap the rewards coming with the joy and passion that being invested in something, caring deeply about something. Caring is the springboard for action.

The 2020 risk report aligns to two themes – Vision and Action. For vision you need imagination and for action you need to care beyond short term comfort. The report highlights possible scenarios, not to overwhelm us or create paralysis and a sense of doom, but to create possible futures that we can all work towards whilst acknowledging the consequences of past decisions or lack of decisions. The role of risk managers is to assist organisations in seeing a longer-term view, seeing possibilities, giving much needed time to proactively craft and implement solutions. Much of what we do as risk managers is in providing frameworks of foresight, influencing decisions and judgements. Building on a quote from author Bina Venkataraman - We need to think about our futures with imagination, empathy and agency.

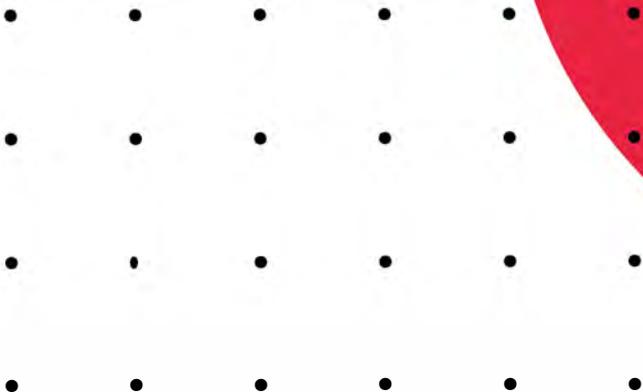
**BERENICE FRANCIS  
PRESIDENT  
THE INSTITUTE OF RISK MANAGEMENT  
SOUTH AFRICA**

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# 3

## SCENARIOS FOR A RISK-RESILIENT SOUTH AFRICA





### 3.1

## POSITIONING OURSELVES FOR A RISK-RESILIENT FUTURE

Various future-oriented tools exist to help us deal with uncertainties that we are not yet able to clearly define. In our drive to build a risk-resilient South Africa, leaders in all walks of life must understand:

- the most likely scenarios that we face as a country; and
- how to implement risk mitigating strategies that would:
  - influence a preferred scenario to materialise; and/or
  - enable us to prosper if one, or a combination of, defined scenarios become our reality.

The process of developing scenarios is complex, creative, and combines evidence-based social and economic research, experts' insights, individual interviews, online conversations, face-to-face engagement with people from different communities and circumstances, research papers on influential issues, academic conferences, working sessions and many other inputs. In line with this report's principle of collaboration for resilience, we recognise the robust scenario work being done by various bodies and eminent skilled individuals in our country. Therefore, we used inputs from leading scenario builders to define the scenarios we believe to be important for a risk-resilient South Africa that will prosper despite the many challenges it faces. For this purpose, we have considered the following scenario and futures-thinking experts:

**INDLULAMITHI'S  
SOUTH AFRICA  
SCENARIOS 2030**

**FRANS CRONJE'S A  
TIME TRAVELLER'S  
GUIDE TO SOUTH  
AFRICA IN 2030**

**CLEM SUNTER'S  
GLOBAL FLAG  
WATCHING –  
BREAKING FUTURES**

As all scenario builders will caution, the purpose of scenarios is not to predict the future. A set of scenarios provides a range of possible futures, allowing us to plan and prepare for different outcomes. It will be disastrous for leaders to fixate on one scenario while disregarding the other scenarios or even futures that have not been formally defined as scenarios. Small changes in the current circumstances of our complex lives (individually and collectively as a country may cause dynamic variations in how the defined scenarios may play out. Although scenarios are plausible and provide us with likely future outcomes, we should always remain prepared to change our thinking on how our country's future may play out.

In Section 2.2, the source scenarios are briefly introduced, from a local to a global perspective. We then position our IRMSA scenarios for a risk-resilient South Africa that underpin the risk analysis in Chapter 4 of this report.

As Clem Sunter stated, "The bottom line is that you need the sharp eyes of a fox to detect which scenario is coming into play by watching the flags intently; and the agility of a fox to adapt your strategy as best you can to the new reality. It is called risk management.

May the fox be with you in making it an art!"

**SCENARIOS EMPLOY STORYTELLING TO ENGAGE THE EMOTIONS AND THE INTELLECT, TO INSPIRE PEOPLE TO TAKE THE ACTIONS NECESSARY TO FULFIL OUR COUNTRY'S POTENTIAL.**

We fully acknowledge the rights and intellectual property relating to the scenarios quoted, referred to, adapted from and/or discussed in this report. Any oversight will be corrected upon receiving communication pointing out such oversight from the rightful owner.

## 3.2

### INDLULAMITHI SOUTH AFRICA SCENARIOS 2030 – A QUEST FOR SOCIAL COHESION

**INDLU-LA-MI-THI A NGUNI NOUN FOR GIRAFFE.IT INDICATES THE INTENTION TO “LOOK ABOVE THE TREES”**

The Indlulamithi scenarios aim to engage leaders from different sectors and people from all walks of life in open conversation on the pursuit of a socially integrated, multicultural society in which communities and institutions aspire to eradicate the social and economic inequalities that cause exclusion and injustice, and where they work towards access to opportunities for all. Indlulamithi is devoted to helping South Africans realise a common purpose and shared vision that focuses on appreciation of our diversity and on solidarity as a means to work towards development and progress.

#### **“WHAT WOULD A SOCIALLY COHESIVE SOUTH AFRICA LOOK LIKE? TO WHAT DEGREE IS IT ATTAINABLE BY 2030?”**

##### **GWARA GWARA – A FLOUNDERING FALSE DAWN**

The people of South Africa are torn between immobility and restless energy in a demoralised land of disorder and decay. After a bleak seven or eight years of growth rates under 1% and 35 years after the first democratic election, South Africa, to the surprise of many, elects its first President from the generation born after 1980 whose declaration that “old men created this mess, let the young clean it up” resonates with constituencies across South Africa. Surrounded by those who came of political age in the 2010s, many committed and highly educated, their competence and confidence lights up the nation, reviving a sense that real change is possible. This unexpected late-in-the-decade euphoria reminds the older generation of a time when a hopeful nation had wished for renewal in 2019, only to have seen their hopes fade with the terrible turmoil in the early 2020s, as both the ruling party and the opposition parties were riven with schism and disunity. In 2030, the nation prays that this time it will be different for South Africa and not, once again, just a promising mirage.

##### **ISBHUJWA – AN ENCLAVE BOURGEOIS NATION**

Loose-limbed and jumpy, with a frenetic edge, iSbhujwa is a South Africa torn by deepening social divides, daily protests, and cynical self-interest. Self-sufficiency increases, firstly as a survival mechanism and then as part of the impetus for small-scale entrepreneurship. People realise that despite political party promises, jobs are not coming, at least not for most of the long-term unemployed. Inspired by the entrepreneurial spirit of many African migrants in South Africa’s towns and cities (even if the different communities still do not always get along), people create small businesses in their own areas and continue to live in segregated “pockets of survival.”

##### **NAYI LE WALK – A NATION IN STEP WITH ITSELF**

The precision of steps in Nayi le Walk and the confident spirit denote a country where growing social cohesion, economic expansion, and a renewed spirit of constitutionalism get the nation going. South Africans are more in sync with each other as they see a more coordinated State deliver better services. South Africa has become a place where popular uprisings have given way to the rising up of the people. Promises of a better life for all become more tangible, not just through the actions of Government but through the power of people taking charge of their own destinies.

To define these three scenarios, Indlulamithi considers the following factors (flags) as the most uncertain, but also the most likely, to shape social cohesion in South Africa going forward:

- Social Inequality;
- Reconciliation, Resistance and Resentment; and
- Institutional and Leadership Capacity.

### 3.3

## FRANS CRONJE – A TIME TRAVELLER’S GUIDE TO SOUTH AFRICA IN 2030

What will South Africa look like in 2030? And how will the next ten years unfold? South Africa has undergone dramatic change in recent years. Political tensions are rising; economic performance has weakened; and more and more South Africans are taking their frustrations to the streets. What does this mean for our future? Will a spark ignite the powder keg? Leading scenario planner Frans Cronje analysed these trends and presented four scenarios for the country’s future. Will South Africa take the socialist route and allow the State to seize all wealth and land? Will the status quo prevail, and the wealth divide widen while crime soars? Do we face a pernicious erosion of our democratic rights and freedoms? Or will a rainbow rise unexpectedly? Cronje’s set of scenarios is a sober compass for South Africa’s highly unpredictable future.

#### RISE OF THE RIGHT

This scenario depicts a new model of authoritarian capitalism that, on the one hand, sees the erosion of democratic rights and freedoms, but, on the other hand, sees a great improvement in the material conditions of almost all South Africans. This promotes a new sense of common purpose and cohesion among the citizenry and propels South Africa to, once again, being Africa’s leading economy, with its success heralded across the emerging world.

#### TYRANNY OF THE LEFT

Stagnant and negative economic growth rates persist with the State pursuing reckless out-of-date socialist policies that lead to a series of ratings downgrades and major capital flight. Inflation, debt, and interest rates soar, causing widespread dejection among the public, who remain cowed and resigned to their fate.

#### BREAK-UP

This scenario portrays a weak and divided Government in which fragmentation, factionalism and confusion reign. Two classes of South Africans become apparent: the one within the walls and the one outside the walls. They have very little to do with each other. Race and ethnic divisions deepen, and it is unclear whether society will ever be put back together again.

#### RISE OF THE RAINBOW

South Africa is no longer a country in which people wait for the Government to do something for them. It is one in which they do it for themselves, and the Government is there to help create the conditions for them to do so. Rather than a weak government, this scenario describes the type of leadership in Government Nelson Mandela once fondly described as leading a flock of sheep from behind.

South Africa, with a booming middle class, becomes an Asian Tiger without the authoritarianism inherent in the Rise of the Right scenario. The rebound in the economy means that South Africans emerge from their self-imposed enclaves and live comfortably alongside one another.

To determine which scenario is more likely to play out, Cronje urges us to watch the following flags:

<b>RISE OF THE RIGHT</b>	<b>TYRANNY OF THE LEFT</b>	<b>BREAK-UP</b>	<b>RISE OF THE RAINBOW</b>
The ANC unites as one behind a reformist leadership.	The ANC unites behind a cruel and corrupt leadership.	The ANC squabbles with itself, even as the walls of Luthuli House start tumbling down.	The ANC and DA come together around the importance of sensible economic reforms to labour laws; the importance of property rights; and the need for effective empowerment policies.
The cabinet introduces a series of firm reforms to labour market policy; secures property rights; and dispenses with current affirmative action and empowerment policies in favour of an empowerment model centred around growth and employment.	Redistributionist socialist dogma takes the place of growth-focused reformist policy.	Policy remains contradictory and confusing.	The coming together translates into a turn in Government policy that seeks out private sector investment to take the lead in rebuilding SA.
An immensely impressive and efficient civil service arises.	Racial tensions are intentionally ratcheted up amid rising levels of violence.	Protests increase dramatically and take on repugnant racial and ethnic undertones.	Policy is effectively implemented.
Government quashes any dissent in its tracks.	An assault is launched against democratic institutions, property rights, and critical or dissenting voices.	People start ignoring the Government and the State.	Racial and social tensions are transitioned into a new mood of unity and common purpose.
The world experiences a sustained long-term economic recovery and SA is well on its way to growth rates of 5%.	The economy falters between recession and very low rates of growth.	Family, friends, and communities begin to develop their own plans to look after their own schooling, health care, security, and other needs.	The global economy recovers, and SA is well on its way to growth rates of 5%.

**TABLE 4: CRONJE'S FLAGS.**

Source: Frans Cronje (2017) A Time Traveller's Guide to South Africa in 2030. Tafelberg.

### 3.4

## CLEM SUNTER'S GLOBAL FLAG WATCHING – BREAKING FUTURES

For many years, Clem Sunter has been watching the flags that could turn the world's political and economic game upside down and often shared this with IRMSA members. In his latest article, he confirms that these flags are now combining in a way that could produce a day of reckoning sooner than many experienced futurists ever thought possible. Sunter's three scenarios are:

### BLOODBATH

Things go unexpectedly pear-shaped and lurch out of control. Wars break out in the Middle East and on the Korean Peninsula. Millions of people are killed. It is unlikely that America will use nuclear weapons because of the fear of a nuclear response from Russia. Having said that, it is Trump's finger on the nuclear trigger, and he is totally unpredictable. Nobody can restrain him.

### FORKED LIGHTNING

The world's markets have another crash as in 2008. This one could be deeper and longer than the last one, since now there are fewer options available to governments to re-stimulate the global economy.

### NAYI LE WALK – A NATION IN STEP WITH ITSELF GILDED CAGE

The world remains deeply divided but no seriously dramatic events occur. Trump's threats turn out to be negotiating ploys designed to soften up the opposition before agreeing to the deal on his terms. Nevertheless, global economic growth rates remain subdued compared to the last century, which was boosted by free trade, free movement of people, and the sharing of technology – which have all been stopped in their tracks for the foreseeable future. Hence, the Gilded Cage is a best-case scenario: there is no credible alternative of a shift towards a friendlier planet on the cards for the time being.



Clem Sunter's scenarios urge leaders to consider the following six flags as indicators:

### **THE RELIGIOUS FLAG**

This flag started going up in the late 1980s due to intensifying competition between the major religions of the world leading to the events of 11 September 2001. However, it has changed fundamentally with deep divisions within the Islamic world itself between Sunni (Saudi Arabia) and Shia (Iran). With no agreement between America and Iran on the nuclear topic (at present, America is applying tough sanctions against Iran, while Iran is threatening to revert to enriching uranium), a war appears very much on the cards. If that happens, Israel will join America and Saudi Arabia while Russia could side with Iran. The consequences will be devastating for the Middle East: Yemen and most of Syria are already wastelands while Iraq and Afghanistan are, at best, dodgy. Iran will be reduced to ashes in the event of a full-scale military conflict with America.

### **THE RED FLAG**

Western sanctions against Russia are still in full force after its annexation of Crimea and can escalate with the occurrence of any military encounter that involves loss of life on either side. China and America are ramping up tariffs against each other while Chinese companies are being targeted by the White House. It is almost certain that US companies will feel the heat as China retaliates. "While the two elephants (i.e. the two biggest economies in the world) fight, it is the grass that suffers." Despite a public display of friendship between the two presidents, North Korea has not yet satisfied America's demand for the elimination of its nuclear arms stockpile. A regional conflict that embroils South Korea, Russia and China is, therefore, rising in probability.

### **THE GREY FLAG**

The ageing of the world's population is ticking on inexorably. This has reduced Europe and Japan to virtually zero-growth economies and is also slowing the Chinese economy down quicker than expected, due to its former one-child policy. This will become more important as the century progresses and the necessity to restrain world population growth (in order to save the environment) becomes more evident. It is amazing how no environmental movement anywhere is prepared to articulate the demographic challenges we face: the number of feet matter as much as the carbon footprint made by them.

### **THE ANTI-ESTABLISHMENT FLAG**

The rise in anti-establishment and populist movements worldwide has produced Brexit; the revival of right-wing parties in Europe; the massacre in New Zealand; the reprisal in Sri Lanka; and Trump with his open hatred between Republicans and Democrats in the US. Social media is spreading fake news accompanied by rhetoric reminiscent of Adolf Hitler. These trends have paralysed the US Government: Trump refuses to meet with Democrats until they drop their investigation of him, and the White House no longer conducts regular press briefings. In India the results of the world's biggest democratic election have confirmed the swing towards nationalism and being tough with perceived enemies. A side effect of this is an explosion of prejudice towards immigrants, which goes against the globalisation policies of the second half of the last century and disrupts world trade. "Who cares?" more people say. "My culture and religion come first. We do not want to be replaced by aliens on any terms."

### **THE GREEN FLAG**

Many statistics now show that climate change will pose an existential threat to the planet later this century. We are also experiencing the sixth extinction of species as human beings invade the space of wild animals and forests by introducing livestock and crops. In addition, plastic has penetrated the biosphere – including the oceans and the fish which live in it. The seabird population is declining as they cannot compete with the fishing industry for food. Ironically, our dominance as a species could cause our extinction as the diversity of our planet disappears. Damages from the current wave of tornadoes in the US should show Americans that military might is useless against the revenge of Mother Nature, yet Trump denies any link between climate change and humankind. So far, global response to this threat has not only been pathetic but also weakened further by America's withdrawal from the Paris Accord. Short-sightedly, the goal of greater material prosperity for all is eclipsing the preservation of the environment. This suggests that humanity will only react in retrospect: after the downward spiral of the environment has become unstoppable.

### **THE NATIONAL DEBT FLAG**

Since the implementation of monetary policies to aid world recovery after the 2008 financial crisis, many governments have allowed national debt (as a percentage of gross national product) to reach unprecedented levels – including America and China. This can only be accommodated while interest rates remain at historic lows and the global economy does not go into recession. However, if the global economy reacts unexpectedly, governments will default on their bonds with the same frequency at which private individuals defaulted on mortgages in 2008. This will cause greater mayhem in financial markets than was experienced in 2008.

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### 3.5

## IRMSA'S RISK-RESILIENT SCENARIOS FOR SOUTH AFRICA

The flags discussed by our scenario builders are key driving forces or variables that are often the most uncertain, but also the most likely, to shape potential future scenarios. They are early warning signals that fundamentally shape our future. Our survival as a country will depend on our unified response to these flags – a response driven by our common purpose. The scenario builders included in this report (Indlulamithi, Frans Cronje and Clem Sunter) each built their scenario from a specific perspective: social cohesion, socio-economic success as a country, and global influences respectively. In the table below, we position a consolidated view of the various scenarios from IRMSA's perspective of building a risk-resilient South Africa. Thereafter, we discuss the flags we believe require reaction to avoid ending up in the worst-case scenario. Through logical combination of our scenario builders' work, we have defined the following three scenarios:

#### PERPETUAL HANGOVER

Current trends of short-termism and social bankruptcy grow, with increasing distance between different groupings in society. We are unable to counter the elements of populism, racial polarisation, and short-sighted economic policies originating from some sections of our society. The logical outcome of this scenario is our inability to define and work towards a common societal purpose and the ultimate implosion of the State as each grouping pursues its own goals to the exclusion of all others.

#### FAKE IT UNTIL WE MAKE IT, OR NOT?

While we seem to understand the unfortunate results of the "Perpetual Hangover" scenario and have lofty goals to rebuild our national assets (investment growth, infrastructure, social capital), we are neither prepared nor desperate enough to make the tough calls needed to turn our country around. By hoping that things will eventually recover we are ignoring the elephant in the room and continue to hope for the best.

#### SPRING OF HOPE!

As a nation, we jealously protect our national well-being. We take individual and collective charge of our future and firmly work to eliminating any "noise" in the system that could distract us from our common purpose. Although we do not necessarily all agree on everything, we are building a new national consensus to drive a resilient society. This society is based on our tolerance of each other as human beings and on the optimisation of our limited resources to achieve a common goal across the various sectors of our economy.

	WE ARE HERE 		WE ARE GOING HERE 
<b>IRMSA</b>	<b>PERPETUAL HANGOVER</b>  Short-termism, social bankruptcy, ultimate implosion of the State	<b>FAKE IT TILL WE MAKE IT ... OR NOT?</b>  Lofty goals, not prepared to make tough calls, ignoring the elephant in the room, hoping for the best	<b>SPRING OF HOPE</b>  Taking individual and collective charge of our future, building a new national consensus to drive a resilient society
<b>INDLULAMITHI</b>	Gwara Gwara – A floundering false dawn	iSbhujwa – An enclave bourgeois nation	Nayi le Walk – A nation in step with itself
<b>CLEM SUNTER</b>	Bloodbath	Forked lightning	Gilded cage
<b>FRANS CRONJE</b>	The break-Up	Tyranny of the left	Rise of the rainbow

TABLE 5: SOUTH AFRICA SCENARIOS – WHERE ARE WE GOING?

FLAG		PERPETUAL HANGOVER	FAKE IT UNTIL WE MAKE IT, OR NOT?	SPRING OF HOPE!
1	<b>LEADERSHIP CAPACITY</b>	There is very little sense of leadership for sustainable prosperity for the people. Proponents of good governance and longer-term thinking are vilified as counter revolutionary. Populist leaders deem it acceptable to live in luxury while most people in SA live in poverty.	The effectiveness and integrity of the country's leadership are increasing along with promoting an inspirational vision that puts SA first and is achieved through cooperation.	Strong leaders are appointed in the right positions to make a difference. Public, private and civil society leaders overcome their differences and work together in cohesive structures to promote sustainable prosperity by making tough decisions and embedding good governance in all spheres of society and the economy.
2	<b>INSTITUTIONAL CAPACITY</b>	Government is weak and divided: fragmentation, factionalism, and confusion reign. Government's austerity measures are stillborn.	Although the ruling party is still struck with idealistic and populist dogma, the President, with a number of strong supporters leads the way to strengthen constitutional entities and State owned enterprises – albeit too slowly to bring about immediate, definitive change. There is concern that this may be too little, too late.	We build on the pockets of excellence that our country already possesses to encourage poorer performing institutions to raise their game. Government austerity measures take hold and make a positive impact on investor confidence and SA's investment ratings.
3	<b>POLITICS</b>	Factions within the ruling party deepens and the "Zuptoids" exploit economic and social challenges to recall the previous president. The ANC unites behind a cruel and corrupt leadership and becomes increasingly more introspective, to the exclusion of all else. Over the next decade, we return to the past era of corruption and State Capture.	The ANC continues to squabble with itself even as the walls of Luthuli House start tumbling down. Somehow, the "moral underground" seems to keep SA afloat. A viable opposition, based on fearmongering, overthrows the ruling party.	The ANC unites behind a reformist leadership or, even better, the ANC and DA meet minds around sensible economic reforms to labour laws, property rights, and the need for effective empowerment policies.
4	<b>SOCIAL COHESION</b>	Racial and ethnic tensions are intentionally amplified amid rising levels of violence. Resentment threatens to spiral into irreconcilable social differences. SA is torn by deepening social divides, cynical self-interest, immobility, and restless energy. It becomes a demoralised land of disorder and decay.	Those who came of political age in the 2010s, many committed and highly educated, light up the nation through their competence and confidence. They revive a sense that real change is possible. A more confident spirit denotes growing social cohesion, economic expansion, and a renewed spirit of constitutionalism.	Racial and social tensions transition into a new mood of reconciliation, unity and common purpose. The rebound in the economy means that South Africans emerge from their self-imposed enclaves and live comfortably alongside one another. This promotes a new sense of common purpose and cohesion among the citizenry.
5	<b>NATIONAL POLICY</b>	Redistributionist socialist dogma, led by idealism and populism, takes the place of growth-focused reformist policy. An assault is launched against democratic institutions, property rights, and critical or dissenting voices.	Policy remains contradictory and confusing. People start ignoring the Government and the State. Resistance continues to grow, and the Government quashes any dissent in its tracks.	Cabinet introduces reforms to labour market policy, secures property rights, dispenses with affirmative action/empowerment policies in favour of an empowerment model based on growth and employment, and seeks out private sector investment to take the lead in rebuilding SA.
6	<b>SERVICE DELIVERY</b>	Service delivery protests increase dramatically and take on repugnant racial and ethnic undertones.	South Africans are more in sync with each other as they see a more coordinated State delivering better services. SA has become a place where popular uprisings have given way to the rising up of the people, taking charge of their own destinies. Promises of a better life for all become more tangible, not only through the actions of Government but through the power of people taking charge of their own destinies.	Policy changes are effectively implemented. An immensely impressive and efficient civil service arises, irrespective of the political party in power. SA is no longer a country where people wait for Government to do something for them, but one in which they do it for themselves, and the Government helps to create the conditions for them to do so.

FLAG		PERPETUAL HANGOVER	FAKE IT UNTIL WE MAKE IT, OR NOT?	SPRING OF HOPE!
7	<b>INEQUALITY</b>	Two classes of South Africans become apparent: one within the walls and one outside the walls. They have very little to do with each other. Unemployment continues to rise. South Africans continue to fight over scarce jobs. This is exacerbated by an increase in xenophobic attacks and fake news.	A new model of authoritarian capitalism sees the erosion of democratic rights and freedoms but also an improvement in the material conditions of almost all South Africans.	An equitable solution to land reform is provided for all citizens whilst the high levels of productivity and quality of agricultural products for which SA is renowned are maintained. The economic rebound means that. Collaboration between the formal and informal sectors encourages entrepreneurship and small business development, which translates to improved living conditions for all.
8	<b>ECONOMY</b>	The economy, having persisted at very low growth rates for a long time, eventually stagnates before recession hits. The State continues to pursue reckless out-of-date socialist and market-unfriendly policies that lead to a series of ratings downgrades and major capital flight. Inflation, government debt, and interest rates soar, causing widespread dejection among the public, who remain cowed and resigned to their fate.	There is a realisation that despite political party promises, jobs are not forthcoming. Bi-lateral agreements stave off some of the negative impacts of foreign partners' economic policy changes, e.g. with China. Self-sufficiency increases. Firstly, as a survival mechanism, then as part of the impetus for small-scale entrepreneurship. Communities work together to look after their own schooling, health care, security, and other needs. This is done despite the State and across lines of race, class, and ethnicity. Last minute reactions save us from "junk status," but not for long. SA lacks sustainable solutions to improve its investment ratings.	The global economy recovers and experiences a sustained, long-term recovery. South Africa is well on its way to growth rates of 5%. Local business confidence increases. Capital flight is abated and replaced by a significant increase in Foreign Direct Investment. SA, with a booming middle class, is propelled once again to being Africa's leading economy, with its success heralded across the emerging world. Mineral beneficiation and a rise in manufacturing make SA less reliant on superpowers, such as China.
9	<b>GLOBAL TRENDS</b>	Things go unexpectedly pear-shaped and lurch out of control. Anti-establishment feeling increases and is aided and abetted by social media, with highly unpredictable outcomes. Wars break out in the Middle East and Korea, which kill millions of people. Although it is unlikely that America will use nuclear weapons (due to the fear of a nuclear response from Russia), this is totally unpredictable.	The world's markets have another crash as in 2008. This one could be deeper and longer than the last one, since now there are fewer options available to governments to re-stimulate the global economy. Changes in global economic policies negatively impact SA, e.g. China moves to a consumer economy that negatively impacts coal and mineral exports. A rise in "nationalism" runs counter to African Unity initiatives. This requires considerable effort to treat.	The world remains deeply divided but no seriously dramatic events occur. Nevertheless, global economic growth rates remain subdued compared to the last century, which was boosted by free trade, free movement of people, and the sharing of technology – all of which have been stopped in their tracks for the foreseeable future.
10	<b>CLIMATE</b>	Leaders deny any link between climate change and human activity. There is no coordinated approach to the humanitarian impact of climate change, which includes extreme weather events. South Africans are so caught up in political and social squabbles that any effort to address climate change is seen as an unaffordable luxury. The goal of greater prosperity for all eclipses the need to preserve the environment.	The bailouts of State owned enterprises and emerging market "survivalism" dictate SA's reaction to climate change. Non-government organisations' and the younger generation's demands for more sustainable solutions to carbon emissions fall on deaf ears.	International cooperation to address climate change reaches a scale never seen before. A huge wave of new products associated with clean energy is sparked and on par with microelectronics and the internet. South African renewable energy and clean product economies contribute significantly to national and regional energy security.

**TABLE 6: IRMSA SCENARIOS – 3 SCENARIOS AND 10 FLAGS.**

4

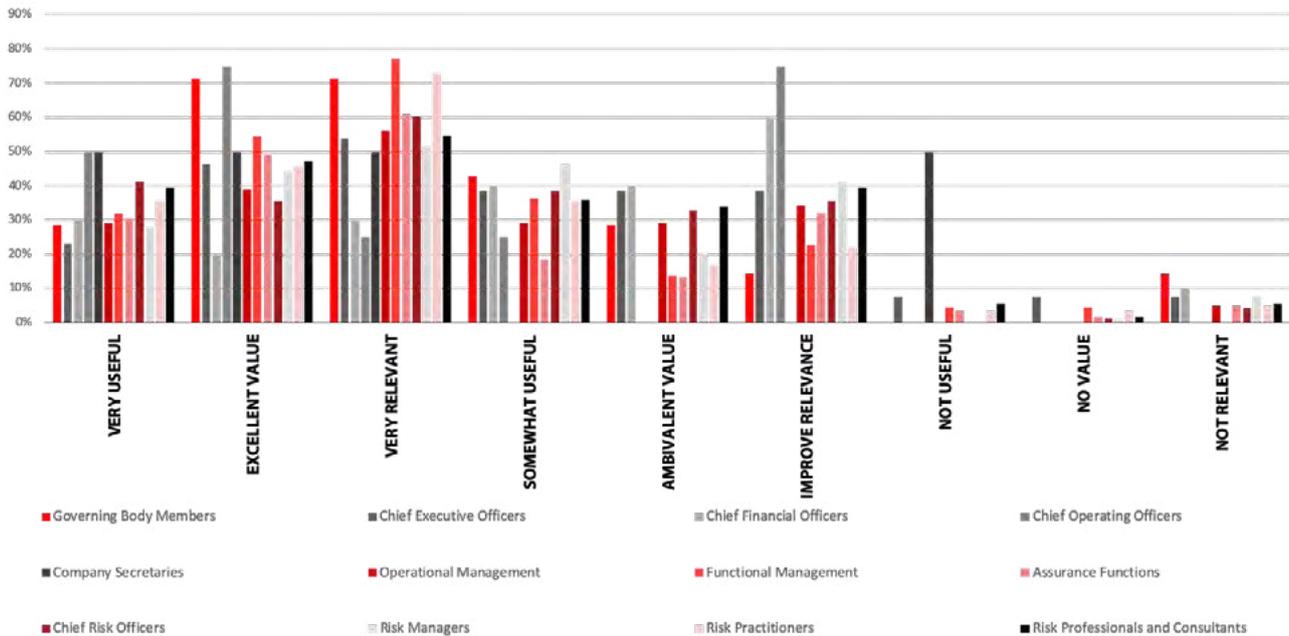
# SOUTH AFRICA TOP RISKS





## 4.1 VALUE OF OUR RISK REPORT

Considering IRMSA's aim to contribute optimally to a risk-resilient South Africa, we asked our stakeholders' opinion on the usefulness, value and relevance of our risk report to enable them in their day-to-day management of risk. Their feedback is depicted in the following graph:



**GRAPH 1: RELEVANCE AND USEFULNESS OF IRMSA RISK REPORT.**

Although it is encouraging that most of our stakeholders find our report valuable, useful and relevant, there were specific areas where we felt we could improve:

**29% OF GOVERNING BODY MEMBERS (WHO ARE ULTIMATELY ACCOUNTABLE FOR RISK GOVERNANCE IN ORGANISATIONS), FELT AMBIVALENT ABOUT THE VALUE OF OUR REPORT;**

**38% OF CHIEF EXECUTIVE OFFICERS FELT THAT OUR REPORT WAS ONLY SOMEWHAT USEFUL, OF AMBIVALENT VALUE AND THAT WE COULD IMPROVE ON ITS RELEVANCE;**

**60% OF CHIEF FINANCIAL OFFICERS AND 75% OF CHIEF OPERATING OFFICERS FELT THAT WE COULD IMPROVE ON THE RELEVANCE OF OUR REPORT;**

**38% OF CHIEF RISK OFFICERS, 46% OF RISK MANAGERS AND 36% OF RISK PRACTITIONERS FOUND OUR REPORT SOMEWHAT USEFUL.**

As a result of this feedback from our stakeholders, we have made significant changes to our report, with the specific aim to increase the report's value for the real management of risk in organisations' day-to-day activities. We specifically linked the risk management effort to future scenarios that inform our strategies and included more factual information and sources to guide organisations to make better risk-informed decisions. Our approach is discussed in more detail in the following section.

## 4.2

### OUR RISK ANALYSIS APPROACH

We conducted a robust “look-back” analysis of the risks included in our risk reports for the last five years (2015 to 2019). We also evaluated key current developments and forward-looking views and considered the scenarios of our experts. From this, we defined the 12 top risks South Africa will face in 2020. These were categorised into the following logical themes:

RISK THEME	#	RISK NAME	EXPERT(S)
<b>LEADERSHIP</b> As a country, we need visibly demonstrated moral, value driven and visionary leadership that will take SA into the future by enabling us to deal with our challenges and build on our strengths in a fair and inclusive manner.	1	Sparseness of unified ethical and visionary leadership	Jonathan Foster-Pedley, Dean and Director, Henley Business School.  Prof. Jonathan Jansen, Distinguished Professor in Education.
	2	Continuing private and public governance failures	Christelle Marais, Executive Director, Lucidum
<b>GOVERNANCE</b> We must ensure that SA achieves its goal to create a better life for all. We must eliminate undue benefit from the proceeds of fraud and corruption.	3	Failure to root out deeply entrenched corruption	Thulani Mkhungo, Chief Risk Officer, Special Investigating Unit (SIU)  Centre for Risk Analysis
	4	Changes in legislation and regulations	Tim Cohen, Business Editor, Daily Maverick  Chandu Kashiram, Principal Associate, Lucidum Centre for Risk Analysis
<b>NATIONAL POLICY</b> We must make appropriate policy decisions, which are based on good leadership and governance, to assist us in our pursuit of a better life for all	5	Ill-conceived NHI policy and/or sub-optimal implementation	Dr. Nicholas Crisp, Consultant: National Health Insurance (NHI) Fund Office, Ministry of Health
	6	Ill-conceived land reform policy and/or sub-optimal implementation	Sydney Soundy, Executive Manager: Strategy and Communications, Land Bank  Centre for Risk Analysis
<b>SKILLS</b> We must attract, build, and retain the right people with the right values in the right positions to execute the national policy decisions we make in order to improve our future.	7	Failure to develop, attract and/or retain talent	Professor Jackie Young, Professor in Risk Management  Chandu Kashiram, Principal Associate, Lucidum Centre for Risk Analysis
	8	Extreme weather events, natural disasters and climate change	Alize Le Roux, Senior Researcher, Council for Scientific and Industrial Research (CSIR)
<b>TECHNOLOGY AND INFRASTRUCTURE</b> We must build and effectively maintain our technology and infrastructure to enable inclusive economic growth (including mega projects relating to health, land distribution and electricity supply).	9	Insufficient electricity and/or energy	Paul Nel, Energy Lead: Africa, Aurecon  Robert Koch, Senior Manager: Enterprise Resilience, Eskom
	10	Disruptive technologies	Nicky Downing, Chief Executive Officer, Guideline BizTech  Alex Roberts, Regional Director: Sales and Operations, Cura Software
	11	Cyberattacks, data fraud, and data theft	Ross Forgan, Director, Norton Rose Fulbright
<b>ECONOMIC</b> We must find a balance between the proactive and reactive influences on our economy and ensure that economic benefit is distributed fairly and inclusively.	12	Failure, delay and/or sub-optimal implementation of economic reform initiatives	Daniel Silke, Director, Political Futures Consultancy  Centre for Risk Analysis

TABLE 7: LIST OF EXPERTS.

## 4.3

### RISK ANALYSIS

Each of the top risks are discussed in detail on the pages that follow. The impact of each risk is considered with regard to the specific flags and how it could contribute to the realisation of a specific scenario if we as a nation do nothing about it. Then we examine the key challenges South Africa faces and the key interventions we need to implement as a country to progress from where we are to where we want to be. This is supported by robust research provided by our various research partners in the report. Lastly, an eminent expert in the field of each risk provides his/her insights.

### AN EXPLANATION OF HOW TO READ OUR ANALYSIS

The purpose of our approach is to prompt the reader to think critically about his/her and his/her organisation's approach to each risk – not only for their own benefit but in the context of the entire system in South Africa and in conjunction with other organisations' present, and possible future, reactions to the specific risk. Our hope is that this will encourage cooperation and a sense of cohesion in how we respond to the challenges we face as a country.

#### LEGEND FOR THE MOVEMENT OF RISK:



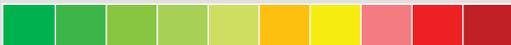
## LUCIDUM NETWORK PARTNERS

WORKING TO ENABLE GOOD GOVERNANCE IN SOUTH AFRICA



## LEGEND FOR INTERPRETING THE RISK ANALYSIS:

**RISKS ARE DEFINED AS FOLLOWS: DUE TO [CAUSE/S] A [RISK] MAY OCCUR/MATERIALISE, WHICH WILL/COULD LEAD TO [CONSEQUENCES]**

SCENARIOS	FLAGS	RISK RANKING OVER LAST 5 YEARS												
<p>The scenarios are positioned as defined in Chapter 2 of this report:</p> <div style="display: flex; flex-direction: column; gap: 10px;"> <div style="background-color: #00b050; color: white; padding: 5px; text-align: center;"><b>SPRING OF HOPE</b></div> <div style="background-color: #ffff00; color: black; padding: 5px; text-align: center;"><b>FAKE IT TILL WE MAKE IT...OR NOT?</b></div> <div style="background-color: #ff0000; color: white; padding: 5px; text-align: center;"><b>PERPETUAL HANGOVER</b></div> </div>	<p>The ten flags we as a country must watch are listed and ranked – red, or green – based on how we believe the specific risk will influence the flag (if it materialises). Viewing the majority of flags then indicates in which scenario we as a country will most likely find ourselves, if we do not manage the risk effectively.</p>	<p><b>RANKING SCALE</b></p> <p>10 9 8 7 6 5 4 3 2 1</p>  <p><b>ANNUAL RANKING</b></p> <table border="1"> <thead> <tr> <th>2015</th> <th>2016</th> <th>2017</th> <th>2018</th> <th>2019</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>NOT RANKED</td> <td style="background-color: #90ee90;"></td> <td style="background-color: #ffff00;"></td> <td style="background-color: #ffff00;"></td> <td>NOT RANKED</td> <td></td> </tr> </tbody> </table> <p>The annual ranking is not a risk rating per se but an indication of the position in which the risk was rated over the last five years (in comparison to other risks). For 2020, we indicate, based on our analysis, whether the risk is improving, remaining unchanged, or deteriorating.</p>	2015	2016	2017	2018	2019	2020	NOT RANKED				NOT RANKED	
2015	2016	2017	2018	2019	2020									
NOT RANKED				NOT RANKED										

We provide a short description of the risk and why we believe it is important to cohesively manage it as a country, in partnership between businesses (large and small), public service, labour and civil society, to achieve our collective goal of a risk-resilient SA, irrespective of the political party in power.

### TOP 5 CHALLENGES TO ACHIEVING TARGETS

We list the five challenges that prevent us from collectively mitigating this risk as a country.

### TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

We list mitigating strategies and/or opportunities related to the risk. These must be collectively pursued by all stakeholders to achieve a better future.

## FACTS AND FIGURES

Based on the inclusive approach we believe it is necessary to create a risk-resilient SA, facts and figures from a number of reputable sources are analysed to demonstrate the real circumstances we face for each specific risk.

Source: Name of source

## EXPERT OPINION

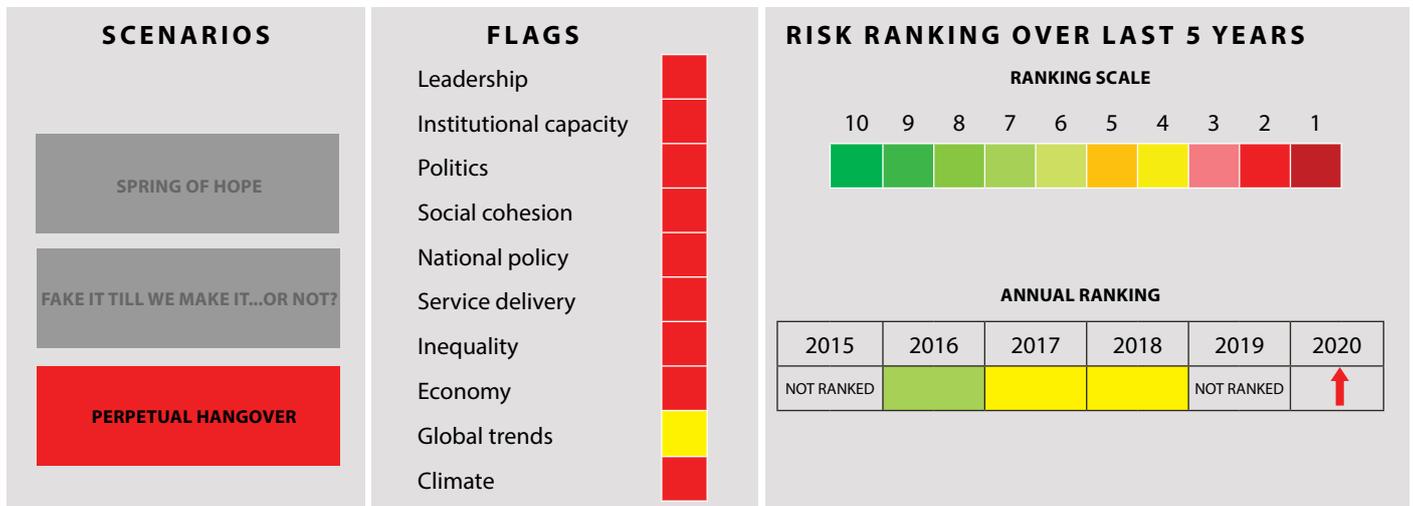
Prominent experts in the field provided input based on the following questions for each risk:

1. In your opinion, is this risk on which you are commenting, getting better or worse?
2. What are the key indicators (flags) you regard as indicative of how this risk may play out in future?
3. Are you aware of facts that are not considered when this risk is debated in the public arena?
4. What are the key impediments to SA effectively dealing with this risk?
5. What are the key interventions you believe should be made to effectively address this risk going forward? What are the opportunities?
6. Are there specific entities (public, private, civil society) that you think deal with this risk particularly well? Who are they? What do they do that works?

### 4.3.1

## SPARSENESS OF UNIFIED ETHICAL AND VISIONARY LEADERSHIP

**DUE TO DISPARATE VALUES, A SPARSENESS OF UNIFIED ETHICAL AND VISIONARY LEADERSHIP MAY CONTINUE TO IMPACT NEGATIVELY ON SA'S BRAND, REPUTATION, ECONOMIC GROWTH, AND ABILITY TO BUILD RESILIENCE.**



Leadership in the public and private sectors must reach a position where it is acknowledged that the decisions leadership makes and the process of “business as usual” have far reaching impacts beyond the confines of the organisation and its immediate stakeholders. The risk rankings over the last five years reflects SA’s “head in the sand”- approach to date. Our country requires undiluted honesty and focused effort to turn our country around.

### TOP 5 CHALLENGES TO ACHIEVING TARGETS

1. Lack of political courage. Politics prevents SA from addressing these well-known risks.
2. Lack of real action to unequivocally link consequences to wrongdoing. Unless, or until, accountability is enforced, corruption will continue.
3. The insidious effects of corruption and collusion impact on every aspect of South African life, from non-payment of electricity to stealing of paper clips and sugar from the office to the bribing of traffic officers to look the other way.
4. Very few real arrests are made, despite the mounting prima facie evidence of grand level corruption and theft.
5. The slow speed of action and lack of decisive leadership both infuriate public opinion and make the reorganisation of corporate and parliamentary SA to deliver on their mandates much more difficult.

### TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

1. Consistently mobilise and publish evidence-based data that illustrate the many cases of want and wastage that recur because of unethical leadership in all sectors of our society.
2. Garner the political will to put the interests of the country first.
3. Re-empower and resource the various state organs to breathe life into the laws we already have to ensure that the guilty are brought to book whether for common law or statutory crimes.
4. Raise the political courage to take on the holy cows of a narrow nationalism and begin to privatise some of our assets.
5. Build the businesses that will build Africa through by creating sustainable jobs; develop local and women-owned supply chains; empower the communities in which they operate; and the conservation of the environment.

## FACTS AND FIGURES

- 2018 Ethical Practices Survey - Only 10% of respondents felt that officials in the public sector were ethical.
- An astounding 42% of professionals in the public sector disagreed that doing the right thing is more important than financial success.
- In 2018, a mere 32% of private sector respondents felt their leaders were ethical .
- In 2017, 70% of private sector respondents felt that their leaders were ethical.

## EXPERT OPINION

### PROF. JONATHAN JANSEN DISTINGUISHED PROFESSOR IN EDUCATION

First of all, you need political will to stare down the unions (e.g. the South African Airways' labour strike and South African Democratic Teachers Union in public schools) and put the interests of the country first. If, for example, State owned enterprise debt continues to escalate, but there is no drastic cost-cutting on the expenditure side, then SA is staring down the barrel of a gun.

An International Monetary Fund intervention then becomes inevitable and all the "politically correct" talk of national sovereignty flies out the window. You need political courage to take on the holy cows of narrow black nationalism and begin to privatise some of our assets. There is simply no way Eskom is sustainable in Government hands and its level of indebtedness alone can sink the economy.

You also need political determination to put the most senior people in this country in prison: until accountability is enforced, corruption will continue. Politics is about power and positive politics is about wielding power in the interest of the people.



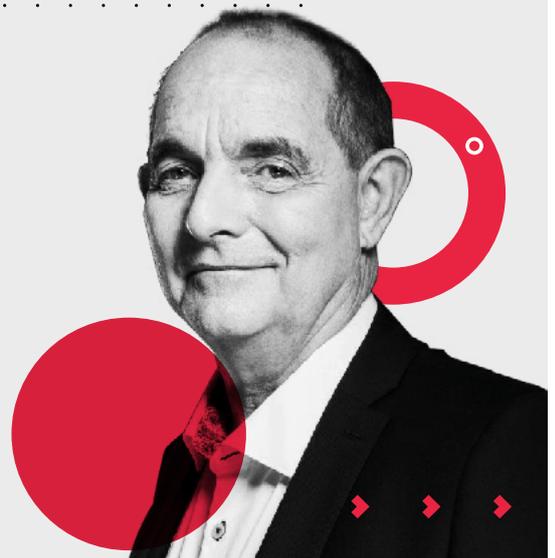
### JONATHAN FOSTER-PEDLEY DEAN AND DIRECTOR, HENLEY BUSINESS SCHOOL

There is a cognitive dissonance, an "us vs them" scenario, that State Capture was limited to one president and one family. This ignores the full scope of corruption and its underpinning by corporate collusion, when, in fact, the first malignant growths of this cancer can be traced back to apartheid and before. It is only now that it has been weaponised into a full blown kleptocracy. The inherent danger is to make-believe that this is contained, when, actually, the insidious effects of corruption and collusion impact on almost every aspect of South African life, irrespective of how big or small it is.

President Ramaphosa's wafer-thin party majority at NASREC in 2017 plays out on a daily basis with the "New Dawn" and "Radical Economic Transformation" lobbies involved in an extended existential version of chess, each trying to outwit and outflank the other, with very few real arrests being made, despite the mounting prima facie evidence of grand corruption and theft. This is matched only by the glacial pace of prosecutions in the Steinhoff case, where the alleged master mind, Markus Jooste, is still a free man and is yet to be indicted, despite reports of overwhelming evidence of his culpability. Companies seen as enablers, such as Bain, McKinsey and KPMG, have faced extended shocks and some changes in their business approaches, although it is still mostly business as usual. Whether all this is due to the catastrophic emasculation of the National Prosecuting Authority or a more granular lack of political will must still be seen. There is a lack of action to unequivocally link consequences to wrongdoing, which is exacerbated by the return to parliament of some of the alleged key actors in State Capture. This will likely cause a growing societal malaise and indifference to the sheer scope of wrongdoing, which if left unchecked, could normalise and entrench corruption as the only available aspiration for an entire generation growing up without hope. The result is a future where politics becomes a viable career option: not to serve, but to subvert tender processes for personal enrichment and where corporate leaders to see corruption as a legitimate business tactic to replace innovation and actual value creation in our economy.

We must recalibrate the entire national psyche by evangelising that white-collar crime is as devastating as violent crime and recognising that its victims are visible, immediate, and multi-generational. The message that crime does not pay and that it has deeply unpleasant and unavoidable repercussions, irrespective of who you are, who you know, or who your father might be, must be ingrained. There have been glimpses of supportive action: Pravin Gordhan as Minister of Public Enterprises, Tito Mboweni as Minister of Finance, Shamilla Batohi as the National Director of Public Prosecutions – but it may be too little and too slow. President Ramaphosa is an incredibly thoughtful man, committed to due process and re-energising the constitutionally mandated organs that were systematically defanged or destroyed by the previous administration.

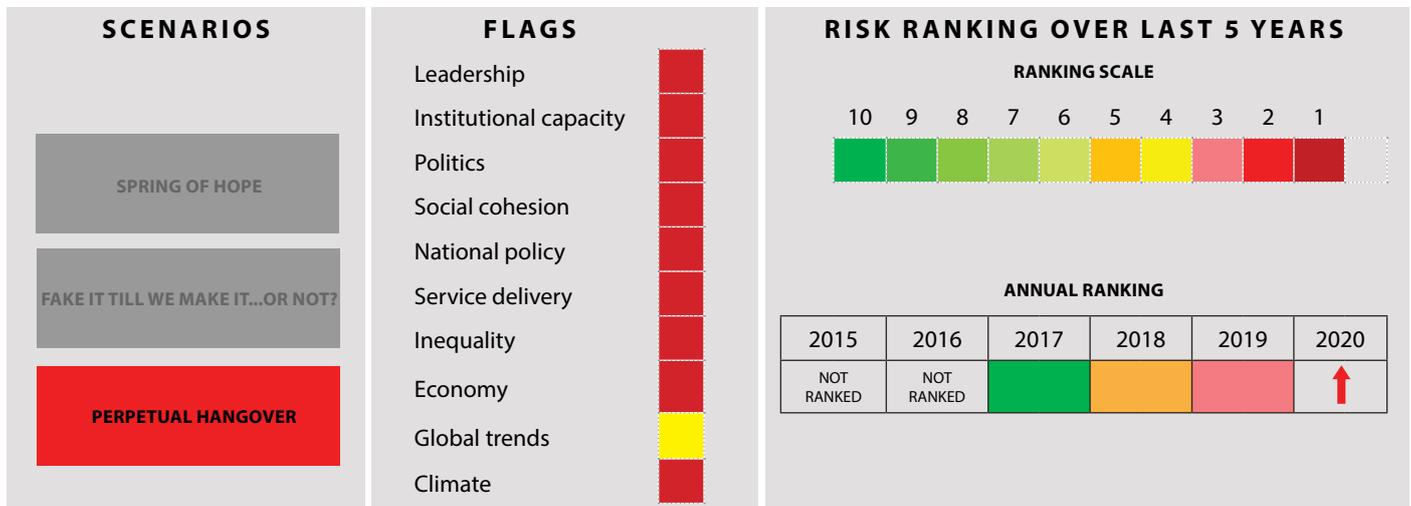
This is laudable and noble on a mid- to long-term basis, but, in the short term, our house is burning, and we are discussing which fire engine to use, rather than getting the hoses into operation and dousing the inferno. Having said that, Government's leadership and commitment to its principles in the showdowns with unions over the recent South African Airways' labour strike show a steely resolve and courage, of which we need more. We need to start teaching ethical leadership even before primary school, but until we get that right, it should be an obligatory undergraduate module in every university in the country. At business schools, we must develop uncompromising leaders who understand causality and that appointing friends and cadres rather than qualified people; overlooking wrongdoing; or chasing profit year after year just to reward shareholders will be the death of us as well of generations to come. It simply is not sustainable. We must think about the legacy we are bequeathing generations to come. We must do the right thing, which begins with the creation of prosperous societies that benefit all who live in them. We must create leaders who will build the businesses that will build Africa through the creation of sustainable jobs; the development of local and women-owned supply chains; the empowerment of the communities in which they operate; and conservation of the environment. If we do that, we will start to narrow the yawning chasm of inequality in our country, which does not only shame us but also threatens our existence. Corruption kills countries. It is simple, none of our children have a future unless all of our children have futures.



## 4.3.2

# CONTINUING PRIVATE AND PUBLIC GOVERNANCE FAILURES

**DUE TO LACK OF A COMMON PURPOSE AND CONSEQUENCE MANAGEMENT, CONTINUING PRIVATE AND PUBLIC GOVERNANCE FAILURES MAY RESULT IN REDUCED CREDIBILITY OF PUBLIC, PRIVATE, LABOUR AND CIVIL ORGANISATIONS; CAPITAL FLIGHT; AND FURTHER ECONOMIC PRESSURE.**



SA's future depends on the appointment of competent individuals at all levels of leadership in the public, private, labour and civil sectors of our country. We should singlemindedly focus on appointing the right people in the right places to create prosperity for all. Holding individuals, who cause detriment to many millions of ordinary South Africans through incompetence or criminal intent, accountable is critical if we wish to survive in a country where all can prosper.

### TOP 5 CHALLENGES TO ACHIEVING TARGETS

1. Absence of ethical and effective leadership as espoused by ICRAFT (Integrity, Competence, Responsibility, Accountability, Fairness, Transparency) and good governance as espoused by King IV.
2. Lack of consequences for unethical behaviour and if attempted, interference from the highest levels in the course of dispensing justice by our courts.
3. Not appointing the right leaders in the right positions to deliver the right outcomes in an inclusive manner and with a view to optimising the systemic impact of all we do.
4. Not recognising the interdependencies between good governance, technical competencies, and sustainable business practices.
5. Not recognising the collective negative impact on society of individual unethical behaviour or an omission to enforce good corporate governance.

### TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

1. Build an independent bureaucracy that is technically competent; actively focuses on eliminating corrupt behaviours; and exists competently, irrespective of the political powers in place.
2. Build a nationally disciplined middle class that forms the backbone of a positive, constructive, and active citizenry focused on prosperity that is based on moral and ethical values.
3. Significantly strengthen technical competencies in all areas of public, private, labour, and civil organisations. Include these competencies across educational syllabi to embed and entrench it in our national psyche.
4. Build understanding of good governance principles as a foundational national value in the development of future leaders.
5. Strengthen corporate SA's ability to, through an unwavering approach to law enforcement from all parties involved, root out corruption and the circumstances that make it possible.

- SA's Ibrahim Index of African Governance (IIAG) transparency and accountability score has deteriorated every year from 2014 to 2017, which means that corruption continues to distort the effectiveness of the public and private sectors;
- SA's IIAG anti-corruption mechanisms score declined by 26.4 points, one of the most deteriorated countries in 2017;
- SA's IIAG absence of corruption in the private sector score declined by 13.7 points;
- 10% of public sector respondents felt that officials in the public sector were ethical in 2018;
- 42% of public sector respondents disagreed in 2018 that ethical behaviour was more important than financial success;
- 32% of private sector respondents feel their leaders are ethical compared to 70% in 2017.



Source: IQ Business, Ibrahim Index of African Governance (IIAG)

## EXPERT OPINION

### **CHRISTELLE MARAIS** EXECUTIVE DIRECTOR, LUCIDUM

In order to achieve an equitable society premised on sustainable economic growth, it is imperative that all stakeholders in society play their integral role in contributing to the national socio-economic imperative. This means institutionalising, in the DNA of our organisations, a culture of corporate citizenship as outlined and prescribed in King IV. For SA to realise a prosperous common future, corporates must see themselves as integral parts of society. They must acknowledge that their decisions and their daily business practices have far-reaching impacts beyond the confines of the organisation and their immediate stakeholders. To develop organisations that are good corporate citizens, the country needs governing bodies that act ethically and effectively and organisations with deeply embedded ethical cultures. Such good governance is critical for all, including:

- Private sector organisations that have a critical role to play in distributing prosperity throughout our economy;
- Public sector organisations (including parliament itself) that should spend citizens' money on service delivery and create an enabling environment in which society can thrive;
- Labour organisations that protect the rights of workers in the economy; and
- Civil society that plays an important role in elevating the responsible treatment of citizens in different interest groups.

Apart from threatening the achievement of the National Development Plan objectives, the risk of increasing failures in governance poses an existential threat to all levels of South African society, as sustainable public sector institutions (local, national, and provincial) are an essential condition for the reduction of poverty, enablement of economic growth, economic transformation, and job creation, amongst others. Given the recent failures in the public (e.g. PRASA, SAA, Eskom) and private (e.g. Steinhoff, KPMG, Tongaat Hullet) sectors, we as a country may have run out of the luxury of time to resolve our governance failures, which means that we can no longer avoid the negative consequences of the governance failures of the past few years. Leaders in all spheres of life must set the tone at the top and must jealously protect the ethical and moral fibre of our society as a crucial enabler of a resilient and sustainable society.

Our future depends on strong leadership across all sectors of our economy. In his book, Mr Mcebisi Jonas carefully analyses what is needed from our leaders to realise a better future. This includes the following:

- While we struggle with our own complexities as a country, there are very few "big ideas" – simplistic solutions give rise to populism, resulting in negativity as empty messages becomes over-personalised (this is true not only of SA but also internationally); and
- The national consensus that enabled our democracy more than 25 years ago has unravelled because of:
  - Our failure to deliver services as inadequate economic growth has reduced our spendable income as a nation;
  - Our failure to protect the functionality and effectiveness of the State at all cost; and
  - A breakdown in the relationships between the four constituencies mentioned above.

As we continue down this slippery slope, we need to recognise that we have been boiling like the proverbial frog without realising how closely to the fire we are playing. As a country, we have breached our risk appetite and tolerance levels and we now need to take some pains, as a collective, to ensure we do not breach our ultimate risk-bearing capacity level (beyond which we can no longer exist as a functioning state). If we continue down this path, chronic decline, eventual disruption, and ultimate implosion is a certainty (a slow death is still death). As a country, we therefore need a new consensus: we need to think constructively and collectively. A key factor in this is consensus-building leadership instead of polarisation – we all need to walk in the same direction.

We are a country without a national agenda and our mechanisms for consensus building are weak. As a society, we gave too much power to our politicians in terms of our political, economic, and social well-being. We need to take that power back and keep our politicians accountable to deliver on our well-being – not the other way around. We need to take back the power that we have given to political parties in terms of our socio-economic well-being and we should be able to hold our politicians to account. That also requires of us as citizens to take a hard look at ourselves and ask whether we have been very comfortable as armchair commentators, instead of taking hard stances against those who fail to deliver on the promises made when we voted them into power. This will require ethical and visionary leadership in all walks of life and an unwavering commitment to the principles of good corporate governance that actually achieve the outcomes of an ethical culture, good performance, effective control, and legitimacy in the eyes of society.



Our revival should focus on a few key areas:

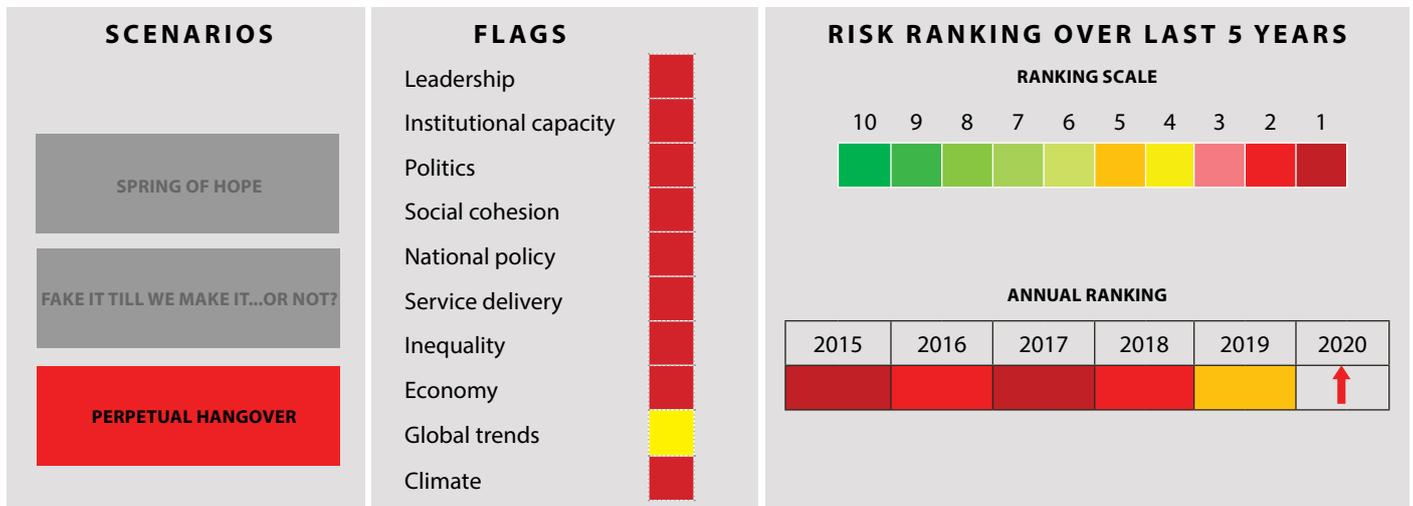
- Job creation should be the focus of our national economic policy, not the result of what we put in place. This includes the alignment of our skill levels with the jobs we create;
- We need coherent incentives that distribute benefits fairly, but with the understanding that all will take some pains, collectively and individually, to bring about our turn-around;
- Policy consistency is key, and we need to focus our attention first on those issues that can be easily resolved with little conflict; and
- A strong, vibrant civil society and active citizenry is key.

Sources: Mcebisi Jonas – "After Dawn – After State Capture", King IV (IoDSA), IQ Business "Credible Leadership and Good Corporate Governance: An Ethical Dilemma" by Theko Moteane (2017)

### 4.3.3

## FAILURE TO ROOT OUT DEEPLY ENTRENCHED CORRUPTION

**FACTIONS IN THE RULING PARTY, INADEQUATELY RESOURCED CHAPTER NINE INSTITUTIONS AND SLOW REACTION TO FINDINGS FROM STATE COMMISSIONS (STATE CAPTURE ETC.) MAY RESULT IN SA NOT BEING ABLE TO BRING FRAUD AND CORRUPTION UNDER CONTROL, WHICH MAY LEAD TO UNSUSTAINABLE BALANCE OF PAYMENTS, NATIONAL BANKRUPTCY AND EVENTUALLY A FAILED STATE.**



The ANC noted has in its 54th National Conference Report and Resolutions document that corruption is a key challenge that threatens its goals to uplift the people of SA. In 2007, SA was one of the least corrupt countries – ranking 43rd out of 180 countries. Just over 10 years later, SA's position has slipped to 73rd out of 180 countries.

#### TOP 5 CHALLENGES TO ACHIEVING TARGETS

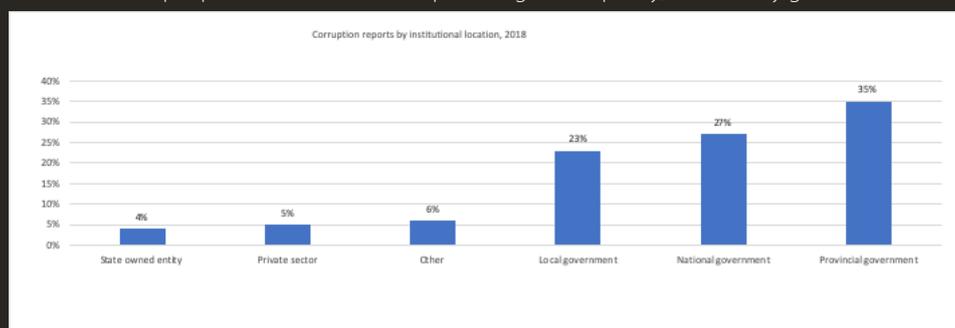
1. The continued underperformance of corruption-fighting entities, such as the NPA, is one of the main obstacles to curbing corruption.
2. The current leadership structures seem helpless to arrest these practices, due to a lack of political will or because they themselves are implicated.
3. Since 2013, the Special Investigating Unit has referred 881 matters to the NPA, which translated to 293 cases. Yet only nine cases were finalised in court. This low success rate can be ascribed to:
  - Not having an effective National Corruption Prevention Plan/Strategy;
  - A backlog of corruption cases at the Judiciary; and
  - Not reporting corruption on time.
  - Lack of skills and lack of resources.
4. Key public sectors, such as education and the police, remain vulnerable to incidences of corruption.
5. A major obstacle to President Ramaphosa's anti-corruption campaign is resistance from factions.

#### TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

1. Push officials accused of corrupt practices to immediately account to the Integrity Committee.
2. Suspend people who are unable to give an acceptable explanation while facing disciplinary Investigative or prosecutorial procedures.
3. Prioritising the most vulnerable sectors. The vulnerable sectors are, in order of priority, as follows:
  - Health sector;
  - State owned enterprises;
  - Local government;
  - Construction;
  - Finance;
  - Energy; and
  - Education.
4. Implement the NEC resolution on State Capture, including the establishment of a Judicial Commission of Enquiry.
5. Strengthen the State's capacity to successfully investigate and prosecute corruption.

### FACTS AND FIGURES

- More than two thirds of South Africans believe that corruption has increased from 2010 to 2013;
- Nearly half of them would not report corruption because they believe it is pointless;
- 76.9% of households believe that people are involved in corruption to get rich quickly, followed by greed at 71.2%.



Source: Statistics South Africa, Corruption Watch

## EXPERT OPINION

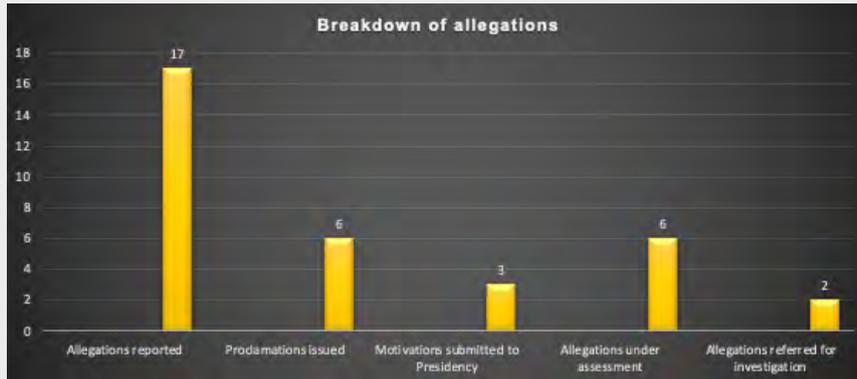
### THULANI MKHUNGO

CHIEF RISK OFFICER, SPECIAL INVESTIGATING UNIT (SIU)

Inability to root out deeply entrenched corruption is getting worse. Key impediments that prevent South Africa from dealing with this risk effectively are:

- not having an effective national corruption prevention plan/strategy;
- back log of corruption cases at the judiciary system;
- none reporting of corruption cases on time.

The key indicators (flags) that I regard as indicative of how this risk may play out in future are informed by the Anti-Corruption Task Team programme 4 that is convened by the SIU which is responsible for the Health Sector Anti-Corruption Forum, which embarked on an intensive exercise to conduct Corruption Risk Assessments in various sectors. Under Programme 4 the SIU has identified sectors that are vulnerable to fraud and corruption. These have been identified through collaboration with other stakeholders and have been informed by Auditor General and SCOPA reports. The health sector was identified as one of the vulnerable sectors that require immediate attention due to its high exposure to fraud and corrupt activities and since it was established in July 2018, to date it the statistics below highlight the health sector is a key risk and extremely vulnerable to corruption.



The key interventions that I believe should be made to address this risk effectively going forward are:

- Focussing on the vulnerable sectors, which are those that have a high vulnerability to the manifestation of corrupt activities that could open the development of a country or functioning of government up to potential exploitation.
- Once all the vulnerabilities and risk are identified per sector, then to develop a national corruption prevention plan.

The top 10 vulnerable sectors are in order of priority:

1. Health Sector
2. State owned enterprises
3. Local Government
4. Construction
5. Finance
6. Energy
7. Education
8. Tobacco & Alcohol
9. Real Estate
10. Sports & Recreation

The objectives of the development and implementation of the National Corruption Prevention Plan/Strategy are:

- Objective 1: Identify priority and high risk vulnerable sectors to corruption
- Objective 2: Define National Corruption Prevention Programme (NCPP) roadmap
- Objective 3: Design and develop NCPP implementation tools and systems
- Objective 4: Pilot NCPP roll-out
- Objective 5: Set-up and deploy NCPP in Health Sector and state owned entities
- Objective 6: Manage, monitor and report on NCPP
- Objective 7: Handover and support of NCPP implementation

There is a great opportunity when we focus on the sectors that are vulnerable to corruption and implement the NCPP that success will be achieved in these sectors. Entities (public, private, civil society) that are active in the prevention of fraud and corruption well are Corruption Watch, OUTA and Section 27 (Civil Societies) – voicing out corruption.

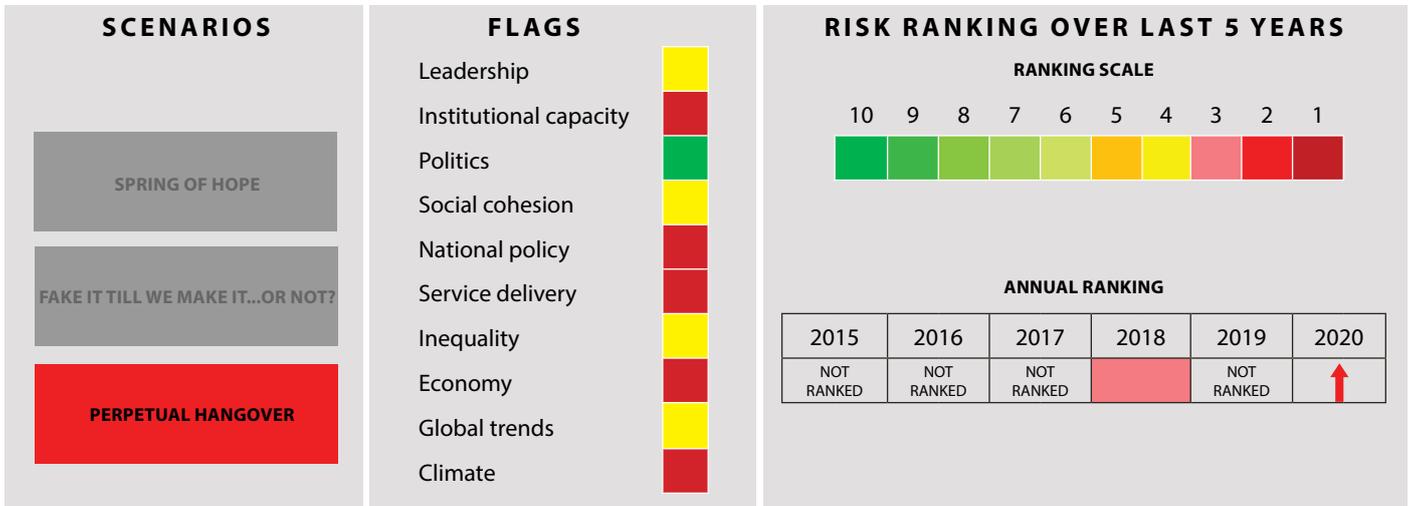
Lastly, we can see, since the recent workings of, amongst others, the Zondo Commission on State Capture, an increase in awareness of fraud and corruption and the cases reported to the SIU.



### 4.3.4

## CHANGES IN LEGISLATION AND REGULATIONS

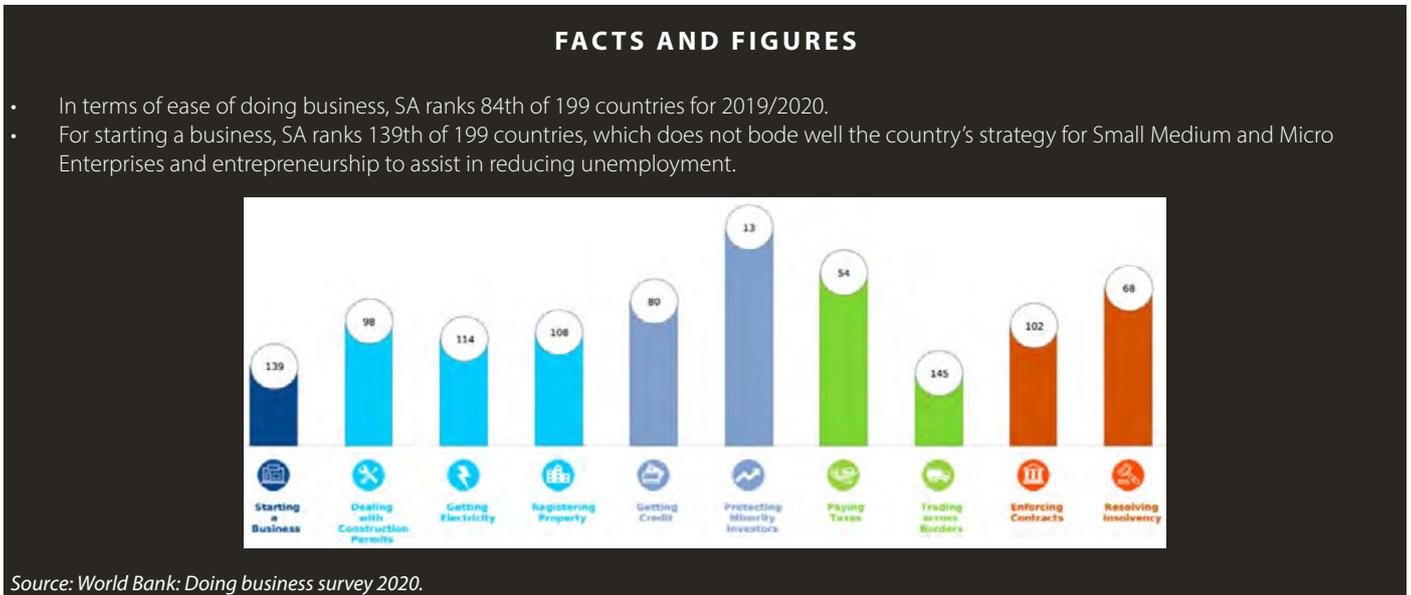
**DUE TO IMBALANCES OF THE PAST, LACK OF SKILLS AND / OR LACK OF CONSULTATION (NEGATIVELY IMPACTED BY COMPETING OBJECTIVES OF PRIVATE VS PUBLIC OR LABOUR) THERE MAY BE UNMANAGEABLE PROLIFERATION OF LEGISLATION AND REGULATIONS, ALBEIT WELL INTENDED, THAT TYPICALLY HAVE UNINTENDED CONSEQUENCES THAT INADVERTENTLY IMPACT ECONOMIC GROWTH.**



A key aspect moving up the rankings, is “ease of doing business”. This is especially relevant to rankings related to “starting a business” in SA. The challenge SA faces is the revision of both key legislation that has not been changed since 1994 and new legislation that tries to address past imbalances. Both need to be examined in the current economic climate. Unintended consequences must be addressed – including a concentration of power at ministerial level.

- #### TOP 5 CHALLENGES TO ACHIEVING TARGETS
1. Unconstitutional changes to legislation and regulations to serve different (political) agendas.
  2. Regulators’ lack of proper analysis of the impact/s of proposed legislative changes.
  3. Political-based legislative and regulatory changes that serve personal and political agendas and significantly alter the business prospects of one or more industries and companies.
  4. Lack of mutual understanding between regulators and those being regulated about the expectations from regulators and business processes and related challenges.
  5. Companies are unprepared for/unaware of legislative changes.

- #### TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES
1. Robust and open debate and obtaining inputs from relevant stakeholders before promulgating legislation.
  2. Active lobbying by affected parties and stakeholders to influence the legislative changes to achieve a mutually beneficial outcome.
  3. The performance of scenario analyses to demonstrate and understand the impact of legislative changes.
  4. Companies should ensure appropriate governance and focus on regulatory programmes and pre-empting legislative changes, e.g. have sufficient resources, such as software/systems (“regtech”), and staff to monitor and ensure not only appropriate responses to legislative changes but also that a compliance culture is in place.
  5. Companies should ensure that business strategy is aligned with regulatory change and take future sustainability into account.



## EXPERT OPINION

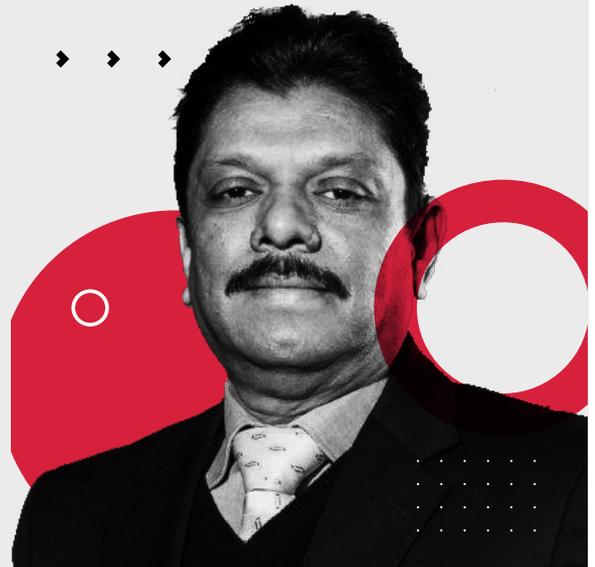
### CHANDU KASHIRAM PRINCIPAL ASSOCIATE, LUCIDUM

Impediments that prevent SA. from dealing with this risk effectively:

- **POLITICAL:** ANC political ideology and populism mean that enabling the legislation required to address health (through the NHI) or land reform is not market friendly – negatively impacting business sentiment and investor confidence. Our labour laws have long been a deterrent to foreign direct investment;
- **BUSINESS:** Lack of/slow transformation efforts have led to increased/more onerous legislation in the areas of employment equity and black economic empowerment;
- **LABOUR:** Stringent labour laws were necessary to protect the disenfranchised and indigent following decades under the apartheid regime. Labour law reforms that find a way to protect employees and encourage investment have been lacking;
- **SOCIAL:** Inequality necessitates legislation to transform the economy, which is still largely run by the white minority. Despite industry charters in the energy, mining, banking, etc. sectors, we have not achieved real and sustainable transformation;
- **JUSTICE SYSTEM:** The justice system is overloaded, slow, and plagued with pockets of corruption. This makes it difficult for the layperson to rely on the law to enforce their rights – be it labour, contractual, or basic service delivery. SA takes an average of 600 days to enforce a contract. The inability to enforce basic service delivery rights has led to significant increases in service delivery protests. Damage to public property has also increased dramatically; and
- **CORRUPTION:** The status quo of corruption still largely prevails despite the presence of our new President. Deeply entrenched factions are holding on to the “ten-year-old golden goose” at the expense of economic growth and prosperity for all. Are the Commissions just “talk shows” with no consequences? Have some of the Chapter 9 Institutions been captured or re-captured?

Key interventions to effectively address this risk going forward:

- New legislation and amendments to existing legislation must consider impacts on the economy whilst addressing social imbalances;
- A specific SMME legislation strategy needs to be developed to incentivise the growth of SMMEs and bring the informal sector into the fold (to increase the tax base and revenue collection);
- Home Affairs needs to find ways to address visa issues and to legitimise the large number of foreigners in SA and bring them into the formal economy;
- The justice system needs to be streamlined to assist the layperson;
- Establishment of a specialist Chapter 9 Institute, properly resourced (in both skills and money), to deal decisively with prosecutions related to State Capture, fraud and corruption.



### TIM COHEN BUSINESS EDITOR, DAILY MAVERICK

At the time of writing, the South African Government had just published the draft Constitution Eighteenth Amendment Bill, to allow for the expropriation of land without compensation, for public review. Continued legislative and regulatory changes such as this create the risk of the public becoming cautious about where the country is headed. Such changes also cause the investment confidence of international stakeholders to suffer due to uncertainty. This is especially apparent when Government communicates its intentions without providing details on how it means to achieve them or the scope of their impact. At this point in time, this specific risk is getting worse. In the case of State-owned enterprises, for example, there is the definite intention to address problems but no conclusive plans on what to do. Will we scrap South African Airways, or will we not? The Government is not saying and that breeds the perception that it is flying by the seat of its pants. Government is aware of the effects of new legislation on individuals, such as farmers in the case of the land expropriation bill.

But it seems ignorant of the wider impact on positive sentiment, both inside the country and internationally.

One of SA's key impediments to dealing with this risk effectively is that the Government does not have convincing arguments to back up its proposals. These are needed to maintain or win the support of its voters, other parties, and the global community.

As there are so many variables to consider, it is difficult to determine the key indicators of how this risk might play out. Notable indicators include the state of the Rand; the rising ten-year bond yield; and our investment grade being under constant threat from rating agencies.

To address this risk going forward, a key intervention would be for the Government to be very specific about the extent of new policies, so that all stakeholders are clear about what exactly will happen. Otherwise, the rumour mill will just make the problem worse.

At this stage there are no specific entities (public, private, civil society) that deal particularly well with this risk. I do think it is the President who must promote new policies by explaining them well and reassuring the public by being specific about the intended outcome.

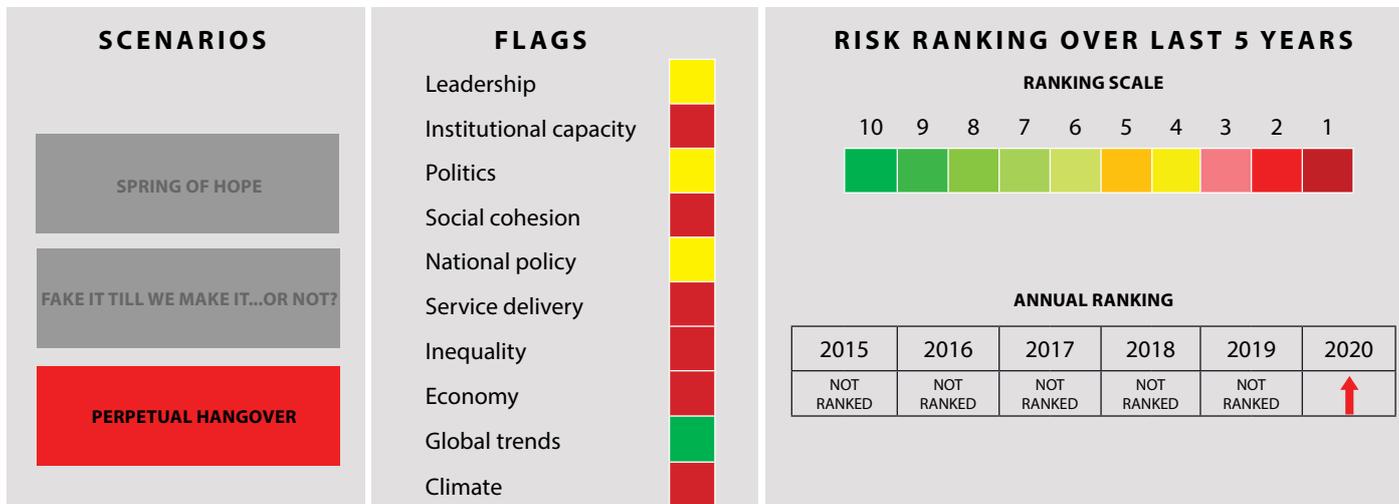
In closing, SA can increase its risk resilience through Government's clear communication. Taking property rights as an example again, Government can make it clear that the amendment to the Constitution is for isolated cases and that it will not be permitted to go any further.



## 4.3.5

# ILL-CONCEIVED NHI POLICY AND/OR SUB-OPTIMAL IMPLEMENTATION

**DUE TO PAST INEQUALITIES, POOR PUBLIC HEALTH CARE SERVICES AND LIMITED ACCESS TO PRIVATE HEALTH CARE, AN ILL-CONCEIVED AND/OR SUB-OPTIMAL IMPLEMENTATION OF A NATIONAL HEALTH CARE SOLUTION MAY NEGATIVELY IMPACT HEALTH CARE AND THE ECONOMY.**



Based on the latest version of the NHI Bill, Gazetted on 26/7/2019 (Gazette no. 42598), it is envisioned that NHI will: create a unified health system by improving equity in financing; reduce fragmentation in funding pools; make health care delivery more affordable and accessible, thus eliminating out of pocket payments when individuals need to access health care services; and ensure that all South Africans have access to comprehensive quality health care services.

### TOP 5 CHALLENGES TO ACHIEVING TARGETS

1. Significant capital funding (at low rates) is required to build proper public health care facilities.
2. The biggest challenge is to find salaries to pay practitioners. There are more doctors in SA than the public sector can accommodate with the present budget. Hundreds returned after training in Cuba and about 1000 who complete community service annually need to be employed.
3. High levels of distrust and resistance to change in both public and private sectors.
4. Increased potential of "underservice" to save costs and stay within budget and simultaneous the ability to remove the over-servicing, duplication and waste in the private health sector.
5. Inability to eradicate systemic corruption and/or deal with labour issues in both public and private sectors.

### TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

1. Call on big business and international sovereign loans backed by Treasury to set up low cost/affordable capital funding to build much needed health care facilities.
2. Attract doctors from other countries that already run National Health Insurance.
3. Robust stakeholder engagement plans and public awareness campaigns.
4. Set up proper governance, controls and monitoring systems to ensure appropriate service levels and manage the potentially higher corruption risk.
5. Leverage technology (including AI) to ensure control of information, service levels, and costs across the value chain.

## FACTS AND FIGURES

### Hospitals in South Africa

- 405 acute public hospitals
- 25 psychiatric hospitals
- 35 infectious disease hospitals
- 9 others

### Hospital beds in South Africa

- Public 90,000; private 40,000

### Public spend on health care 2019/20

- R230bn

### Private estimate

- R180bn

**DR. NICHOLAS CRISP**

**CONSULTANT: NATIONAL HEALTH INSURANCE (NHI) FUND OFFICE, MINISTRY OF HEALTH**

The risk to South Africa is not whether the NHI will work or not. The real risk is doing nothing to both a crumbling, under-resourced, under-performing public healthcare service and an over-serviced, complex, and increasingly expensive private healthcare system that was, in 2017, accessible to only 8.87m people. South Africa is ranked amongst the five worst performing health systems in the world based on about 8,5% of GDP spent on health with poor population health outcomes. At least 45 other countries are in the process of implementing reforms to achieve Universal Health Coverage (UHC), some through forms of NHI. Every country is different but there are lessons being learnt from one another.

A central healthcare system for all may increase the risks of poor service delivery or corruption. But NHI aims to centralise only the pooled funding while provision of services will be more decentralised than at present. Now is the right time to implement such a funding system, while society is 'still raw' and trying to staunch the open wounds of state capture. Civil society is going to be super observant and never allow grand theft again. Furthermore, lessons learnt, and new digital technologies make it easier to prevent and detect theft and fraud.

The Fund will be created as the single strategic purchaser of a clearly defined 'benefits package'. These benefits will be designed by clinicians and paid for through capitation (primary health care) and diagnostic related group (DRG) payments for clinical interventions. There will be no more fee-for-service (FFS). The Fund will purchase from both public and private providers who are certified compliant by the Office of Health Standards Compliance (OHSC) and accredited by the Fund to provide specified packages of benefits, fit for their institutional capability. By purchasing strategically, the Fund can systematically reduce over-servicing and improve access to services for under-serviced communities or groups. This Fund could manage payments to health service providers to a value of as much as R5bn per week in 2026/27. The estimated administration fee of this administratively streamlined system is 3%, which is substantially lower than the present 10 to 12 % administration fee of the private sector. The money will come from redirection of part of the budget allocations that are presently made to provincial administrations through the Provincial Equitable Share (PES), from consolidation of several of the existing 'conditional grants', and, in due course, from changes to the tax structure which may include a new payroll tax designed to replace voluntary medical scheme contributions. However, the choice of tax revenue options will reside with National Treasury and will be considered when the time arrives. There is a need for some additional transition funding to leverage specific changes to the system.

The Fund will have a 'Procurement Office' responsible for Health Technology Assessment (HTA), determining what health products it will pay for and for setting prices for these products. Providers of services will then purchase from any product supplier at the fixed prices.

There is understandable public anxiety about the potential for corruption. Oversight structures will need to be absolutely autonomous and accountable to the public through Parliament, activities of the Fund will need to be transparent and in the public domain, and administrative systems must be absolutely secure, must anticipate and prevent risks of fraud, and there must be mechanisms in place to act immediately when there are transgressions. The Fund has a Fraud and Corruption Unit designed into its organisation and the President has announced an Anti-Fraud and Corruption Forum comprising all law enforcement agencies in the country to address the challenges in the health sector.

Between now and 2026, the public healthcare services sector (provincial health departments) requires a significant cash injection to get the infrastructure and facilities to an acceptable standard. In parallel, the private sector will need to implement the recommendations of the Health Market Inquiry into anti-competitive and collusive behaviour in the private sector that are essential in improving quality, efficiency, and cost saving in the private sector. (2019 Competition Commission Report)

The challenge going forward is to insist on an ethos of 'Service for All' and keep consistency in our leadership and succession planning. The country needs an informed, evidence-based debate on NHI. We need engaged activists who are prepared to contribute positively to our country's vision of providing healthcare for all of our citizens. There is evidence from across the globe that improved health status of the entire population is the single greatest stimulant to economic growth.

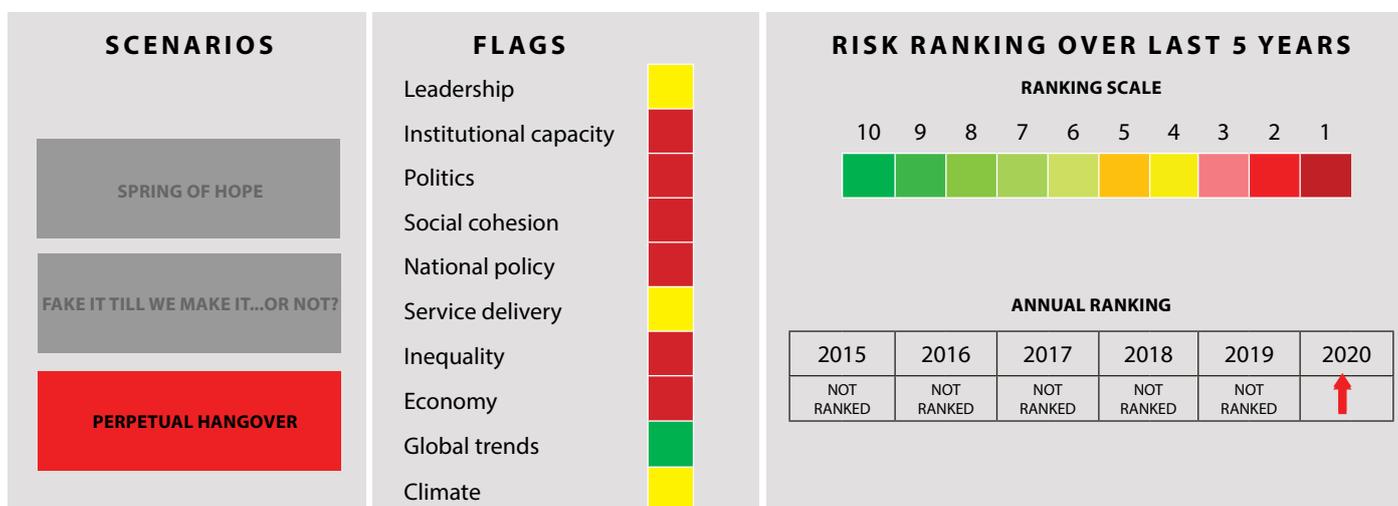


Sources: Health Market Inquiry Report, September 2019.  
Article by Sasha Stevenson, Spotlight, 23 August 2019.  
Article by Mark Heywood, Daily Maverick, 19 August 2019.

## 4.3.6

# ILL-CONCEIVED LAND REFORM POLICY AND/OR SUB-OPTIMAL IMPLEMENTATION

**DUE TO SLOW PROGRESS AND POLITICISATION OF THE LAND ISSUE, LAND REFORM MAY NOT BE SUCCESSFULLY ACHIEVED WHICH COULD HAVE UNINTENDED CONSEQUENCES SUCH AS EROSION OF THE COUNTRY'S ABILITY TO MAINTAIN A SOUND ECONOMIC SYSTEM.**



Given SA's history, land reform is of symbolic significance. This makes it a highly sensitive issue and has led to its invocation as a major political cause. The failure to meet land reform targets is deemed justification for expropriation of land without compensation.

### TOP 5 CHALLENGES TO ACHIEVING TARGETS

1. Historical conflicts, emotional sensitivities, and politicisation of the land issue combined with the lack of a national compact to mitigate such conflicts.
2. Uncertainty around the best way to define and then implement land reform.
3. Lack of skills, competencies, and capabilities to execute any specific land reform policy.
4. The "wait and see" approach adopted by the private sector, instead of robust, constructive participation to achieve a common purpose.
5. The absence of legal precedent to inform policy on issues of land reform.

### TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

1. Basing the land reform policy on principles of inclusivity, social cohesion, social compact building, and benefits for all.
2. Continuous, robust, and clear communication to extensive stakeholder groupings to build a common purpose.
3. Establishment of an empowered and enabled Land Reform Agency that is legitimate and credible in the eyes of all affected stakeholders and society at large.
4. Appointing honest, credible, and competent individuals in all public sector entities that play a role in land reform, e.g. The Department of Agriculture, Rural Development and Land Reform, and others.
5. Strong leadership in all levels of society – including public sector, private sector, labour, and civil society.

## FACTS AND FIGURES

- In economic terms: the agricultural sector contributes  $\pm 3\%$  of GDP; contributes significantly to food security; and earns export revenue;
- At present, SA imports some of its food needs. Without domestic production, imports would grow, which would negatively impact the country's balance of payments position; and
- Land reform has underperformed relative to expectations, as evidenced by the failure to meet the target of transferring 30% of the country's land to black ownership.

Source: Centre of Risk Analysis

- 83% of urban and peri-urban dwellers reside on 2% of the land.
- Globally competitive agriculture sector and we export food, achievements that the panel seeks to sustain and improve.
- But 41,6% of rural people and 59,4% of South Africans in urban areas have severely inadequate access to food.
- We have an advanced property registry system which is wholly inadequate to the actual needs of the majority, with 60% of South Africans' land and property rights not recorded or registered.
- An estimated 60% of South Africans have no recorded land or property rights, and this reflects the ongoing legacy of apartheid, with only a small minority of black South Africans acquiring secure tenure – whether through land reform or private mechanisms
- It is estimated that the progress amounts to under 10% of all commercial farmland, over 23 years, compared to the initial target of 30% by 2014.
- Discussion must also focus on the fact that approximately 72% of land is held privately in freehold and leasehold, whilst 14% is held by the state and a further 14% held in terms of the customary law.
- The focus needs to vest on the 72% of land (held by whites, and often by absentee landowners) rather than on the small share of land held by the traditional leaders and the State.

Source: Final report of the Presidential Advisory Panel on land reform and agriculture - 4 May 2019

### **SYDNEY SOUNDY**

**EXECUTIVE MANAGER: STRATEGY AND COMMUNICATIONS, LAND BANK**

According to the Report of the High Level Panel on the Assessment of Key Legislation and Acceleration of Fundamental Change, chaired by former president Kgalema Motlanthe, "Experts advise that the need to pay compensation has not been the most serious constraint on land reform in SA to date – other constraints, including increasing evidence of corruption by officials, the diversion of the land reform budget to elites, lack of political will, and lack of training and capacity have proved more serious stumbling blocks to land reform."

A detailed examination of what expropriation without compensation would mean was produced by Dr Roelof Botha and Prof Ilse Botha and submitted to the Constitutional Review Committee in 2018. Looking at comparator countries, it set out two likely scenarios for SA over a period of 10 quarters (for the purposes of the study, it assumed a start in the 2nd quarter of 2018 and continuance to the 3rd quarter of 2020). The study states that "empirical evidence confirms the stifling effect on initiative, entrepreneurship, and productivity inherent in the plethora of regulations and restrictions that accompany an institutionalised system where private property ownership is not guaranteed and protected by law." Studies by the CRA shows that annualised GDP would be between R270.4bn and R454.8bn lower than if expropriation without compensation was not implemented. Fiscal revenues would fall by R157.5-R261.5bn. The budget deficit would increase and a downgrade of the country's bonds to junk would be inevitable. SA would forgo as many as 2.28m jobs.

In 2018, the key feature of land reform was the parliamentary investigation into the necessity for a constitutional change. Concurrently, a number of other measures have been taken, which include:

- Regulations introduced in terms of the Property Valuation Act set out a compensation formula. This is aimed at property acquired for land reform, and compensation could fall significantly below the market price;
- The Expropriation Bill, currently under consideration, recognises expropriation without compensation; and
- The report of the Presidential Advisory Panel on Land Reform endorses expropriation without compensation in certain circumstances and proposes a compensation policy in terms of which compensation will range from "zero" to "minimal" to "substantial" to "market-related" – dependent on the circumstances.

The process of reaching a "new normal" in policy on property rights, land, and expropriation will likely be a lengthy one. Uncertainty is thus likely to remain for the foreseeable future. However, the work of the Presidential Advisory Panel on Land Reform indicates that the country is heading for a decision that aims to be inclusive and will contribute to a new social compact that takes all citizens as well as the impact on our economy into account. This approach looks at all land in the country, including that which is not currently utilised, and due process is a critical dependency in the entire initiative.

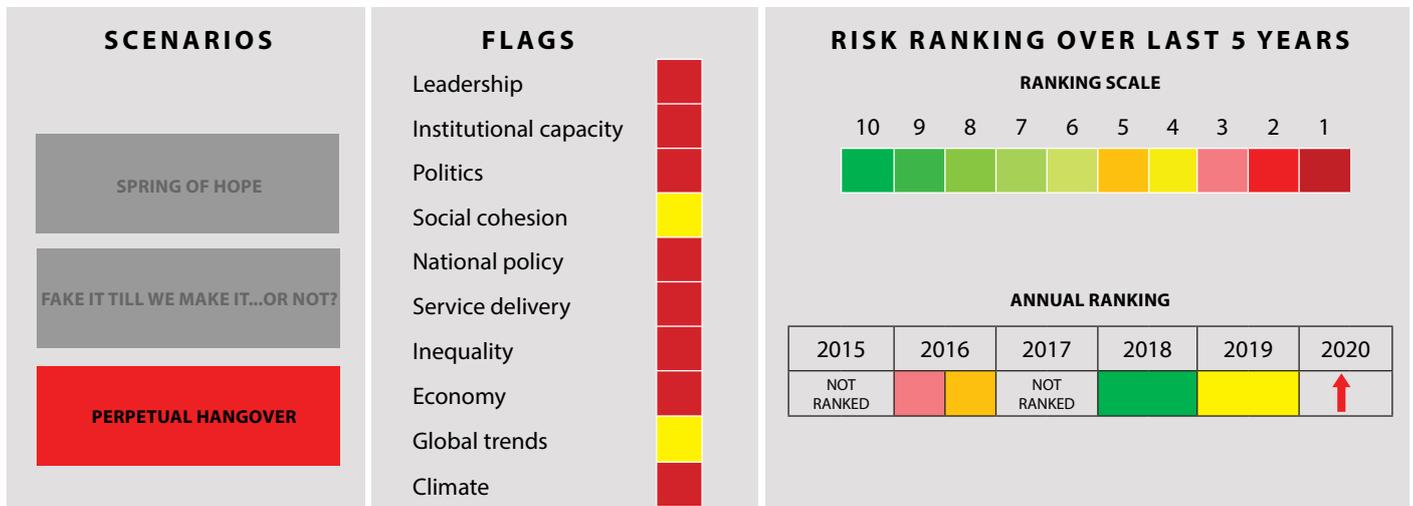
One of our key concerns as a country is our inability to implement initiatives such as these. Therefore, extensive stakeholder engagement will be a key feature of the process: to not only build national consensus but also access key skills, competencies, and capabilities in the private sector to make this initiative a national imperative and not one that is forced on the private sector. The proposed Land Reform Agency must be both empowered and enabled through competent resources to execute the policy in such a way as to take SA forward as a country.



## 4.3.7

# FAILURE TO DEVELOP, ATTRACT AND/OR RETAIN TALENT

**DUE TO AN INEFFECTIVE NATIONAL EDUCATION SYSTEM (POOR SCHOOL INFRASTRUCTURE, POOR TEACHING SKILLS, INEQUALITY, LACK OF TRANSFORMATION) ACCESS TO SKILLS MAY FURTHER DECLINE, NEGATIVELY IMPACTING INVESTMENT, GROWTH, EMPLOYMENT AND CRIME.**



Skills development in SA has been lacking due to challenges in early childhood development, lack of infrastructure, inadequate teaching skills, lack of transformation, inequality, poverty, high unemployment and low absorption of tertiary qualified individuals in the economy. Whilst SA grapples with these basic requirements, the rest of the world is taking advantage of the Fourth Industrial Revolution and artificial intelligence.

### TOP 5 CHALLENGES TO ACHIEVING TARGETS

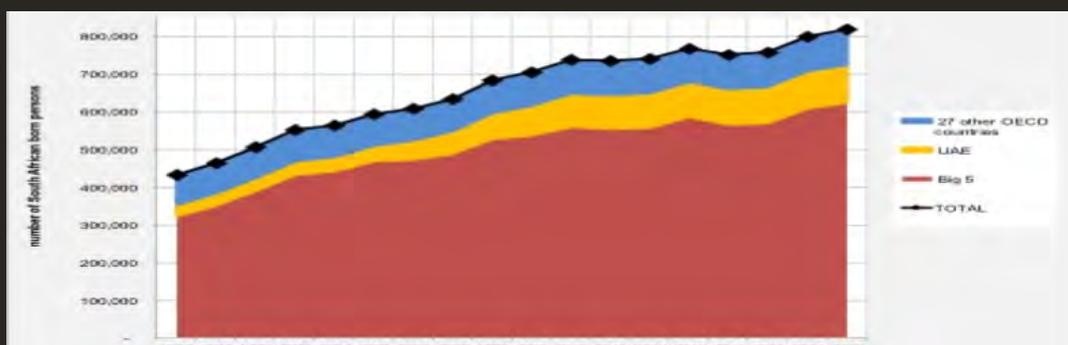
1. The South African education system as it currently stands, whilst it aims at equality, perpetuates the inherited socio-economic disadvantage.
2. Inadequate teacher content knowledge and significant reading deficits in primary schools.
3. Rapid technology change in production creates an increased bias towards skill-intensive employment demand.
4. Highly stressed education infrastructure due to increasing urbanisation and immigration.
5. The concentration of unemployed among the youth and individuals without tertiary education contributes to the intergenerational persistence of inequality.

### TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

1. Ensure that the proposed NHI has creative solutions to addressing Early Childhood Development requirements to facilitate expedited learner development later.
2. Re-introduce Teachers Training Colleges to improve teacher competency (prior to appointment) and standards and consider importing experienced teachers in the short to medium term.
3. Link education opportunities to the country's needs, as identified in SONA and the NDP. Embed closer cooperation between, SETAs, corporates, and education institutions to address challenges in matching supply and demand as well as to prepare for the 4IR and artificial intelligence.
4. Increase absorption rates through workplace skills development (WSP) and work integrated learning (WIL) programmes.
5. Stepping up efforts to encourage learners to pick vocational training over university degrees, specifically in the agricultural and services industries.

### FACTS AND FIGURES

- ±25 000 skilled people leave SA each year (~68 people per day);
- The World Economic Forum ranks SA last out of 140 economies in our quality of maths and science education;
- Only 30% of adults (aged 20+) in SA have Grade 12 or the equivalent (only half of children who enrol in Grade 1 make it to Grade 12);
- Public schools (>90% of all schools) do not have equipment/facilities needed for effective learning in science subjects.



Source: Graph from Daily Maverick Article, by David Kaplan entitled "Packing for Perth: Skills flight is a reality and we must plan for it", 3 October 2019.

## EXPERT OPINION

### CHANDU KASHIRAM

#### PRINCIPAL ASSOCIATE, LUCIDUM

- The Report "Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa" summarises our skills challenges:
- "Improving educational outcomes throughout the educational life-cycle, with a particular focus on early childhood development (which presents the greatest return on educational investment) and enhancing the relevance of education systems by better aligning learning outcomes to labour market needs."
- "Implementing youth employment interventions such as continued support for government programmes that incentivize job creation (e.g. learnerships) and apprenticeships that facilitate school-to-work transition based on close cooperation between institutions of learning and the private sector."
- "Addressing the skills constraint through a combination of short-term solutions (such as the easing of immigration regulations for individuals with tertiary qualifications from accredited institutions) and long-term educational reforms."

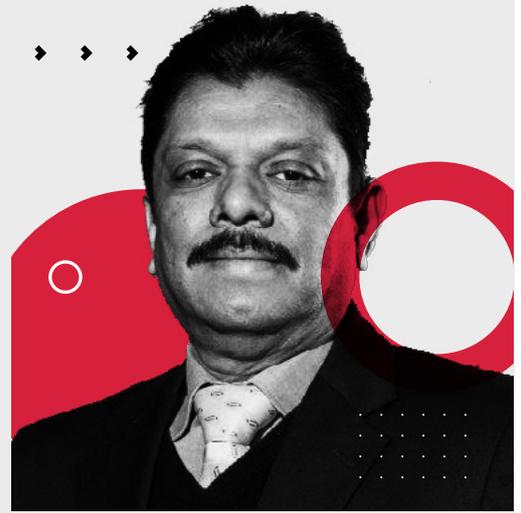
Aligning skills supply and demand is hampered by fragmented data and lack of integration between SETAs (responsible to develop skills) and corporate SA (responsible to create employment). Thus, Government risks training people in inappropriate vocations, at high cost. Absorption rates are also low due to lack of workplace skills programmes and workplace integrated learning. SETAs cite access to workplaces to provide experience to newly qualified people as a challenge. In the 2019 SONA, the President stressed the importance of youth employment, especially in tech-enabled platforms. Such efforts must be supported by better career development advice, aimed at encouraging the youth to take up vocational training.

Due to lack of social transformation in various areas, a large part of the population is ill equipped to take advantage of potential positive economic reforms such as increase in investment (specifically in manufacturing), 4IR and artificial intelligence, which can be a competitive advantage if approached sensibly by introducing enabling policy changes regarding technology supported by appropriate funding. Furthermore, data on skills losses due to emigration is poor and is driven through aggregated statistics obtained from destination countries. Skills that are gained through returning South Africans and immigrants are not readily available. The views on emigration and skills losses are therefore largely anecdotal. However, any loss of highly skilled, employable South Africans that emigrate has the negative impact of losing the investment in educating them.

Lastly, capacity development in Government is crucial to service delivery. In the 2019 SONA the President announced that in order to strengthen the capacity of the state and service delivery, the National School of Government (NSG) will introduce a suite of compulsory courses, including ethics, anti-corruption, senior management training, supply chain management and deployment of managers to the coal face. To this end the National Treasury has provided an additional direct financial allocation to the NSG for a three-year period (approved by the Cabinet).

Sources: "Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa". Treasury Department, 2019. Daily Maverick Article by David Bukham entitled "Are skilled white South Africans really emigrating at an alarming rate?" 1 Oct 2019.

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### PROF. JACKIE YOUNG

#### PROFESSOR IN RISK MANAGEMENT

This risk is getting worse because of the following:

- Talent development is hampered by an increasing gap between the standards of basic and tertiary education (due to poor corporate governance; inadequate leadership by key role-players who may not be fully competent/qualified; low standards of basic education; not preparing potential students for tertiary education, especially in science and mathematics; and a focus on pass rates at an undergraduate level which compromises standards of qualifications).
- This is causing another gap between undergraduate and post graduate studies leading to failures at post graduate levels, which could further lead to South African qualifications not being accredited internationally. Students who qualify have sub-standard qualifications which are not accredited by leading practices/countries and will not be able to perform the functions required from qualified graduates.
- Retaining qualified students pose a problem as they tend to leave the country due to negative political views and incidents (e.g. low economic growth rate and high taxes influencing personal wealth creation; poor infrastructure development (Eskom, Water supply, transport, etc)).

All the facts regarding this risk are being publicly debated, but there are no positive solutions, which causes a negative view on the effectiveness of government and leadership. SA must:

- bridge the gap between basic and tertiary education by preparing students for further studies in crucially required focus areas;
- upgrade the standard of qualifications according to international standards instead of focusing on increasing pass rates, which has a direct influence on the standard of education; and
- Create a golden thread of ethical values from basic to post graduate education levels. Students must accept responsibility for their academic careers from an early stage and follow a disciplined path to academic and work maturity.

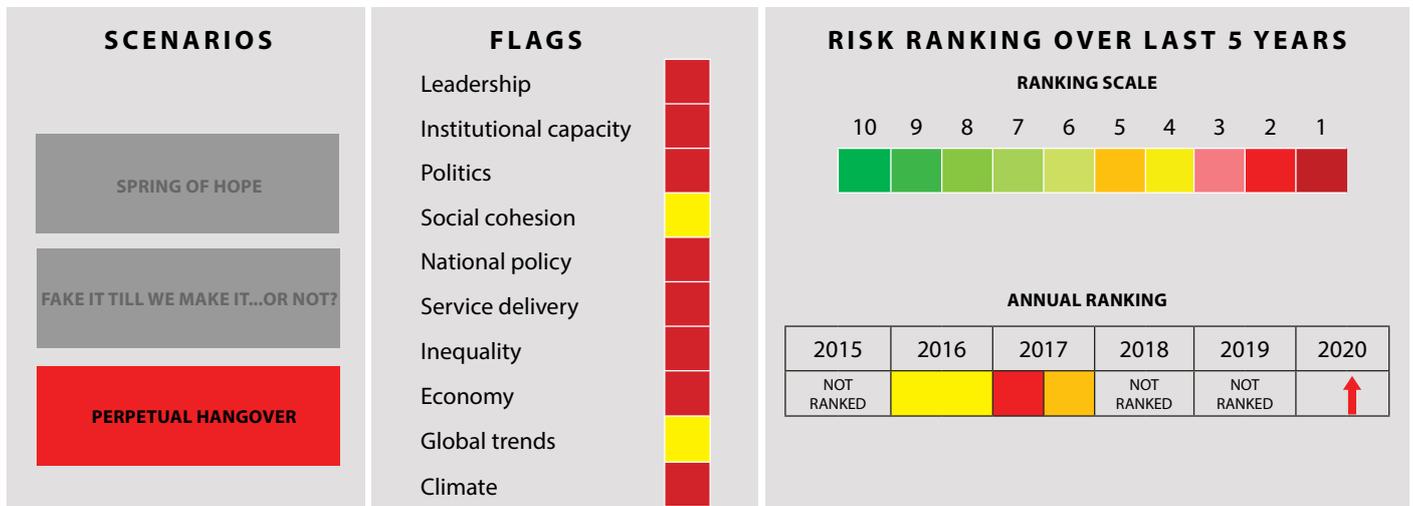
SA's emerging economy has a lot of potential. The majority of the labour force is at blue-collar level and can be developed in vocational training areas in mining, agriculture, etc., positively influencing the economy and employment rates.



### 4.3.8

## EXTREME WEATHER EVENTS, NATURAL DISASTERS AND CLIMATE CHANGE

**DUE TO AN UNCOORDINATED RESPONSE TO CLIMATE CHANGE, EXTREME WEATHER EVENTS AND NATURAL DISASTERS MAY CONTINUOUSLY INCREASE, LEADING TO INCREASED COST OF RESPONSE AND A DETERIORATION OF LIVEABLE SPACE IN WHICH COMMUNITIES CAN PROSPER.**



In the past four decades SA has experienced more than 80 noticeable hydro-meteorological “weather related” disasters. Substantial global evidence shows that such extreme weather events have increased in frequency and intensity. Into the future, there is also strong evidence that the projected climate scenarios will amplify these trends in SA, in particular, weather-related events such as heat waves, floods, droughts, wildfires, and storm surges.

#### TOP 5 CHALLENGES TO ACHIEVING TARGETS

1. Land-use planning falls on local municipalities that are under tremendous pressure to address many other complex urban challenges and have limited financial and human resources to safely and efficiently plan cities to withstand natural disasters and the expected climatic shifts.
2. The climate is changing quicker than cities can adapt, and there is a lack of scientific decision-ready data to inform and prioritise effective interventions.
3. A rapidly urbanising and growing population that must be accommodated in an environment of low economic growth.
4. A lack of knowledge about how our daily actions affect our future exposure to these climate change and weather-related events.
5. Dependency on funded housing; a housing market not responding to low-income earners, causing more informality and vulnerable communities.

#### TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

1. Good planning practices for land-use combined with targeted adaptation interventions, aligned to the mandates of local authorities, e.g. climate adaptation actions implemented across local municipalities’ spatial planning; land-use management; landscape and urban design; environmental planning and infrastructure; and engineering functions.
2. Cross-sectoral collaboration in Government with a clear mandate across sectors to focus on disaster risk reduction and climate change adaptation in all spheres of Government.
3. Adapting cities to the anticipated effects of climate change, including retrofitting high-risk cities to become climate-resilient/hazard-resistant.
4. Public-private partnerships that focus on lessening communities’ exposure to climate risks and protecting infrastructure investments.
5. The adoption of sustainable practices by all: water sensitive practices, energy efficient design, passive design principals in buildings, resource use reduction, etc.

### FACTS AND FIGURES

- Coastal flooding:
  - Increased storm frequency/intensity will cause flooding of low-lying areas if no protective structures are in place;
  - ±40% of South Africans live within 60km of our coasts; and
  - ±60% of the South African economy depends on coastal natural resources and trade infrastructure, such as ports.
- Floods:
  - SA experienced 77 major floods between 1980 and 2010, which cost the lives of at least 1 068 people;
  - Four floods in Western Cape between 2011 and 2014: 12 deaths, >23 000 affected, financial losses of >R1.6m;
  - Three floods in Mpumalanga between 2014 and 2017: 15 deaths, financial losses of >R535m; and
  - Four floods in Gauteng between 2015 and 2018: two deaths, extensive damage to infrastructure, homes and vehicles.
  - Wildfires: Knysna fire 2017: seven deaths, >1 000 structures destroyed, >500 houses damaged, thousands of people evacuated, 1 533 families and 134 businesses directly affected, critical infrastructure (e.g. power lines) damaged or destroyed;
- Drought: In 2015/16 (most intense El Niño event ever) with Southern Africa experiencing its warmest summer ever, with average monthly temperatures of 5°C above their monthly average climatological temperatures and large parts of the summer rainfall region of Southern Africa recording their driest summer season since 1900; and
- Since the 1980s, SA has experienced more than 82 hydro-meteorological hazards (floods, storms, landslides, wildfires, droughts and extreme temperatures) causing the deaths of 1 692 people and affecting more than 21m people.

Source: [www.greenbook.co.za](http://www.greenbook.co.za)

### ALIZE LE ROUX

SENIOR RESEARCHER, COUNCIL FOR SCIENTIFIC AND INDUSTRIAL RESEARCH (CSIR)

Hydro-meteorological disasters have devastating impacts on communities and their structures. These disasters can result in significant loss of lives, livelihoods, and infrastructure; impede economic growth; and divert financial resources to “building back” rather than “catching up.” Hydro-meteorological disasters have affected more than 21m South Africans and cost the economy in excess of R74bn since 1978. Recent events, such as the nation-wide droughts in 2015/2016; the Western Cape drought in 2017/2018; the Knysna Fires of 2017; and the Kwa-Zulu Natal, Eastern Cape and Free State floods of 2019, have had devastating economic and social consequences and showed just how susceptible and vulnerable our cities and towns are to these hazards. The Knysna Fires alone resulted in direct losses and damages in excess of R3bn with the insurance industry being greatly affected with recorded losses in the vicinity of R2.2bn. It is estimated that the 2015/2016 droughts cost the economy close to R3.5bn and the 2017/2018 droughts cost a staggering R17bn in economic losses. Heat-stress is an emerging hazard for South African cities. Although few deaths have been recorded, it not only poses great risk to human and animal health and comfort but can also have devastating impacts on agricultural yields. This issue has received much attention in countries that have seen great loss of lives (such as from the European heatwave of 2003 and the heatwave in India in 2019).

Although the devastating effects of weather-related disasters have received much needed attention in the media and policy arena, it is not just these growing weather-related hazards that should alarm us. We should also be alarmed by the growth in the direct exposure of vulnerable settlements, communities, and infrastructure that contribute to these devastating results. Many communities, settlements, and cities are directly in harm's way and the way in which our cities and infrastructure are built and the material we utilise have contributed to this distress.

SA has seen high rates of urbanisation and population growth and the current projections state that we can expect an additional 20m people in SA by 2050 – the vast majority of whom will be located in cities and towns. Given SA's current economic growth rate; the backlog in housing provision; and lack of innovative deployment technologies in the housing sector, we will most certainly be faced with much more informality in our cities. If we fail to plan our cities effectively (poor land-use practices) and do not accommodate this growth in a sustainable and climate-smart way, we will see a significant increase in our risk as we expose more and more vulnerable communities to the devastating impacts of climate-induced disasters.

Much of the infrastructure needed to accommodate the expected 20m population growth by 2050 has not been built yet – this affords us a unique opportunity for building principles of resilience into our cities and towns. The infrastructure and settlements we build today will exist for decades to come. We need to ensure that these “new” settlements are resilient, energy-efficient, water sensitive, and resistant to hazards. If we get this right, we will have safeguarded a quarter of our population by 2050. We should retrofit and reduce high-exposure cities; reduce the vulnerability of communities; and make them less “susceptible” to climate hazards. This will require understanding and responding to global climate commitments and an awareness of their impact on mitigation strategies. If we can curb greenhouse gas emissions and avoid a worst-case scenario, economic growth will impact on informality, innovation, and leapfrogging, and offer more adaptation solutions. Ultimately, As Todd Reubold, director and co-founder of Ensia stated, “how we design, set policies, finance, govern and manage these immense challenges will define different futures for different cities.”

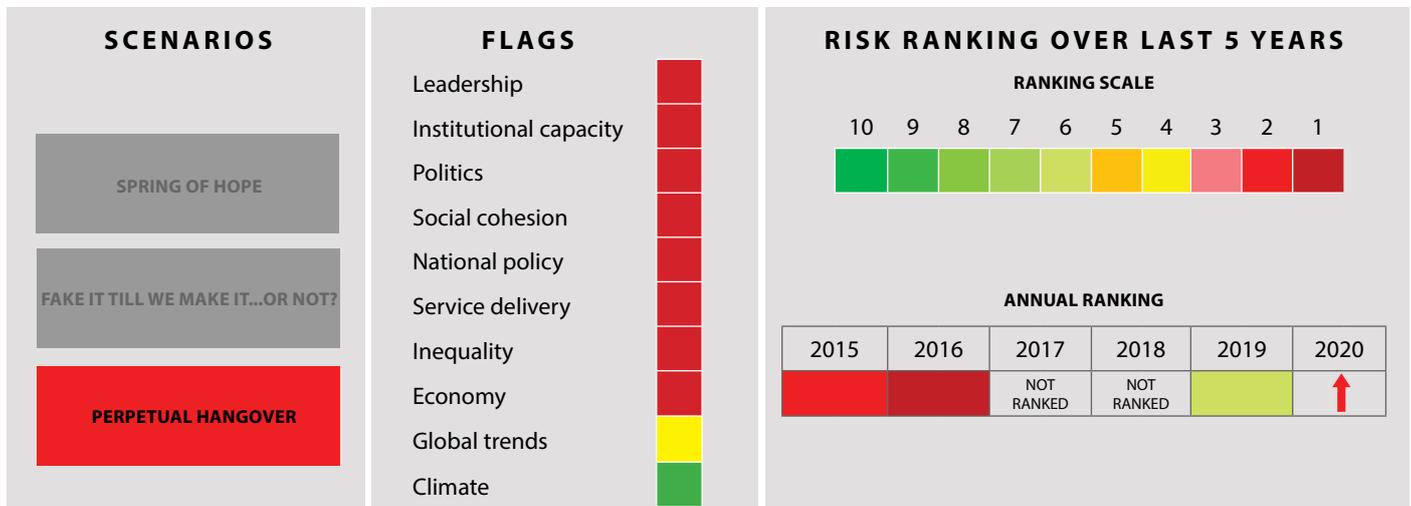
Source: [www.greenbook.co.za](http://www.greenbook.co.za) (CSIR)



### 4.3.9

## INSUFFICIENT ELECTRICITY AND/OR ENERGY

**DUE TO INEFFECTIVE LEADERSHIP, CORRUPTION, HISTORICAL MAINTENANCE/REFURBISHMENT BACKLOGS A CONSTRAINED SYSTEM, DELAYS IN KEY POLICY DECISIONS AND AN ENORMOUS DEBT BURDEN, ESKOM'S ABILITY TO PROVIDE SUFFICIENT ELECTRICITY MAY DETERIORATE FURTHER WITH NEGATIVE IMPACTS ON ECONOMIC GROWTH AND INVESTOR CONFIDENCE.**



This risk has been present for a number of years and, despite improvements in 2016 and 2017, has further deteriorated in 2018 and 2019. Eskom is in a dire financial position and is struggling with deep-rooted operational and governance problems. It seems as if the utility has reached a point of no return, where historical structures and solutions may no longer be suitable to ensure the country's electricity supply going forward. This is underpinned by the climate crisis, an accelerating global energy transition, strong and divergent stakeholder interests, as well as the need for a Just Energy Transition that matches the South African context.

#### TOP 5 CHALLENGES TO ACHIEVING TARGETS

1. Deteriorating plant performance, due to inadequate investment in maintenance & mid-life refurbishment.
2. Poor performance of Medupi and Kusile due to design problems as well as delays in commissioning.
3. Funding and capacity constraints impacting the ability to undertake plant maintenance.
4. Decision-making processes and long lead times for the development of new infrastructure.
5. Lack of effective leadership and long-term strategic thinking in a highly complex sector.

#### TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

1. Prioritisation of maintenance and the space needed in a constrained system to increase the reliability of plants.
2. Clear direction on industry structure and market rules to encourage investment.
3. Integrated planning and frequent iterations to deal with uncertainty and change.
4. Energy efficiency to reduce demand and energy diversity to increase supply.
5. Electricity generation or storage by private individuals, where possible, to reduce pressure and reliance on the grid.

#### FACTS AND FIGURES

INDICATOR	2007/08	018/19	CHANGE
Installed capacity (MW)	42 618	45 561	7%
Electricity sales (GWh)	218 120	212 190	2.7%
Revenue (Rbn)	39.4	177.4	350%
Average selling price (c/kWh)	18	85.06	373%
Coal purchases (Mt)	117.4	115.49	1.6%
Coal costs (Rbn)	10	53.8	438%
Employee costs (Rbn)	9.5	29.5	210%
Number of employees	32 674	48 628	49%
Debt securities and borrowings (Rbn)	40.5	388.7	860%

- Eskom's net loss of R21bn (R2.3bn in the prior year) during 2018/19 is attributed to municipal debt of R20bn;
- Eskom's revenue increased from R39.4bn in 2007/08 to R180bn in 2018/19 but was diminished by the increase in input costs;
- Over the past decade, debt has increased by 986.42% from R40.5bn in 2007/08 to R440bn in 2018/19, with debt servicing cost amounting to R85bn per year;
- During 2017/18, Eskom had a workforce of 48 628. A decade previously the workforce was 13 000. Political and trade union pressure prevents the retrenchment of workers to reduce costs;
- Eskom's wage bill for 2018/19 is estimated at R27.14bn (R5.14bn in 1998) following a 7.5% wage increase in 2018;
- The widening gap between electricity demand and sales is symptomatic of a "utility death spiral" where new technology makes self-generation increasingly price-competitive, which leads to continuously declined sales and increased tariffs, in a never-ending spiral; and
- NERSA approved a 13.87% average price increase w.e.f. 1 April 2019 for Eskom direct customers and a 15.63% average price increase for municipalities w.e.f. 1 July 2019. Additional increases of 8.1% for 2020 and 5.2% for 2021 were also announced. These figures are well below Eskom's targeted increases of 17.1%, 15.4% and 15.5% for the next three years respectively.

Sources: Eskom on its 2018/19 Annual Report, [www.pmg.org.za/committee-meeting](http://www.pmg.org.za/committee-meeting); Eskom group annual results, for the year ended 31 March 2019, p. 12.; Eskom on its 2018/19 Annual Report, [www.pmg.org.za/committee-meeting](http://www.pmg.org.za/committee-meeting); Department of Public Enterprises, Context of SONA 2019: The Eskom challenges, Centre for Risk Analysis, SANEA

## EXPERT OPINION

### ROBERT KOCH

SENIOR MANAGER: ENTERPRISE RESILIENCE, ESKOM

The risk has deteriorated, considering Eskom's financial position and coal fleet performance (energy availability in Dec 2019 reached historical lows). Whilst the Integrated Resource Plan (IRP) was approved in 2019, implementation is slow. Measures are being implemented to address corruption.

A factor not generally considered in debating this risk is the complex inter-relatedness between decisions that affect the sector. The consequences of sometimes well-intended interventions are often not adequately anticipated and addressed.

The key impediments that prevent SA from effectively dealing with this risk are:

- System constraints, requiring the risk of load shedding if maintenance is to be undertaken.
- Governance, policy delays, lack of Board independence, inefficient industry structures, and corruption.
- Lack of stakeholder alignment due to vested interests (government, coal, nuclear & renewable industries, unions, business, local communities)

The key indicators (flags) that are indicative of how this risk may play out in future are:

- Leadership: the tone set by the new Eskom CEO/Board.
- Support for an integrated recovery plan that addresses (i) the maintenance/refurbishment backlog and performance of Medupi and Kusile, (ii) immediate capacity solutions that balance cost and risk-taking related to load shedding, (iii) execution of the IRP.
- Support for a financial recovery plan that addresses Eskom debt, revenue, and non-payment.
- Support for approach to addressing structural inefficiencies.

Key interventions for effective risk responses are:

- Maintenance: prioritising generation recovery over short-term goals, such as avoiding load shedding "at all costs".
- Capacity: short-term power procurement and expediting grid access for distributed generation and battery storage.
- Accountability: Setting up the conditions for accountability.
- Skills: addressing the loss and attraction of critical skills.
- Governance: Addressing inefficiencies at all levels.
- Vision: Fostering a collective mind-set that positions the sector for the future, rather than a "return to the past".



### PAUL NEL

ENERGY LEAD: AFRICA, AURECON

The electricity crisis is still getting worse and will only improve once the finances and performance have been turned around.

Facts that are not considered are the risks that have been neither fully understood nor widely shared yet. These include the impact on labour and the concept of a "Just Transition" – specifically how this relates to the timelines proposed for the unbundling and decommissioning of Eskom and/or parts of Eskom. The key impediments that prevent SA from effectively dealing with this risk are:

- Lack of skilled personnel who understand the complexity of thermal power generation;
  - Various stakeholders' vested interest in coal mining; and
  - The high rate of unemployment and the perception that this will increase with the closure of thermal power stations and associated mines.
- The key indicators (flags) that are indicative of how this risk may play out in future are:
- The release of the Round 5 procurement programme for private renewable energy projects;
  - The meeting of timelines proposed in the Turnaround Plan – specifically the rate at which Eskom is to be unbundled;
  - The timeframe for the stabilisation of Eskom's technical performance; and
  - A turnaround of finances.

Key interventions for effective risk responses are:

- Ensuring the Turnaround Plan and IRP are implemented as comprehensively as possible; and
- Recognising the opportunities: the ability to create an open energy market and ultimately allow for lower energy prices.

The alternative to tariff increases is a bailout from Government, but the Government already guarantees R350 bn of Eskom's R440bn debt. National Treasury expected national debt to reach R3tn in 2019, increasing to R4.5tn over the next three years, so there is little room for additional borrowing.

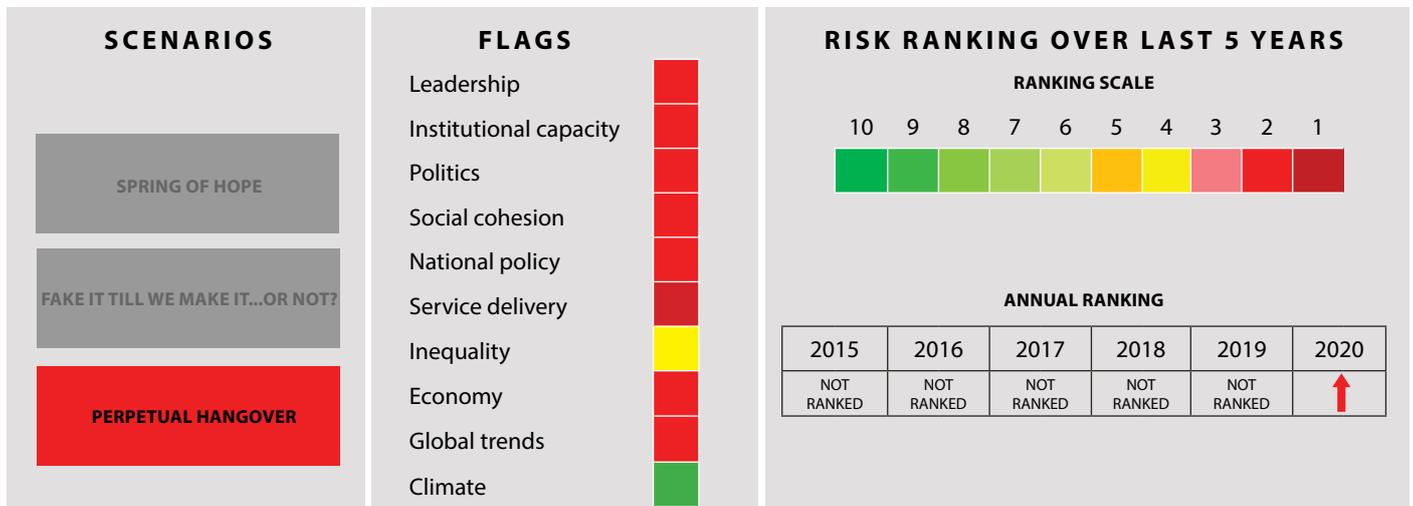
Bold policy reform is needed, such as reducing Eskom's wage bill, selling assets, and appointing staff on merit. Government could also consider allowing profit-seeking private competitors to enter the market. Until these core problems are addressed energy constraints will continue to head off any prospect of SA maintaining emerging market growth norms.



## 4.3.10

# DISRUPTIVE TECHNOLOGIES

**DUE TO A LACK OF APPRECIATION OF THE ORGANIC INVASIVE NATURE AND SCOPE OF DISRUPTIVE TECHNOLOGIES, ORGANISATIONS MAY NOT REALISE THE IMPACT OF THIS RISK UNTIL IT IS TOO LATE TO RECOVER FROM THE NEGATIVE COMPETITIVE CONSEQUENCES THEREOF.**



Very few people really understand the true magnitude of this risk, thinking of it more in terms of big projects for robotic process automation, AI, autonomous cars, etc. However, disruptive technology could be as seemingly insignificant as a smart fridge that someone decides is a cool new value-add for the breakroom. We deal with bots, AI, Machine Learning, IOT devices, and more, every day without realising that it is an organic, systemic, and silent invasion of our lives.

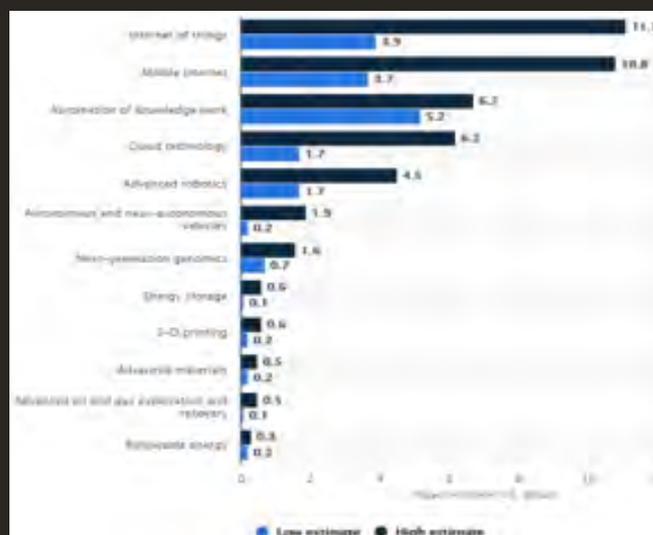
### TOP 5 CHALLENGES TO ACHIEVING TARGETS

1. Disregard for the "organic"/"silent" intrusion of disruptive technologies due to the incorrect view that it only manifests in large AI or digitalisation projects.
2. Failure by risk management teams to fully comprehend this risk and/or to incorporate new technologies into their risk management methodologies.
3. Non-recognition of the interrelationships between new technologies and environmental risk, health and safety risks, ethics and compliance risks, and others.
4. Silo-thinking in organisations that limits their responses and the full utilisation of integrated thinking to mitigate technology risks.
5. Not understanding the ethical responsibilities and secondary risk exposures that come from disruptive technology opportunities.

### TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

1. Carry out a full "risk context and maturity study" to understand and determine the impact of this risk on the organisation.
2. Incorporate "smart-tech" into risk decision making and internal audit processes.
3. Complete a "disruptive technology audit" with skilled advisors.
4. Upskill risk and executive teams in understanding and dealing effectively with potential disruptive technologies.
5. Extend governance obligations to oversee technology beyond IT.

### FACTS AND FIGURES



Forecast economic impact of disruptive technologies in 2025, by technology type

## EXPERT OPINION

### ALEX ROBERTS

REGIONAL DIRECTOR: SALES AND OPERATIONS, CURA SOFTWARE

Disruption is not a new concept, new technologies and techniques have replaced older less effective means for decades, however the speed at which disruption is happening has accelerated exponentially. Disruption should not be assessed on a continuum of "better" or "worse" as a risk but as a dynamic element with potential positive or negative outcomes depending on the context in which it is assessed.

Innovation and disruption are often confused as being synonymous. Innovation has the potential to be disruptive, but it is not disruption. Innovation is simply a change that results in a new value proposition. Disruption, however, is fundamental shift that takes place in the system, environment or technology which results in the inability to return to the previous version or state. Not all innovation is disruptive regardless of how revolutionary it may be, the practicalities and cost of doing something differently can stifle the adoption of new innovations.

It is important that when debating concepts of disruption that everyone has a sound understanding and ability to differentiate between change, innovation and disruption as this will have a ripple effect on how the risk is defined, categorised, assessed and mitigated or capitalised on as an opportunity.

Key impediments would consist of reactive and uninformed policy making from a governmental perspective. Often, we see policy come about after a new technology has run unregulated for a while which results in an over-regulation of that technology or improper regulation hastily being implemented. Another impediment would be a resistance or inability to adapt to change from an organisational perspective and failure to embrace new value-adding technologies. A public education system that does not focus on upskilling our youth to compete in technology driven global economy.

Current market players will need to make drastic changes to their existing operating models in order to respond to the competition posed by new disruptive market players. In 2019 we saw examples of this in the financial space with large banks closing branches and retrenching staff in order to respond to the threat posed by smaller more competitive digital banks. A key indicator or trend seen is that of disruption originating from outside an organisation's traditional markets. Environmental scanning has to expand further than a typical or known competitor to assess where unconventional competition could arise. Banking has had a clear competitive pathway but with the increasing demand for access to funds an opening was created for social media channels to substitute conventional banking.

### NICKY DOWNING

CHIEF EXECUTIVE OFFICER, GUIDELINE BIZTECH

There are a number of top businesses that are highly effectively managing one aspect of this risk within their own AI projects. However, the big stumbling block remains old thinking and old risk methodologies, which are ill-equipped to truly even touch the sides of this risk in an efficient and effective manner. The breadth and depth of this risk cannot be effectively managed without the risk approach incorporating smart tech into its risk decision-making and internal audit (IA) processes.

The most impactful thing they can do right now is to engage in an extensive maturity evaluation with a team of advisors that knows and understands the nature of this risk landscape. It is not possible to even start developing a strategy to address this type of risk when you "do not know what you do not know." From there, it would be wise to engage in an organisation-wide disruptive technology audit with a highly experienced and knowledgeable team to effectively evaluate the "Context of the Organisation." This will enable organisations to find an appropriate approach to start getting ahead.

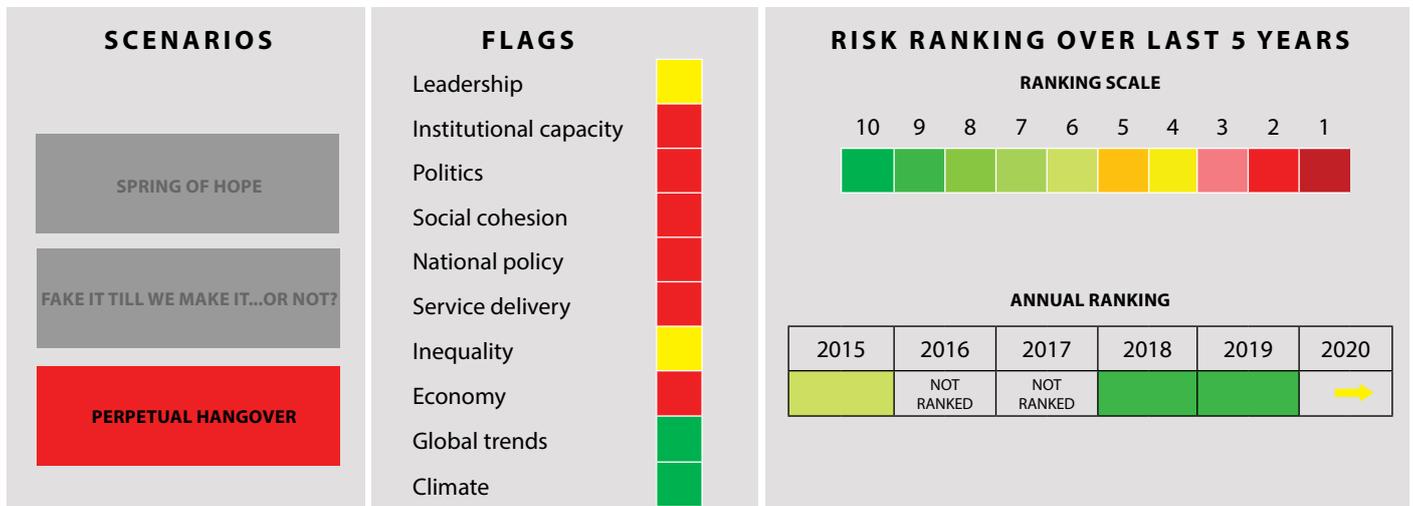
The two recommended actions above will thus significantly help executives and risk professionals to truly start understanding the "As Is" digital landscape of the organisation, so that the "To Be" risk identification, evaluation and ongoing monitoring approach can be efficiently determined. As disruptive tech is here and growing, part of the approach must include upskilling risk and executive teams. Executives must keep up with the pace of disruptive technology. Teams must ensure that they truly take responsibility to understand the new world in which businesses operate.

As AI and automation continue to be adopted into day-to-day business, it is the responsibility of both the executive teams and the risk management teams to ensure that the business's core values, ethical principles, integrity, and social responsibilities are part of the smart tech change management processes being adopted to drive new business opportunities and growth. These are extended governance principles that are the responsibility of executive teams – they should not be left solely to the technologist and IT teams.

## 4.3.11

# CYBERATTACKS, DATA FRAUD AND DATA THEFT

**DUE TO INCREASING TECHNOLOGY ADVANCES AND COMPLEXITIES, CYBERCRIME MAY ESCALATE BEYOND ORGANISATIONS' CAPABILITY TO MANAGE, IMPACTING ON INDIVIDUAL ORGANISATION'S ABILITY TO OPERATE, AND OVERALL ECONOMIC GROWTH AND BUSINESS CONFIDENCE.**



Cybercrime seems to be on the rise and will continue to grow as our dependence on technology increases. Attacks against businesses are becoming more frequent, more sophisticated, and more successful. Human error and behaviour also continue to be a significant driver of cyberattacks. Unfortunately, there is no one-size-fits-all approach for addressing cyber threats but analysing vulnerabilities and developing a plan to address them is a great place to start.

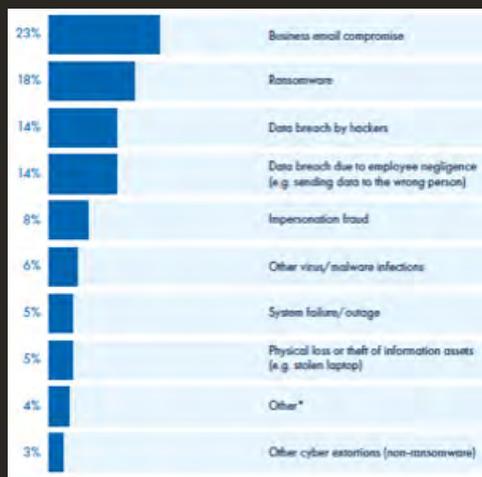
### TOP 5 CHALLENGES TO ACHIEVING TARGETS

- The cyber risk discussions of oversight and executive bodies do not include the identification of risks to avoid, risks to accept, and risks to treat or transfer.
- Oversight and executive bodies approach cybersecurity as an IT issue and do not plan adequately to prevent, respond, and recover from a potential cyber event.
- Human error is still the most common cause of successful cyber breaches.
- Cyber risk is dynamic in nature and the pace of technological innovation remains rapid.
- Incidents, innovations, and lessons learnt are not shared across industries and organisations.

### TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

- Top-down culture: Oversight and executive bodies must show intent and action and ensure that the whole organisational awareness programme is driven relentlessly.
- Risk appetite: Oversight and executive bodies must set clear expectations of their appetite for cyber risk. This must be linked to performance measures and a mature risk response, with adequate resourcing and budget.
- Impact: Oversight and executive bodies must clearly understand the consequences and legal implications of cyber risks and how these relate to their specific circumstances.
- Understanding assets: Impact and vulnerability analyses, information classification, and alignment with the system of control are key. This must be combined with regular, real-time reporting.
- Knowing: Cybersecurity awareness training is critical as most vulnerabilities are caused from within an organisation – by the workforce of the organisation.

## FACTS AND FIGURES



Cyber Claims received by AIG EMEA (2018) reported incident



Cyber Claims received by AIG EMEA (2019) By industry

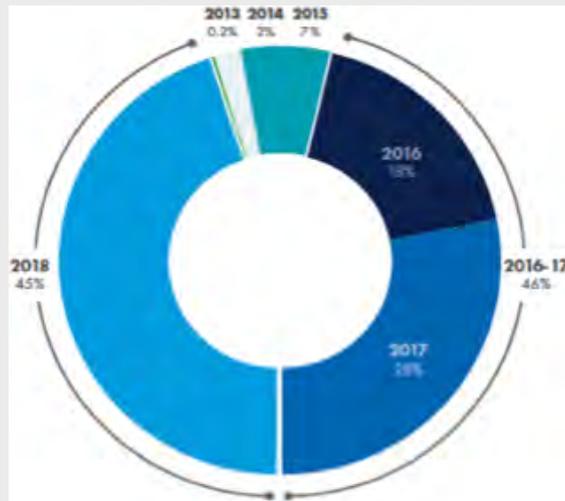
## EXPERT OPINION

### ROSS FORGAN

DIRECTOR, NORTON ROSE FULBRIGHT

According to AIG statistics, business email compromise (BEC) has overtaken ransomware and data breach by hackers and is now the top cause of loss for cyber claims. This is not surprising as bad actors are always looking for the simplest attacks that have the most potential for financial gain (for example, gaining access to mailboxes to find sensitive personal information or use them to divert funds). This can be costly for our insured in terms of both the ensuing forensic investigation and the steps taken to control the damage. Ransomware is also significant and is our second largest cause of loss. We expect to see a continuation of more sophisticated, targeted attacks, with much higher extortion demands.

Cyber Claims Received by AIG EMEA (2013-2018) - Volume



Human error and behaviour also continue to be a significant driver of cyber claims.

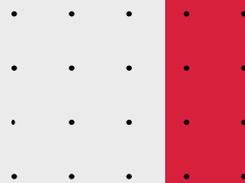
One of the biggest challenges in the industry is viewing “cyber as a peril” vs cyber as just a single insurance product. The impacts of cyber risk are not only financial in nature, such as data destruction and business interruption or liability for disclosure of sensitive data, but can also be tangible, such as damage to or destruction of property or bodily injury. The latter is not always considered when debating cyber risk in the public arena.

It is important to understand which policies include cyber coverage and how these policies will respond when a cyber event occurs. Cybersecurity is no longer a specialist field that concerns only the IT department or a chief security officer. A breach can affect the whole organisation and even put it out of business, so cybersecurity awareness training is now essential for everyone within the company. Organisations and their Boards should have adequate access to cybersecurity expertise and discussions about cyber-risk management should be given regular time on board meeting agendas.

Many financial institutions, blue chip companies, and Government institutions, of which one would expect good security, do not have adequate controls in place to prevent cyberattacks, data fraud, and data theft.

It is often found that a security breach is due to some of the simplest security measures not having been adhered to. Also, organisations that do the basics right have less security incidents, and if they do suffer a security breach, it is typically not as serious or is relatively easy to remediate.

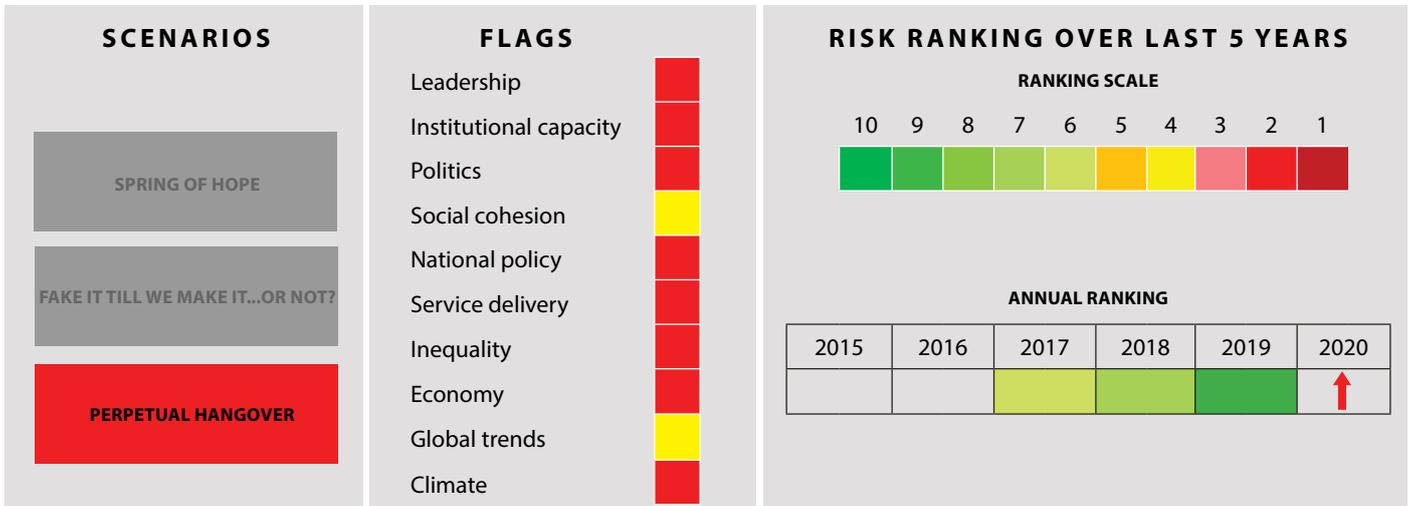
There is also the reluctance of corporates to disclose breaches (until it's too late) and rather have a “reputation management strategy” in place that will address breaches and put clients' minds at ease. This is similar to how big corporates reacted to increasing social media exposures by choosing to clamp down on access to social media rather than dealing with potential breaches and to leverage social media to inform and alert customers e.g. the volcanic eruption in Iceland.



### 4.3.12

## FAILURE, DELAY, AND/OR SUB-OPTIMAL IMPLEMENTATION OF ECONOMIC REFORM INITIATIVES

**DUE TO INCREASING TECHNOLOGY ADVANCES AND COMPLEXITIES, CYBERCRIME MAY ESCALATE BEYOND ORGANISATIONS' CAPABILITY TO MANAGE, IMPACTING ON INDIVIDUAL ORGANISATION'S ABILITY TO OPERATE, AND OVERALL ECONOMIC GROWTH AND BUSINESS CONFIDENCE.**



The combination of low growth and rising unemployment means that SA's economic trajectory is unsustainable. Government should implement a series of growth reforms that promote economic transformation, support labour-intensive growth, and create a globally competitive economy.

Source: Towards and Economic Strategy for SA: Economic Policy, National Treasury (2018)

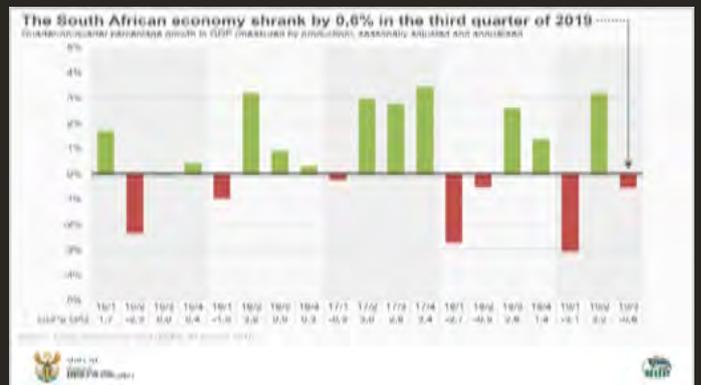
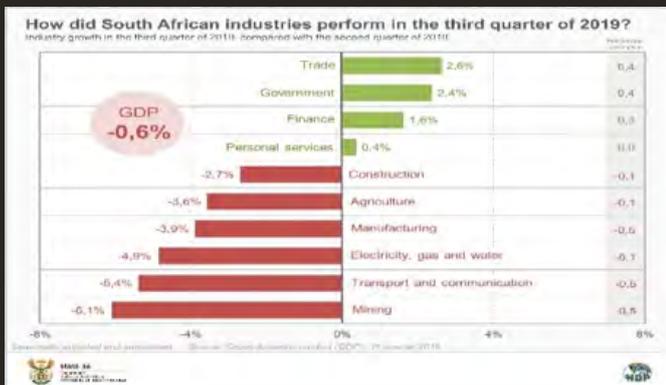
#### TOP 5 CHALLENGES TO ACHIEVING TARGETS

1. The inability of Government to deal decisively with State Capture.
2. Rising debt to GDP.
3. Falling business confidence sentiment.
4. Ongoing inability by Government to deal with SOEs.
5. Policy uncertainty/market unfriendly policies.

#### TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

1. Design market-friendly policies that can attract both foreign and local investment.
2. Create viable Public-Private partnerships to deal with SOEs and boost investor confidence.
3. Prioritise State spending in strategic areas such as public health and education.
4. Implement austerity measures; re-deploy youth to invigorate State departments; and dispose of State assets.
5. Deal decisively with State Capture through the NPA's arrest of high-profile individuals.

### FACTS AND FIGURES



**DANIEL SILKE**  
DIRECTOR, POLITICAL FUTURES CONSULTANCY

SA's 2019 third quarter GDP figures say it all. A contraction of 0.6% means that the country is, once again, flirting with a recession, should the fourth quarter be similarly negative. The GDP numbers mirror the dismal unemployment figures and the broader issues of rising debt to GDP; falling business confidence sentiment; and an ongoing battle to keep the lights on (literally at Eskom and figuratively among a host of ailing State owned entities).

Positive shifts include broad-based recovery of institutional integrity – particularly at the NPA, the Hawks, South African Revenue Service, and in the reconstitution of a host of State owned entities' boards. A better governance ethic is apparent while the PR machine aimed at the investor community is gaining traction.

Yet despite these not insignificant shifts, nothing from the past year seems to be directly impacting the performance of the domestic economy. While re-booting a state from an incapable status to one that is more capable can take many years (thanks to the rot of malfeasance), time is of the essence for a country desperately in need of economic growth.

As we move into early 2020, it is now clear that substantive structural reforms are required. Privatisation and job-shedding must be addressed. Critically, this means that the ANC – and President Cyril Ramaphosa – have to acknowledge that their next few years will be fraught with managing and navigating austerity-style policies, which will also put a strain on the broader alliance and South Africans alike.

With the 2020 Budget due soon, there is a sense that some sort of policy-framework climax is being reached. With the rating agencies on the cusp of a full downgrade – and the potential capital outflows and resultant knock-on effect on the currency and equity markets – there is now no time to waste. Indeed, it would seem as though the country has a rapidly closing window of opportunity in which to make bold moves.

Bold moves includes a more decisive government and a courageous President to deal swiftly with State Capture and deepening corruption. It also means that business should invest in opportunities rather than adopting this “wait and see” approach. Foreign investors would be reluctant to invest if large local corporates do not make positive moves in this direction. Our country has been through much worse and we are moving beyond the previous regime (albeit too slowly and challenging given factions in the ruling party). This means that as citizens we also need to be part of the turnaround strategy. Labour needs to be more innovative in their approach to balance saving jobs with the immediate threat of continuing “business as usual” at all costs.

In addition to a few bold moves highlighted above and the risk treatments for all the other risks in this report, the five fundamental building blocks for sustainable long-run growth that must be considered by all four sectors, are organised according to the following themes:

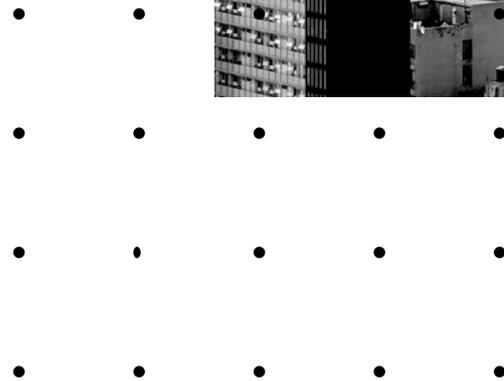
- modernising network industries;
  - lowering barriers to entry and addressing distorted patterns of ownership through increased competition and small business growth;
  - prioritising labour-intensive growth in sectors such as agriculture and services, including tourism;
  - implementing focused and flexible industrial and trade policy; and
  - promoting export competitiveness and harnessing regional growth opportunities.

Lastly, the Report entitled “Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa” released by the Treasury this year provides a number of useful proposals on strategic imperatives that can and should be urgently implemented if we are to avoid another ratings downgrade.



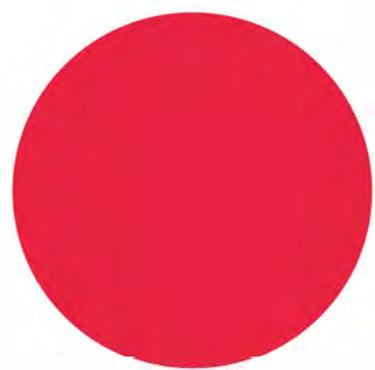
5

**COMPETENCIES  
TO BUILD A  
RISK-RESILIENT  
SOUTH AFRICA**





- 
- 
- 



# WHAT DO WE AS A COUNTRY NEED TO BUILD A RISK-RESILIENT FUTURE?

We firmly believe that the resilience of our country, to prosper in times of challenge and to manage our risks proactively and effectively, depends on the ability of leaders at all levels and in all walks of life to work towards a common purpose: competent to deal with the circumstances they face. This competency further depends critically on our ability as a country to rely on each other's inputs and to trust what we contribute to our risk management effort.

Over the past few months, we conducted two surveys to assist us in this regard:

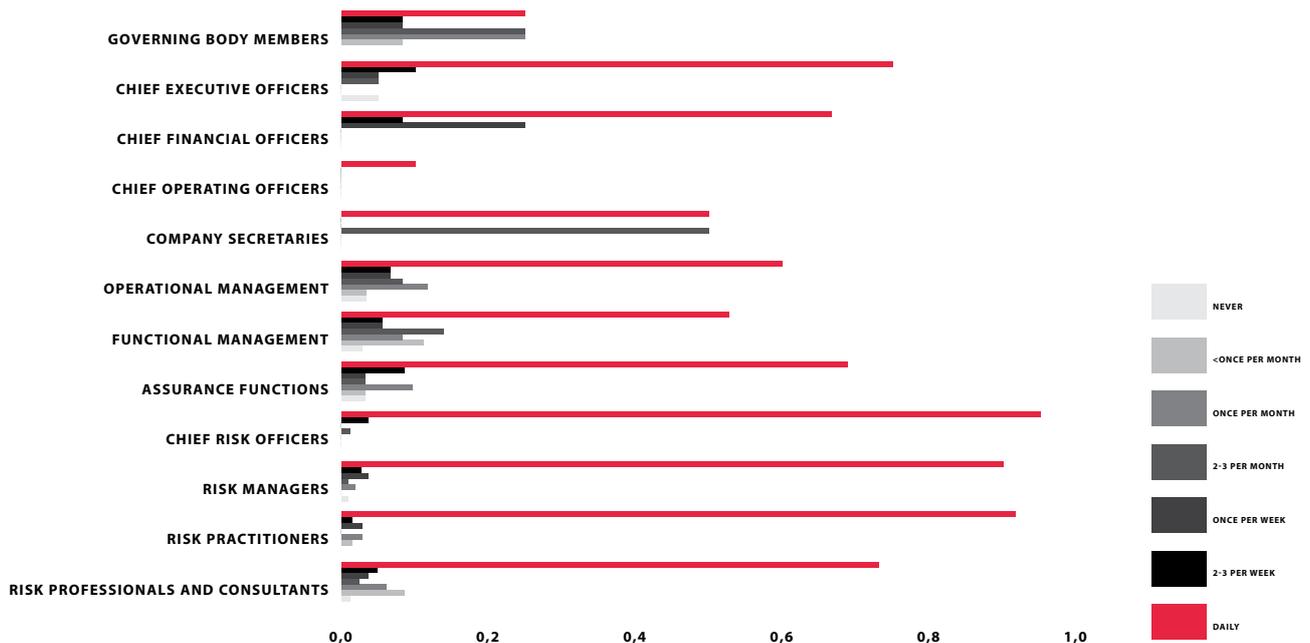
- The first survey aimed to determine the maturity of our risk management methodologies and processes (including integration with other risk related functions), e.g. how individual role players in organisations perceive each other's contribution and use it to inform their risk-based decision making.
- The second survey sought to provide a sense of how South African organisations deal with the actual management of the risks they face and what (outside of the formal risk management process) contributed most to the successful management of risks and how we can benefit from synergising our efforts.

We discuss the results of the following two surveys.

## 5.1 RISK MANAGEMENT MATURITY SURVEY

As a country, it is important to recognise that how well or how badly we respond as a collective to our common purpose, has a direct impact on our effectiveness in working towards and ultimately achieving that objective. Therefore, the aim of our risk management maturity survey was mainly to determine the differences in approaches and perceptions about risk management methodologies and how the different groupings of individuals responsible for risk management viewed their organisations' risk management efforts. We received 436 responses, categorised as follows:

All respondents were involved in the risk management process regularly, as reflected below:



GRAPH 2: ROLES OF PARTICIPANTS.

We present the opportunities for increasing the effectiveness of risk management as deduced from the responses to the different questions posed to our participants. Risk professionals, boards, executive- and oversight committees should consider the following:

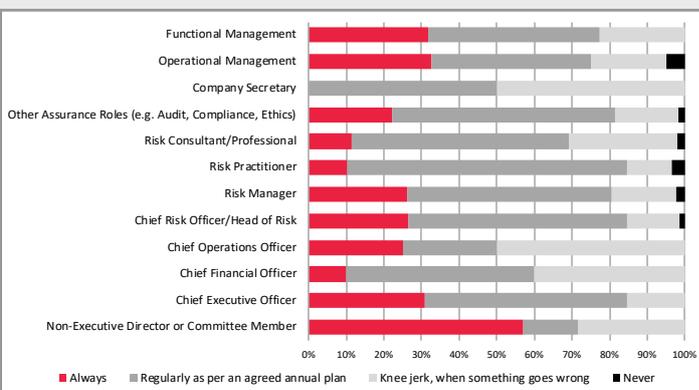
### RISK CULTURE, TONE AT THE TOP AND ROBUSTNESS OF RISK DISCUSSIONS

1. Risk managers who add the most value to an organisation's performance are the ones who have accepted the notion that risk is about the future and uncertainty – moving beyond the risk register.
2. Expect risk management to be more real-time and less driven by the annual plan or the quarterly reporting opportunities.
3. Request a risk culture and risk maturity assessment at least every three years to assess, independently, the organisation's risk culture and risk maturity.

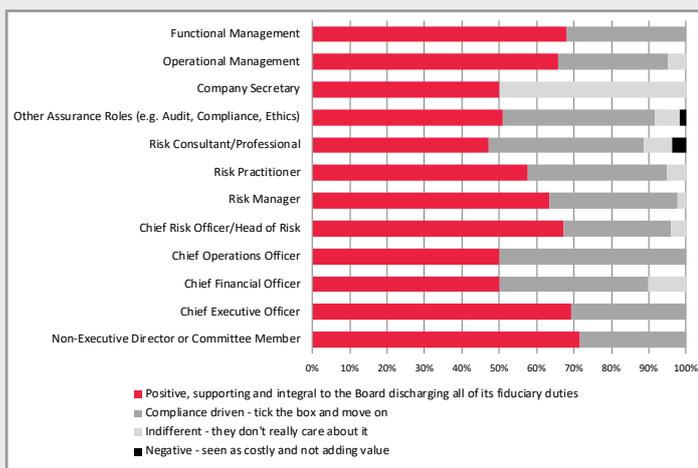
**HOW OFTEN DOES YOUR EXCO HAVE ROBUST RISK DISCUSSIONS VS TAKING THE RISK SUBMISSION "AS READ"?**



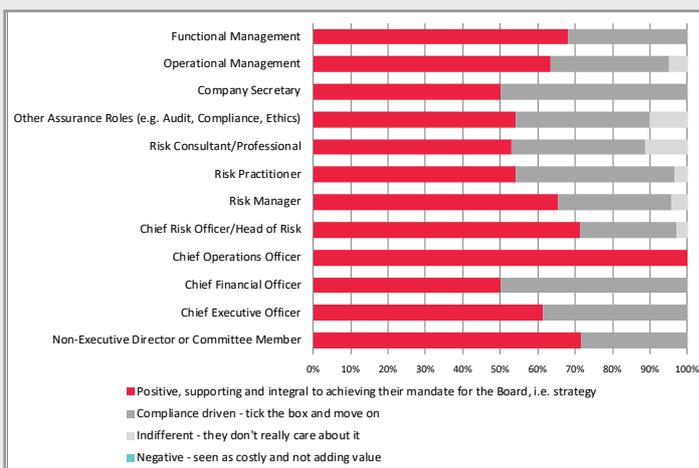
**HOW OFTEN DOES YOUR BOARD HAVE ROBUST RISK DISCUSSIONS VS TAKING THE RISK SUBMISSION "AS READ"?**



**WHAT IS YOUR BOARD'S TONE AT THE TOP WITH REGARDS TO RISK MANAGEMENT?**



**WHAT IS YOUR EXCO'S TONE AT THE TOP WITH REGARDS TO RISK MANAGEMENT?**

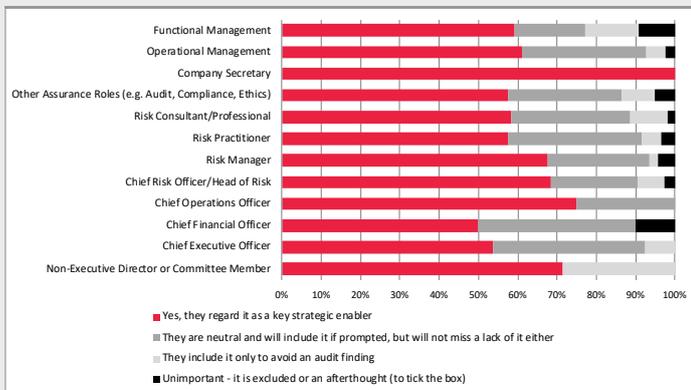


**GRAPHS 3: RISK CULTURE, TONE AT THE TOP AND ROBUSTNESS OF RISK DISCUSSIONS.**

## ALIGNMENT BETWEEN RISK MANAGEMENT AND STRATEGY

1. Expect risk management to fulfil a significant role in strategy setting. This includes context setting, scenario planning and predictive data analytics.
2. Risk managers should be expected to confidently comment on the performance of an organisation and contribute to the company's agility by delivering quality, timeous and relevant information.
3. Critical to integrating a company's strategy, business objectives and performance with risk management.
4. Insist on a high level of risk expertise across the organisation's leadership and management structures.
5. All organisational objectives must be subjected to risk assessments.

### DOES YOUR BOARD INCORPORATE RISK MANAGEMENT WHEN SETTING AND EXECUTING STRATEGY?



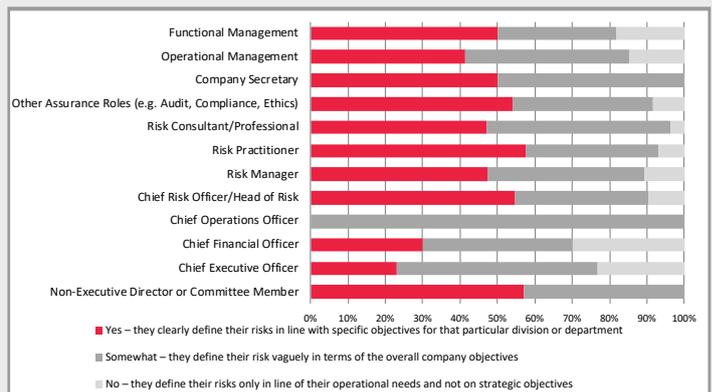
### DO ALL AREAS OF YOUR ORGANISATION UNDERSTAND THEIR ROLE IN ACHIEVING BUSINESS OBJECTIVES?



### DOES YOUR EXCO INCORPORATE RISK MANAGEMENT WHEN SETTING AND EXECUTING STRATEGY?



### DO ALL AREAS OF YOUR ORGANISATION LINK THEIR RISKS TO THE ACHIEVEMENT OF THEIR BUSINESS OBJECTIVES?



GRAPHS 4: ALIGNMENT BETWEEN RISK MANAGEMENT AND STRATEGY.



# TAKE YOUR **RISK MANAGEMENT** TO THE NEXT LEVEL

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**RM\$SA**

The Institute of Risk Management  
SOUTH AFRICA

**IRMSA Award for Risk Management System Provider 2019**

**tt100**

The Da Vinci Business  
Innovation Awards Programme

**TT100 Award for Excellence in the Management of Technology 2019**

**TT100 Award for Excellence in the Management of Innovation 2019**

**TT100 Award for Excellence in the Management of Systems 2019**

**gRC2020**

**GRC 20/20 Risk Management Value Award 2019**

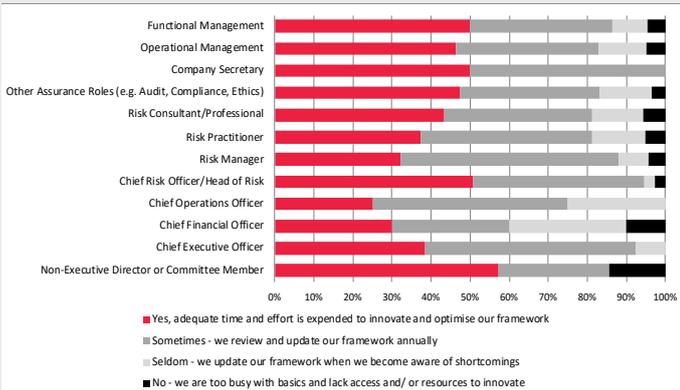
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## RISK MANAGEMENT CAPABILITIES

1. Adopt a risk management approach and framework that is sound and flexible enough to effectively respond to the risks and opportunities in a rapid changing business landscape.
2. Ensure that the risk management function is adequately resourced to support effective risk-based decision making in the organisation.
3. Skills should be developed to incorporate data analytics, quantification of risk and opportunity as well as the development of predictive capabilities ensuring speed, agility and coverage expected in a dynamic business landscape.
4. Innovation in the ways that risk data is obtained leading to real-time risk monitoring and management as well as optimising time and resources.

### IS YOUR ORGANISATION'S RISK MANAGEMENT FRAMEWORK INNOVATIVE ENOUGH TO REMAIN RELEVANT AS THE DISCIPLINE AND BUSINESS CONTEXT DEVELOP?



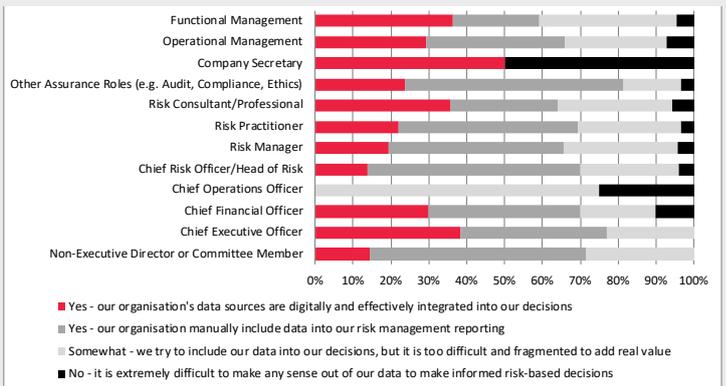
### DO THE REST OF YOUR ORGANISATION'S PERSONNEL HAVE THE ADEQUATE SKILLS TO MANAGE RISKS IN THEIR AREAS OF RESPONSIBILITY?

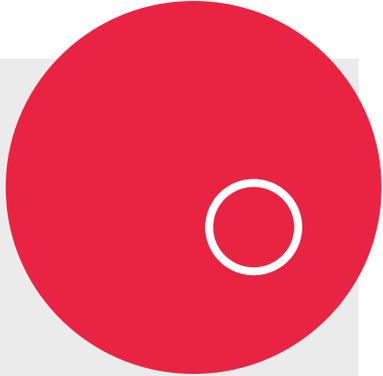


### DO YOU HAVE THE APPROPRIATE RISK MANAGEMENT SKILLS?

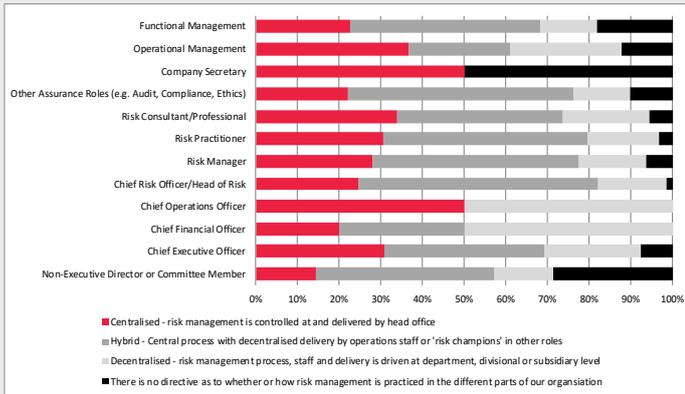


### DOES YOUR ORGANISATION OPTIMALLY USE DATA TO MAKE INFORMED RISK-BASED DECISIONS?





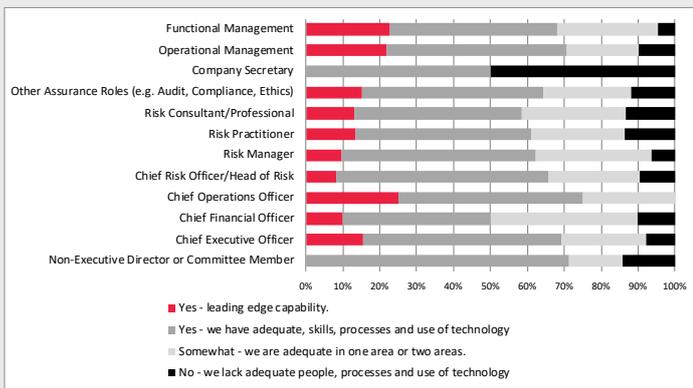
**WHAT IS YOUR ORGANISATION'S RISK DELIVERY MODEL?**



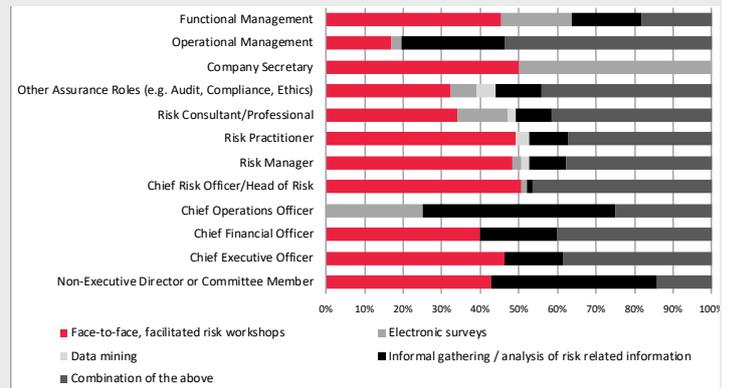
**ARE YOUR ORGANISATION'S RISK MANAGEMENT RESOURCES ADEQUATE TO MANAGE ITS RISKS?**



**DOES YOUR RISK MANAGEMENT DEPARTMENT HAVE THE APPROPRIATE RISK MANAGEMENT CAPABILITY?**



**WHICH RISK MANAGEMENT TOOL IS MOST VALUABLE IN YOUR ORGANISATION TO DRIVE RISK MANAGEMENT OUTCOMES?**

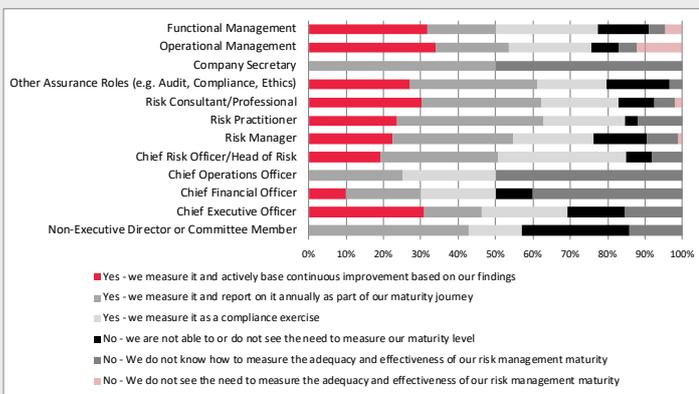


**GRAPHS 5: RISK MANAGEMENT CAPABILITIES.**

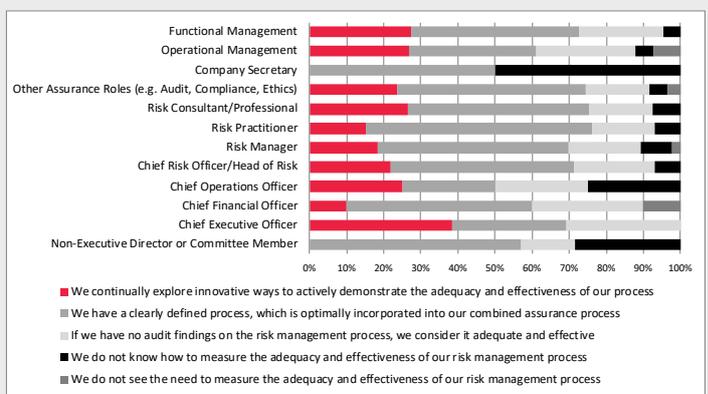
## RISK MANAGEMENT ADEQUACY, EFFECTIVENESS AND MATURITY

1. Expect risk management to be more real-time and less driven by the annual plan or the quarterly reporting opportunities.
2. Request a risk maturity assessment at least every three years to assess independently the organisation's risk maturity.
3. Risk management capabilities must include quantitative and analytical skills as this may make risk management more predictive and support the business' strategy with alternative futures, which will lead to better decision-making.

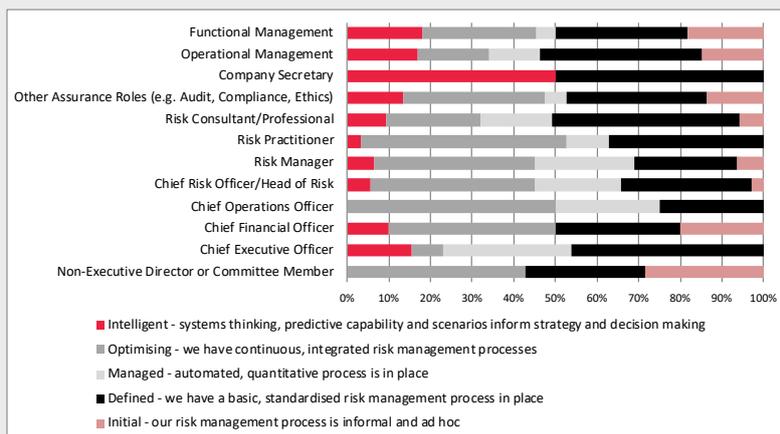
### DOES YOUR ORGANISATION MEASURE ITS RISK MANAGEMENT MATURITY?



### HOW DO YOU MEASURE THE ADEQUACY AND EFFECTIVENESS OF YOUR RISK MANAGEMENT PROCESS?



### WHAT IS YOUR ORGANISATION'S RISK MANAGEMENT MATURITY LEVEL?



GRAPHS 6: RISK MANAGEMENT ADEQUACY, EFFECTIVENESS AND MATURITY.

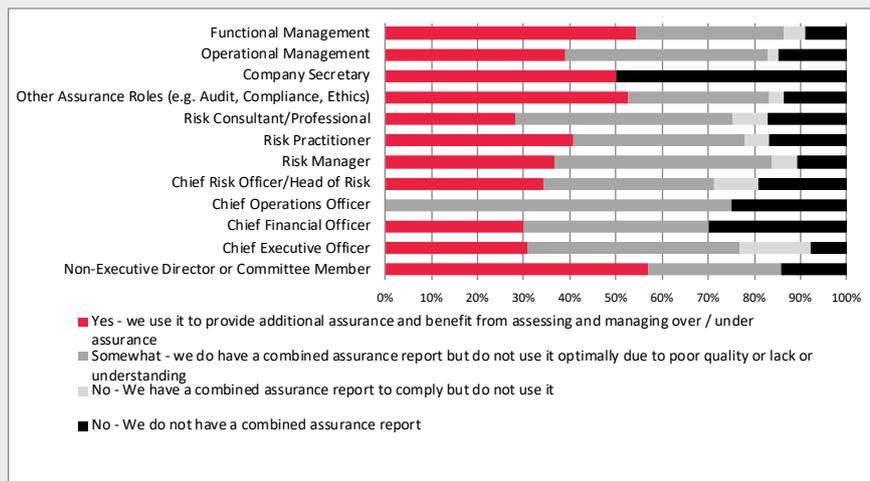
## RISK ASSURANCE AND GOVERNANCE

1. Risk reporting can be improved to support risk-based decision-making by moving away from the scheduled type reporting to a more relevant and timeous reporting method. This will only be possible with innovative real-time data analytics, scenario and predictive capabilities and intelligent survey/tracking solutions.
2. Better understand the concept of combined assurance and the impact it may have on the level of confidence boards, executive- and oversight committees can place on the information reported to them.
3. Implementing performance and consequence management.

### IS YOUR ORGANISATION'S OWN RISK REPORT EFFECTIVELY UTILISED IN THE ORGANISATION'S RISK-BASED DECISIONS?



### IS COMBINED ASSURANCE OPTIMALLY USED AS PART OF AN INTEGRATED RISK MANAGEMENT PROCESS?



**GRAPHS 7 : RISK ASSURANCE AND GOVERNANCE.**

## 5.2

### **MANAGEMENT OF RISK SURVEY INSIGHTS BASED ON “OUR COLLECTIVE STORIES”**

During November 2019, we asked some of our country's top leaders (governing body members, executives, risk leaders) of listed and unlisted private entities as well as public sector organisations to share their experiences of how risks and opportunities are managed by them and/or others.

Respondents came from a range of industries and were all very experienced, with the lowest representation being those with less than two years' experience in their roles. The results from the 81 leaders that participated provide an eye-opening glimpse into the intuitive working of risk management in our country.

**“THEY SAY THAT HINDSIGHT IS PERFECT. OFTEN, LOOKING BACK, WE SEE SOMETHING WE KNEW ABOUT AND WHICH PRESENTED A RISK OR AN OPPORTUNITY, BUT FOR SOME REASON WE DID NOT PAY ATTENTION TO IT. AT OTHER TIMES, WE WERE BLINDSIDED BY SOMETHING COMPLETELY UNFORESEEN, OR SOMETHING WE COULD HAVE SEEN COMING, BUT JUST DID NOT. AT THE BEST OF TIMES, SOMETHING WE DID FORESEE, ACTUALLY CAME ABOUT AS WE INTENDED. THINK OF AN EXPERIENCE WHERE YOUR ORGANISATION ENCOUNTERED A SITUATION LIKE THIS. REFLECT ON HOW THE SITUATION WAS MANAGED, AND HOW THIS IMPACTED THE OUTCOME (EITHER POSITIVELY OR NEGATIVELY).”**

**TELL US YOUR STORY...**

Note: This section should be read in conjunction with the section on Navigating Complexity: The Frontier of Risk Management in Section 6 – Call to Action

## OUR APPROACH: HOW WAS DATA COLLECTED?

This research was conducted using an approach and software tool that has its roots in weak signal detection in complex contexts. Sensemaker® was developed by Prof Dave Snowden (Cognitive Edge) and differs from traditional quantitative and qualitative research techniques in two foundational ways:

### SELF-INTERPRETATION

Respondents are prompted to share a story of an actual experience. They are then asked to answer questions about their story, adding quantitative data to the qualitative story. This puts the power of interpretation back in the hands of the storyteller, vs qualitative processes where interpretation is done by analysts and bias often creeps in. These quantitative questions are presented as triangles where three concepts are presented that are in tension with each other. These questions force respondents to think, as there is no clear "right answer". Sensemaker data is therefore much richer than normal surveys.

### DISINTERMEDIATION

Data is presented in visual form. Quantitative patterns are accompanied by supporting narratives to provide context. Decision-makers can interact with these patterns and read the stories to come to their own insights. Again, there is no intermediaries involved that adds their own biased views.

The results presented below represent how the various respondents felt the questions related to their particular story. In scatter graphs, each dot represents someone's story and where they placed it.

## WHO RESPONDED?

We categorised the responses as follows:

**EXECUTIVES  
(31%): GOVERNING  
BODY MEMBERS,  
EXECUTIVES AND  
SENIOR GOVERNMENT  
OFFICIALS.**

**RISK AND RELATED  
PROFESSIONALS (57%):  
RISK MANAGEMENT,  
FORENSIC,  
COMPLIANCE,  
RESILIENCE, ETC.**

**SPECIALISTS  
(12%): ACADEMICS,  
CONSULTANTS,  
ENGINEERS.**

## WHAT WERE WE LOOKING FOR?

The insight we were interested in is how people perceived the management of risk in the real world, based on actual their experiences inside and outside the boardroom. To explore this, we looked at actual stories - retellings of experiences – with positive or negative outcomes. Stories can be considered as "warm data" (Nora Bateson); they encapsulate our emotional and embodied response to what happened. Given that our perceptions and decision-making make use of embodied, emotional, and rational processes, stories provide a better insight into the environment we operate in than does a traditional survey.

## WHAT KINDS OF RISKS DID OUR RESPONDENTS TALK ABOUT?

The stories were fairly equally distributed between how they impacted on strategy, operations, and reputation in the organisations where they originated.

## WHAT INFLUENCED THE OUTCOMES IN THESE STORIES?

There was a significant difference between what influenced the outcomes in the stories told. Incidents driven by insight were more successfully managed than those driven by emotion and politics. Where decisions were influenced by politics, learning did not happen – the context in which these decisions were taken stayed the same after the event, and respondents felt more negative about their stories.



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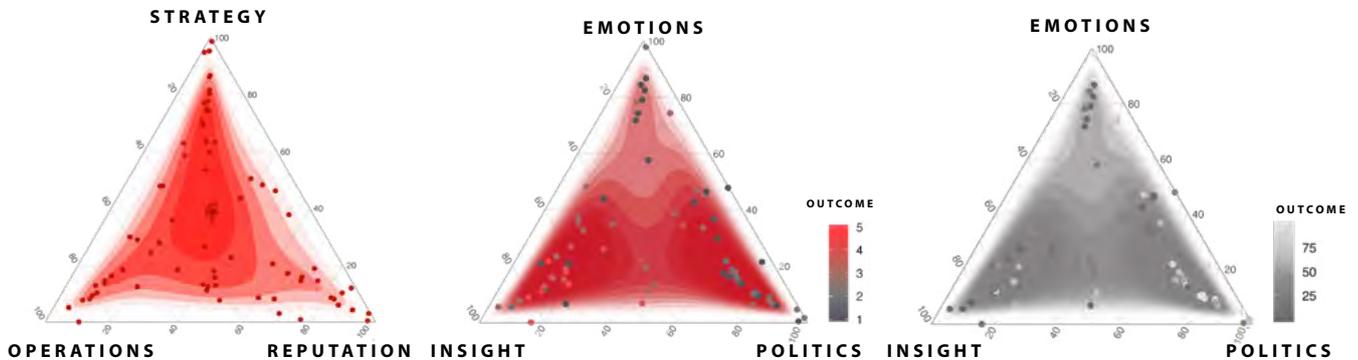
Rapid changes in the regulatory, business and technology environments are intensifying the volume and complexity of GRC policies and practices. Those charged with the role of risk and compliance are under increasing pressure to meet ever-changing regulatory challenges and require the ability to identify and respond to these challenges amidst competing business priorities.

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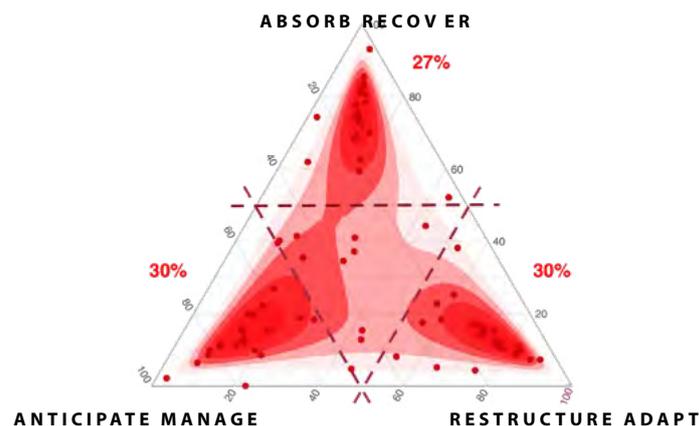
Given the South African context, this is an important insight; organisational learning from unexpected surprises (both failures and successes) is essential for building organisational resilience. Political influence is undermining a healthy organisational risk culture in several organisations.



In general, how respondents felt about their stories was tied to the outcome of such stories. There were more stories about which respondents felt “Negative” or “Highly Negative” than “Positive” or “Highly Positive” (these are indicated by the colour assigned to the dots. Blue represents outcomes that were disastrous, orange dots represent outcomes that were resounding successes). An openness to discuss things that might go wrong contributed to positive experiences.

## WERE THE STORIES ABOUT ANTICIPATION, RECOVERY, OR ADAPTATION?

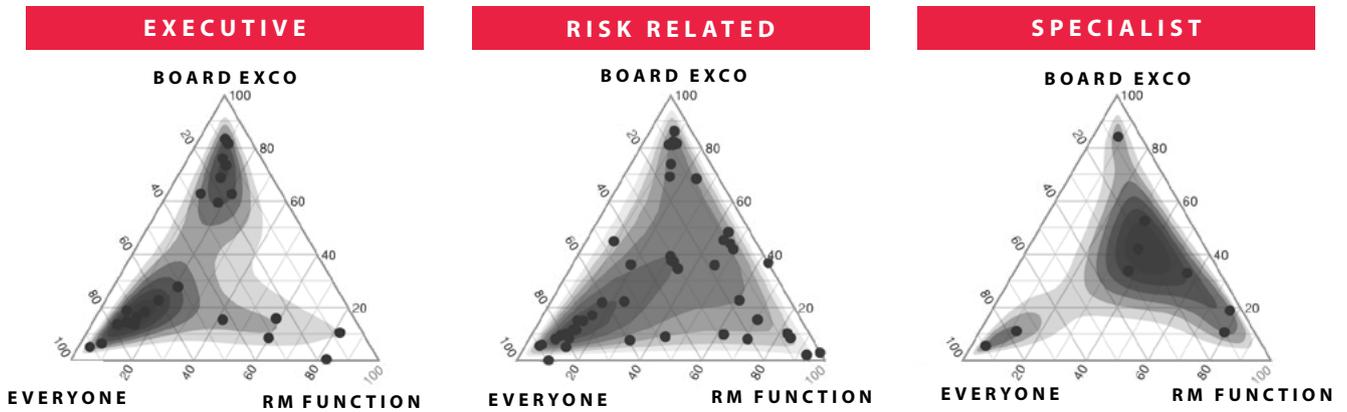
There was an even spread of stories that related to the need to anticipate and manage an incident, absorb and recover, or restructure/adapt after an incident. Risk management would ideally anticipate threats and opportunities and then manage these. Many of the stories related to incidents materialising. Whilst this may be expected when the nature of stories is not prescribed – it does lend support for suggestions that risk and resilience be managed more closely together.



## WHO WAS CONSIDERED RESPONSIBLE FOR MANAGING RISK IN THESE STORIES?

Few respondents thought that managing risk was mostly the responsibility of the risk management function. The view of Executives fell into two groups, those who thought managing risk is mainly the role of the Board and EXCO, and those who thought it is everyone’s responsibility.

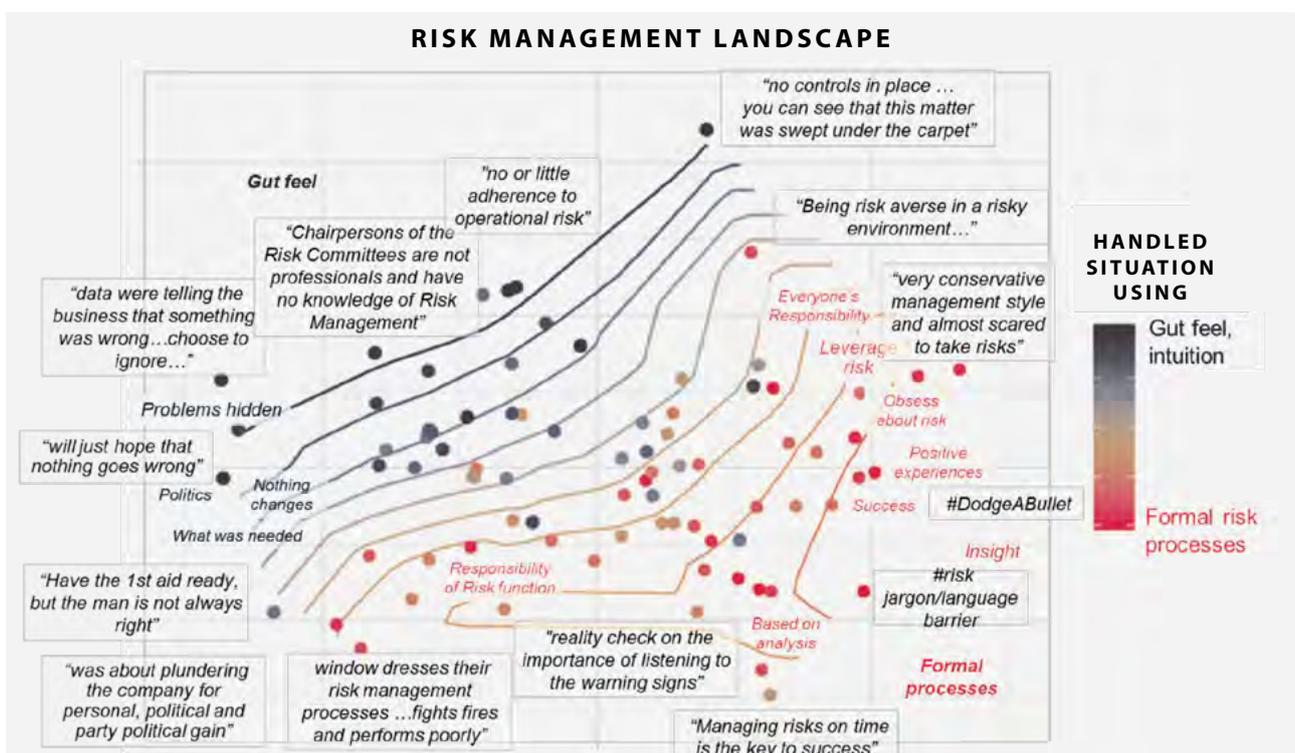
The view of the Executive function may well suggest that responsibility for strategic vs operational risk management lies with the C-suite and operations respectively (and that the role of the risk management function is to shape this). Experts tend to relate to organisations as complicated systems rather than complex adaptive systems; this seems to be supported by the low number of responses suggesting that risk management was the responsibility of “everyone”.



## HOW WAS THE RISK HANDLED: USING FORMAL PROCESSES AND CONCEPTS OR GUT FEEL AND INTUITION?

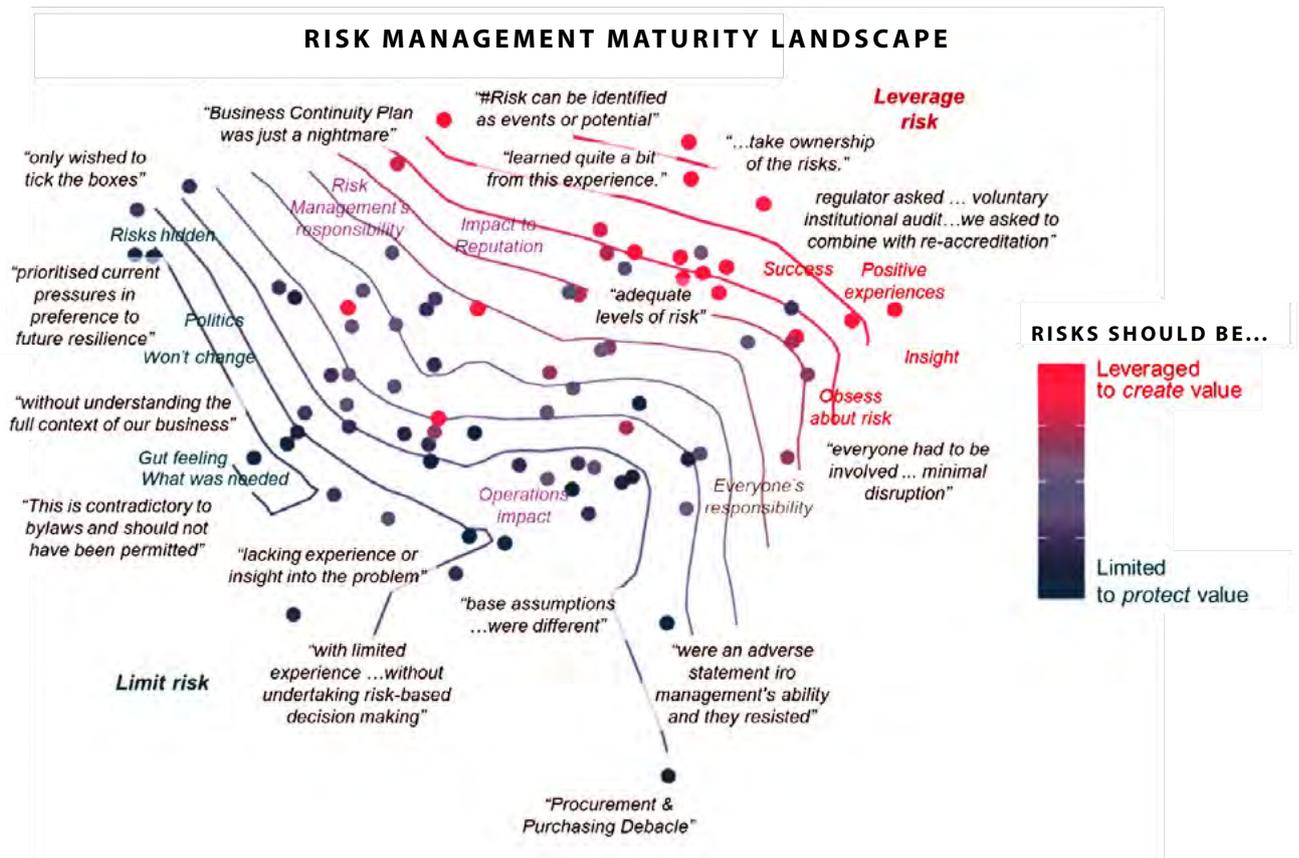
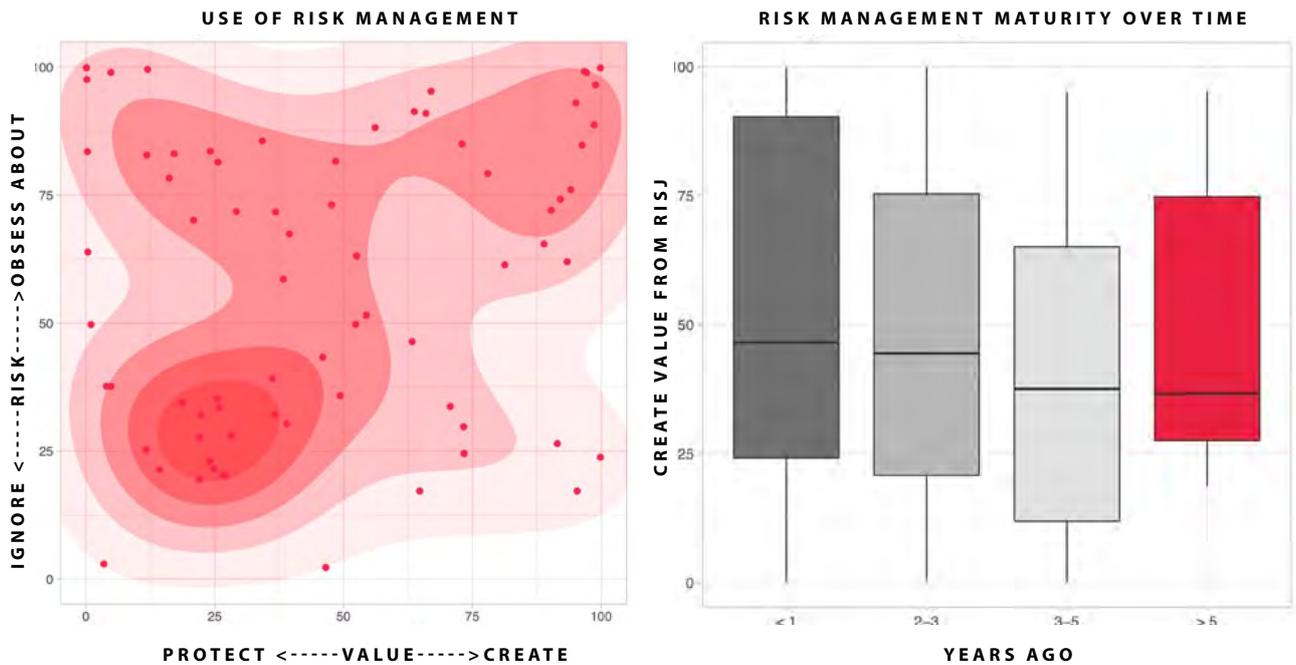
Regarding how situations were handled, 54% of respondents said that formal risk management concepts and processes were used. Risk-related professionals favoured formal risk management more than gut feel and intuition, whilst Executives were split half-and-half between formal processes and gut feel and intuition. This suggests the need for a deeper discussion between the C-suite and the risk function on how risk is managed to query mental models. Gut feel and intuition play an important role in real-time decision making; overly rigid processes give rise to less agile organisations.

The landscape below explores factors extracted from the stories related to the use of formal risk management processes and concepts (or not). Here the contour lines represent where stories are clustered. Snippets illustrate the kind of stories that underly particular parts of the landscape.



# WHAT WERE THE ATTITUDES TO THE MANAGEMENT OF RISK?

Many stories related to risks not being adequately considered, even when it could have been used to protect value. Those stories that related to creating value, suggested a strong focus in the organisation on the management of risk. Stories drawn from the recent past (the last year) suggest a growing use of risk management to create value – suggesting some increase in risk maturity over the last 5 years.



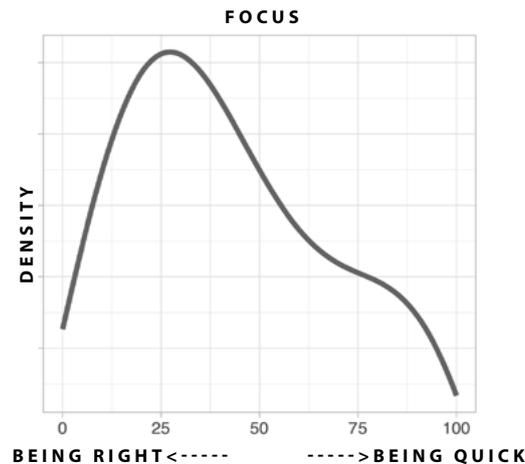
# THE BALANCE BETWEEN FINDING “THE RIGHT ANSWERS” AND “RESPONDING QUICKLY”

When making decisions, the focus was more often on having the right answers or solutions than on responding quickly.

**THIS COULD BE PROBLEMATIC IN VUCA (VOLITILE, UNCERTAIN, COMPLEX AND AMBIGIOUS) ENVIRONMENTS WHERE THERE OFTEN ARE NO “RIGHT” ANSWERS; ORGANISATIONS MAY BE PARALYSIED BY NOT HAVING ENOUGH INFORMATION TO MAKE THE RIGHT DECISION, LOSING THE WINDOW TO ACT WITH IMPACT.**

**ORGANISATIONS NEED TO DEVELOP HEURISTICS AND RITUALS THAT COUNTER PARALYSIS FROM THE NATURAL ANXIETY THAT ARISES IN GREAT UNCERTAINTY (BY ACCEPTING THAT THERE IS NO ONE RIGHT PLACE TO START OR END AND TAKING THE NEXT FIT-FOR-CONTEXT ACTION THAT MAKES SENSE IN THE “HERE AND**

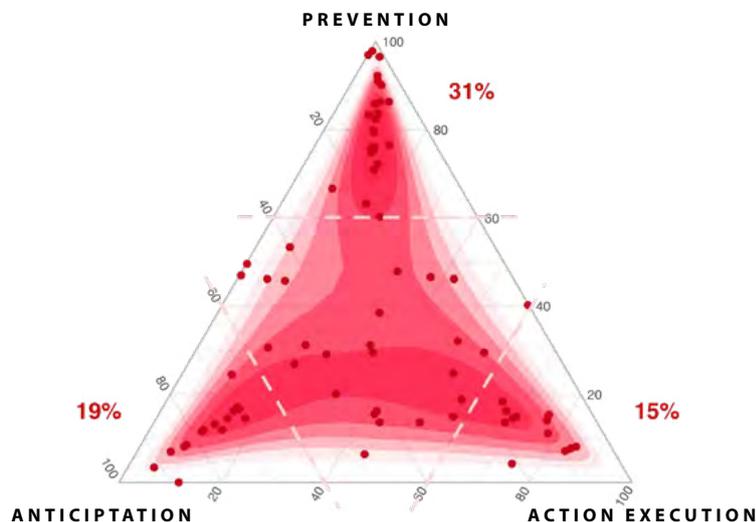
**NOW”).**



# HOW WERE RISKS ANTICIPATED AND RESPONDED TO?

In the stories told, what could go wrong was usually pointed out. When it was hidden, it contributed to disastrous outcomes. Almost a third of the respondents felt that their story needed a better focus on prevention; a third was split between better anticipation and execution of actions to respond to the risk; whilst the last third thought more than one of these aspects needed improvement.

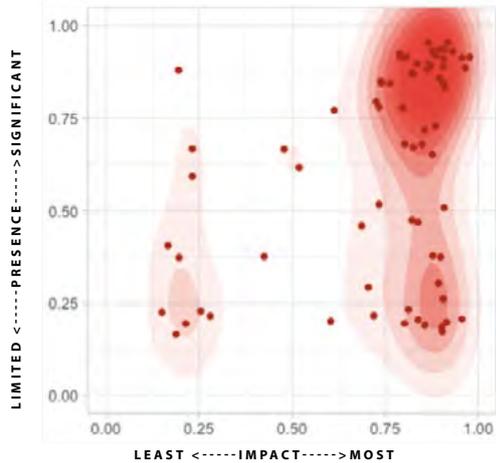
**INCOMPLEX SYSTEMS NOT ALL RISKS CAN BE ANTICIPATED (E.G. UNKNOWN UNKNOWN). ESTABLISHING SITUATIONAL AWARENESS THAT DRIVES ACTION IS ESSENTIAL IN A VUCA ENVIRONMENT. THE EFFECTIVE MANAGEMENT OF RISK INCREASINGLY DRIVES A BLURRING OF TIMEFRAMES BETWEEN ANTICIPATION, PREVENTION AND ACTION EXECUTION.**



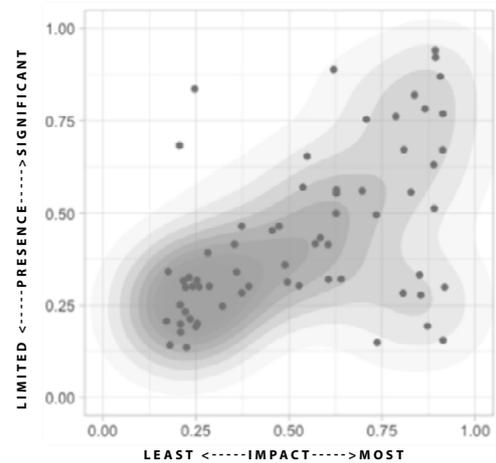
# WHAT ROLE DID EMERGING RISK MANAGEMENT COMPETENCIES PLAY IN THE STORIES TOLD?

With the need for risk management to become attuned to an increasingly complex world, and more responsive to real-time developments, we explored the roles of several key competencies that future risk managers need to develop. Of these competencies, Situational Awareness and Sense-making (or the lack thereof) were generally considered to have had a significant impact on the outcome. Curiosity was considered as having a limited impact as well as a limited presence in the stories. Where an Experimental Mindset and Unlearning were considered present in the story, these generally had a significant impact on the outcome. The impact and presence of Embracing Diversity varied across the stories.

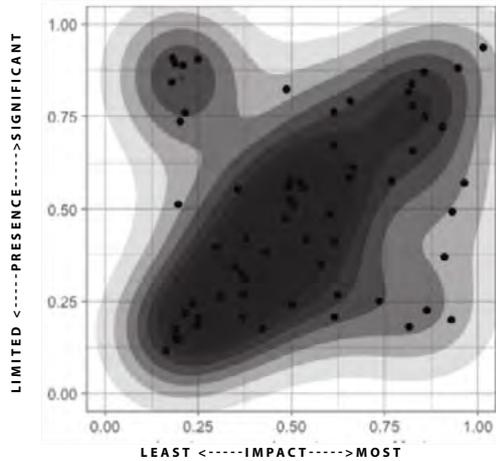
**SITUATIONAL AWARENESS**



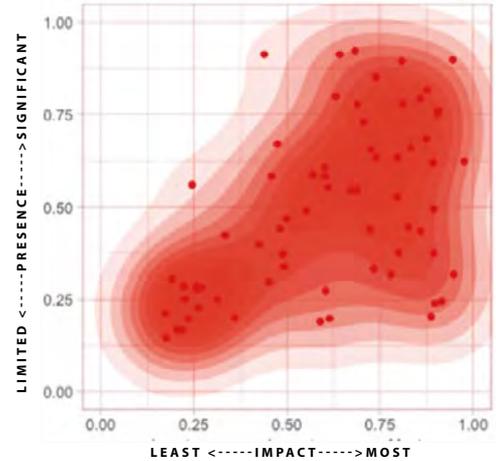
**CURIOSITY**



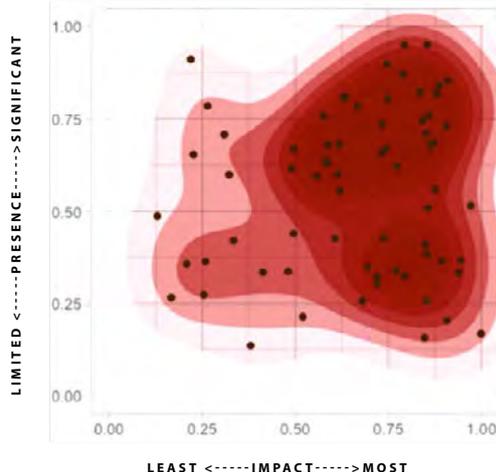
**EMBRACING DIVERSITY**



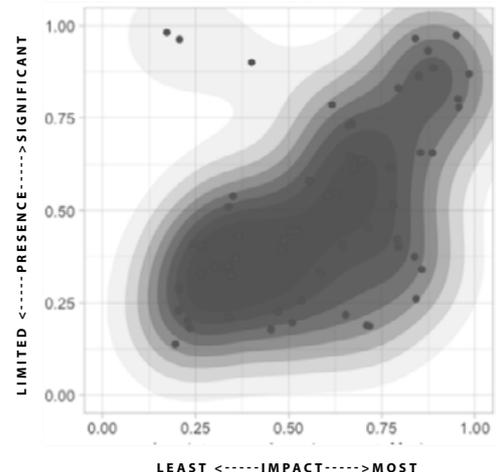
**UNLEARNING**



**SENSE MAKING**



**EXPERIMENT MINDSET**



## WHAT CHANGES DO WE WISH TO SEE IF WE WANT MORE POSITIVE OUTCOMES IN MANAGING RISKS?

One of the roles of a leader in developing a robust risk culture, is to influence the stories that people circulate about what is really happening in the organisation. To do this, leaders would be advised to identify what negative stories that need to be “dampened” and what positive stories need to be “amplified” through carefully designed interventions. It is important to realise that stories will not change unless people are having experiences different from those that created these. For example, if we want to evolve to a culture where everyone is risk-aware and willing to help manage it, but a current dominant narrative in the organisation is that it is career limiting to highlight risks, the experiences that people are having that is creating that narrative need to change.

**FROM THE STORIES GATHERED IN THIS STUDY, WE HAVE IDENTIFIED SEVERAL OF THE STORIES THAT WE “NEED FEWER OF”, AND OTHERS THAT WE “NEED MORE OF” IN ORDER TO STRENGTHEN THE IMPACT THAT RISK MANAGEMENT MAKES IN SOUTH AFRICA. SOME EXTRACTS FROM THESE STORIES ARE LISTED BELOW.**

### ...FEWER STORIES LIKE THIS...

Senior management felt that risk management’s opinions and risk assessments were an **adverse statement in respect of management’s ability**, and they resisted. The risk landscape remained unfortified and the risks materialised.

His focus was on increasing **efficiency at the expense of resilience**, when engaged on the risk that this posed, he became angry, saying that he was **focusing on the KPIs set for him by the shareholder**.

Data were telling the business that something was wrong, the business chose to **ignore my warnings** and... chose to **focus all negative energy on me** finally causing me to leave my employ.

The CEO was, as we later found out, captured and his executive leadership was, with one or two exceptions, a sycophant-collective. There was no board... The risk that **this concentration of power** could lead to a complete failure in governance was raised but ignored... could have been avoided if there had been a **capable, confident, and courageous executive team** and a well constituted and governed board of directors.

### ...MORE STORIES LIKE THIS...

At group executive level, executives in my own entity and the regulator were working towards a **goal in everyone’s interest**. It was encouraging to me that all concerned **took the broader picture into account**.

This was a clear reality check on the importance of **listening to the warning signs** reported through various forums and risk reporting dashboards – these were previously brushed off as business owners had other priorities.

the **leadership “presence”** of the General Manager involved – she attended much of the session... Two weeks later a major storm impacted... The system was used successfully to restore supply...

“Important to **take adequate levels of risk** in support of a well-considered strategy and associated objectives. Do not become too much internally focussed. The strategy was changed eventually.”  
“Important to take adequate levels of risk in support of a well-considered strategy and associated objectives. **Do not become too much internally focussed**. The strategy was changed eventually.

Where we suspect problems, we should **take decisive action**.

Reading the stories in detail provides ample material to inform a consideration of risk management through the lens of risk management thinking and devise ways to leverage the risks to add value. A variety of positive and negative risk themes can be identified from the stories. For example, boards can be not in place; not qualified; and not pay enough attention to risk, or they could consider risk to be their prerogative rather than everyone's responsibility. Similarly, strategies could be too risky or too conservative given the business context. Stories demonstrate the impact of the absence and presence of risk leadership. They show different approaches to risk: "risk management is embedded learning" or learning can be inhibited by factors such as politics. Risk management processes can be under-utilised or over-formalised, where it is not appropriate. Inexperience and over-confidence both contribute to undue risks being taken.

Story details point to nudges or probes that can be put in place to shift these risk themes in beneficial directions. For example, allies among leadership can be identified to help create momentum or a climate in which things that could go wrong are openly discussed can be fostered in pockets and gradually expanded. Successful outcomes linked to appropriate risk management can be celebrated in ways that build buy-in.

## **IN CONCLUSION**

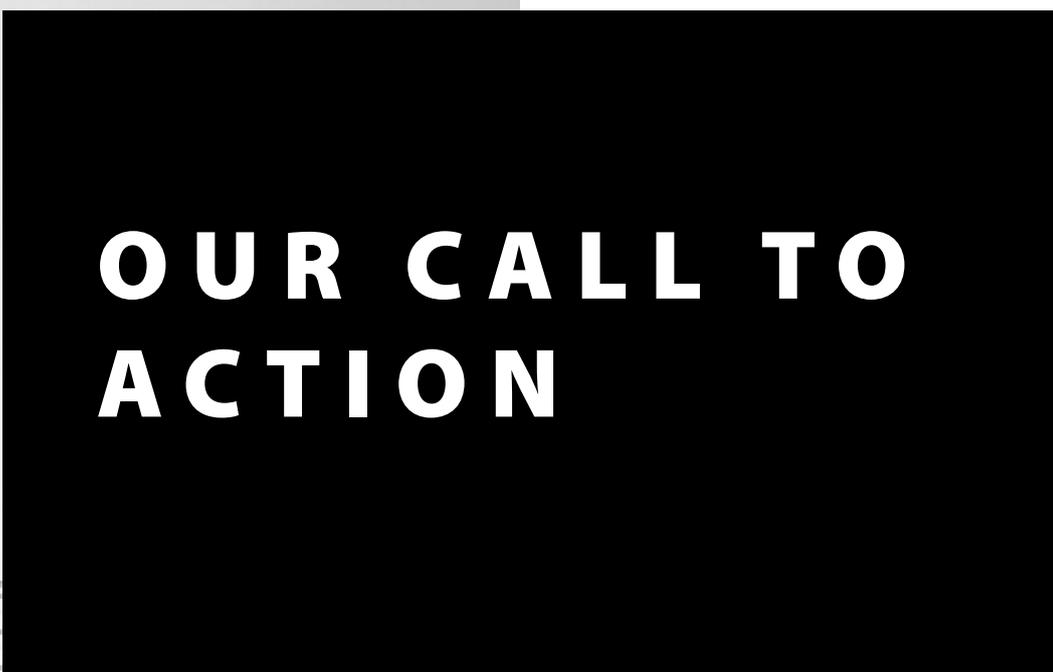
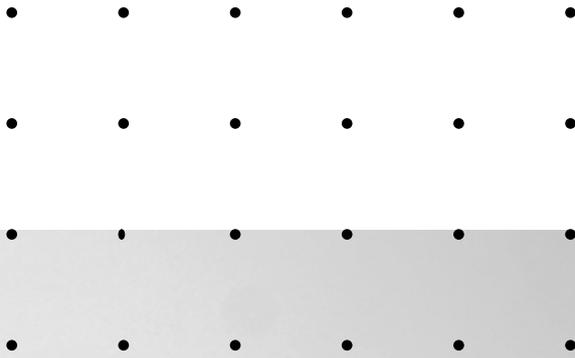
The "warm data" embedded in stories such as those collected in this study give us an insight into the landscape of risk management in South Africa. By responding to these stories with the insights in this year's IRMSA report we can influence that landscape and the stories that will be told in the future.

### **REFERENCES / TO FIND OUT MORE**

<https://www.morebeyond.co.za/storyscaping-culture/>

<https://cognitive-edge.com/sensemaker/#sensemaker-about>





**OUR CALL TO  
ACTION**



## 6.1

# IRMSA'S CONTRIBUTION TO ACHIEVING "SPRING OF HOPE"

## GILLIAN LE CORDEUR

It has been rewarding and empowering to see how the IRMSA members adopted the 2019 theme of #Impact: A year of Risk Activism and have proven to be committed Risk Activists. As a collective the IRMSA members have resonated with the difference that they as South Africa's Risk Professionals have made and are responsible for driving in their respective government departments, their organisations and their communities.

This role, and the journey our members find themselves on, can be challenging and often daunting considering the current state of affairs in our beloved country, and at our IRMSA Conference in October 2019 we were aptly reminded by Chief Justice Mogoeng Mogoeng of these challenges. The Chief Justice highlighted the pivotal role our members as Risk Professionals and more so as 'Risk Activists' have played and will continue to play in supporting the healing of our nation. IRMSA and its members heard his call and are committed, knowing the value of risk management and the true impact it makes, to lead in overcoming the obstacles we face as a nation.



**GILLIAN LE CORDEUR**

**CHIEF EXECUTIVE OFFICER  
INSTITUTE OF RISK MANAGEMENT SOUTH AFRICA**

Chief Justice Mogoeng Mogoeng reminded our members that their conviction as Risk Activists may at times result in them being ostracised for speaking the truth. Unfortunately, we are already seeing this and there have been several incidents where our members have been intimidated or threatened for performing their roles as they should be. IRMSA takes this threat very seriously, and we cannot afford to lose our pivotal positioning in the strive to ensure good governance and strong ethics within all organisations. The Institute will continue to push to ensure that we work with other professional bodies, who find themselves in similar positions, and to have a voice in the country conversation.

A strong message to the leadership of our country, is to influence the way decisions are made – risk management should be involved before a decision is made. It is too late to bring in risk management once an issue has revealed itself due to bad planning and implementation. Our risk professionals understand this as it is the core value that we work towards, but it is now important for the right conversations to be had to ensure that the big picture is affected. How do we build towards a risk intelligent environment?

IRMSA, who is privileged to be supported by excellent risk professionals, used 2019 as a platform to advance certain objectives and interventions, which will enable the risk profession to take on the task of helping to shape South Africa and overcoming the challenges and obstacles. The steps taken in 2019, together with what is further needed as highlighted in the 2020 Risk Report are very intentional in the plan to provide a platform for what needs to come next.

Let's unpack this journey leading into 2020 and beyond:

- The Institute is taking the lead on the integration of risk and strategy, which was already brought into the spotlight at the IRMSA Master Class in October 2019. For months, IRMSA worked with leading strategists from around the country to find an optimal way for risk management and strategy to integrate effectively. We went from talking about how risk and strategy should be used hand in hand, to showing how it should be done practically.
- The integration of risk and strategy has now been used to create the template for the updated IRMSA new best practise framework and guideline which will be further developed and produced in 2020. The new guideline will be developed, in true IRMSA style, through the engagement of members and its stakeholders.
- IRMSA continues to provide education and training to members, organisations, boards and business leaders. The programmes that are offered are constantly evolved and align to the everchanging landscape of business. IRMSA will support members to be able to use the new guideline practically and efficiently through the practice notes and training.
- Members will have noted how IRMSA had a stronger presence in the media in 2019. This was a clear objective at the beginning of the year as Risk Activists must have a voice and allow the message to be spread far and wide. In 2020, IRMSA intends to have an even stronger voice and our message educating the public and business leaders, not only about the importance of risk management, but how each person should be an active risk activist in the country.
- The South Africa Risk Report will continue to be a tool to start the conversations that we need with all organisations and their leadership. This year's edition, different from previous years, will clearly demonstrate how risk management continues to evolve and the way that we report can and needs to be reshaped and redefined as we move on this journey. Risk Management is most certainly one of the fastest evolving practices and we need to make sure that we stay ahead of the game. With that said, we do however need to ensure that we support this rapid changing landscape with the risk management basics.
- During 2019, IRMSA has assisted many organisations with risk maturity assessments which has allowed these organisations to successfully understand the gaps that they have within their structures and has positively highlighted their strengths and weaknesses. It has been a very constructive and positive exercise, not only for the organisations who went through the process, but for IRMSA as well, allowing the Institute to look closely at the heart of organisations and the risks that we face as a whole and ensuring nobody is left behind.
- Lessons taken from the maturity assessments are better integration of strategy setting and risk management, the increased use of data analytics and quantitative risk management in improved communication of the risk message, (the effective use of big data, if you will) and the development and implementation of predictive capabilities and scenario work.
- Understanding that risk management is constantly evolving, IRMSA will continue to align its professionalisation strategy, with the various designations, board exam processes and continuous professional development (CPD), to ensure that we are aligned to the changes that we are seeing and making sure that our members are kept ahead of the game.
- During the year, our members would have heard the IRMSA team speak often about how we need to move from unconscious incompetence to conscious incompetence and then through training and practise to conscious competence and ultimately, to be unconsciously competent. This most certainly aligns to our strategy as IRMSA through the professionalisation process, training and thought leadership. We need to ensure that our professionals understand where they are situated on their maturity curve as risk professionals and assist them on their journey to becoming unconsciously competent through continued education, practise, engagement with peers and regular maturity assessments.



**WHAT WE ARE**



**WHERE WE WANT TO BE**



**TALKING ABOUT "RISK"**

**TALKING ABOUT "UNCERTAINTY"**

**FOCUSING ON RISK MANAGEMENT**

**FOCUSING ON INTEGRATED STRATEGY,  
RISK AND RESILIENCE**

**AIMING FOR "LESS OF THE BAD"**

**"DOING THINGS RIGHT" AND "DOING THE  
RIGHT THINGS"**

**"DOING THINGS RIGHT"**

**AIMING FOR "LESS OF THE BAD" AND  
"MORE OF THE GOOD"**

**QUALITATIVE RISK REPORTING**

**QUALITATIVE AND QUANTITATIVE RISK  
REPORTING**

**ALL ABOUT THE RISK REGISTER**

**GETTING TO GOOD STRATEGIC, BUSINESS  
AND OPERATIONAL DECISION MAKING**

Risk Management as we know it is therefore on the move and as a profession, we need to all actively ensure that we are ready for the changes that are coming and of course that we have already experiencing and grappling with. 2020 will bring new challenges, along with the ones we already face and IRMSA and its professionals will be ready to stand up and be heard. 2020 is the year for #Risk Activism: Leading the journey to a risk intelligent future.

Join us on the journey as we go from where we currently find ourselves to where we need to be and take action to build a stronger South Africa.

# IGNORING RISK IS A RISKY BUSINESS

Risks are unavoidable in any business. While they can present a threat to your success, not all risks are bad, and taking a calculated risk can help you get ahead. Today, organisations are exposed to more risks than ever before and, because they cannot be avoided, it's essential that you tackle them head-on to minimise the impact they could have on your business.



## THE RIGHT ADVICE

Indwe has a team of highly qualified risk management specialists who can help you identify, evaluate and manage uncertainty. Our skilled team use world-class risk management systems and analytics to carefully assess and then develop a deep understanding of the risks facing your business. Our specialists provide sound advice so you can better understand your risks and make informed decisions based on the unique risk appetite and risk tolerance of your business.

## RISK MANAGEMENT ADVISORY SERVICES

There are several specific areas where we can provide assistance

### Alternative risk finance solutions

Our alternative risk financing solutions start with a risk bearing capacity analysis that will allow us to advise on the optimum risk transfer/retention strategy, which may include contingency policies, cell-captive solutions and spread-loss facilities. We use statistical modelling to identify optimum risk transfer limits, deductibles and stop loss thresholds as part of a cost-effective re-insurance structuring, designed to support your business in the event of a catastrophic loss.

### Risk control and post loss surveys

With a team of qualified engineers and industry experts, we can support operational management with fire, security, health, safety and logistics risk assessments, identify compliance gaps and recommend risk control improvements to enhance the overall risk profile of your business. We use RiskTech to deliver exceptional service and insights into major property and business interruption exposures, and we utilise UAV (drone) surveys for a unique perspective of post-loss events and property surveys.

### Risk management systems and analytics

Using the latest analytics and modelling, we identify trends and ensure that your risk appetite is aligned to your risk management maturity. The use of technology, supported by expert opinion and analysis of data, is key to mitigating risk effectively in modern businesses.

### Risk management governance and reporting advice

Our solution provides your leadership team with detailed feedback around risk management maturity and standards of business resilience. It also includes facilitated risk workshops, reporting guidance and assurance of the complete risk management process.

When you have the right risk management strategy in place, you can better prepare your business and prevent or mitigate damages, increasing the chance of success. For more information about Indwe's risk management advisory services, speak to one of our IRMSA certified risk professionals on **011 912 7300** or visit **[www.indwe.co.za](http://www.indwe.co.za)**.

**INDWE** RISK SERVICES

Indwe is an authorised Financial Services Provider. FSP 3425.

Ts&Cs apply.

     
[www.indwe.co.za](http://www.indwe.co.za)

## 6.2

### A FUTURIST'S PERSPECTIVE

GRAEME CODRINGTON

#### WHERE IS YOUR HORIZON?

The biggest corporate failures of 2019 provide salient examples of the importance of the risk function within our organisations. Internationally, two examples stand out: WeWork and Boeing.

WeWork collapsed spectacularly just before a planned IPO amidst stories of completely out of control spending, a dodgy business model and a flaky CEO, Adam Neumann. Boeing may or may not have had adequate systems in place to prevent two of its planes from crashing due to faulty designs being rushed to market, but after the worldwide grounding of their 737 MAX fleet, their CEO, Dennis Muilenburg seemed incapable of either fully acknowledging the impact of the crisis on the business or taking decisive enough actions to adjust Boeing to their new reality.

Both CEOs lost their jobs by the end of the year, leaving their companies to deal with significant damage to people, reputation, strategy and operations. It will take both a long time to recover.

In South Africa, we have a multitude of examples from recent years of just how quickly seemingly stable organisations can be damaged and even collapse – sometimes by their own decision making, sometimes by external forces beyond their control, and often by both at the same time.

The question for risk officers is whether any of this was preventable, and what the role of the risk function is in a world that is increasingly unstable, unpredictable, fast-paced and disruptive.

The answer lies in a fundamental rethinking of risk and strategy in the 2020s.

#### MICROSCOPES AND BINOCULARS

My work over the past 20 years as a futurist has changed a lot. Two decades ago, the job mainly involved tracking trends, and being just a few months ahead of the marketplace in noticing new technologies emerging. My presentations back then were filled with images and videos of new tech, and futuristic predictions of what the home and office of the future would look like. There was real value in these predictions, both in activating people's imaginations about the future and helping them identify business opportunities in their markets.

In the last few years, our team at TomorrowToday has shifted quite significantly in response to the needs of our clients. It is now much less important to predict trends, and way more important to prepare for whatever the future might bring. No-one has ever been able to predict the future anyway, but these days it is even more obvious that we need a longer-term focus, with more emphasis on systems thinking, integration and preparation for whatever might happen. Spotting upcoming trends is way less important than helping people to scan the horizon constantly, ask better questions, experiment more, increase the diversity of inputs they gather, and probably most importantly, learn how to unlearn.

Today the job of a futurist is a lot more about understanding systems of change, and analysing unintended consequences, third and fourth order implications, structural shifts in the very foundations of society, and changes to the rules for success and failure in every aspect of our world. In other words, we've needed to stop focusing on the individual 'bits' and start analysing the whole system. We need to stop predicting and start preparing for the future.

I liken this to moving away from the microscope and picking up binoculars. Both are needed – a focus on detail and specific issues, as well as the ability to scan the horizon and see the whole scope of the landscape in front of us. This is also true of risk management. In addition to managing individual risks, the task of the corporate risk manager increasingly involves analysing the whole system in which the organisation exists and making all possible risks visible to the organization's leadership.

And that's where 2019's corporate failures alert us to a necessary shift in focus. WeWork, Boeing and most South African organisations that recently experienced crises are filled with clever and conscientious people. None set out to fail. From what we know at the moment, none of them were deliberately reckless (although looking back now, we can see where things went wrong and systems were broken). The complexities of doing business in the new realities of a VUCA (Volatile, Uncertain, Complex and Ambiguous), digital, connected world require different approaches to leadership, risk and strategy.

**NO-ONE HAS EVER BEEN ABLE TO PREDICT  
THE FUTURE ANYWAY, BUT THESE DAYS  
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MORE EMPHASIS ON SYSTEMS THINKING,  
INTEGRATION AND PREPARATION FOR  
WHATEVER MIGHT HAPPEN.**



**GRAEME CODRINGTON**

**TOMORROWTODAY**

## NEW APPROACHES FOR A NEW DECADE

Having been involved for a few years now in the IRMSA Risk Report process, I am thrilled that the 2020 edition is taking a fresh approach – not just for the sake of an updated look and feel, but in a serious attempt to equip the South African risk industry with a toolkit for a new era.

In last year's report (which I highly recommend you revisit, by the way), I provided two frameworks to help risk managers think like futurists: the futurist toolkit and the TIDES of Disruptive Change model. These are still relevant and valuable. In addition, this year's IRMSA Risk Report is packed with exactly the tools you need to continue applying futurist thinking to your task as a risk manager. Three elements are particularly important and deserve your close attention:

### SCENARIOS

IRMSA has sourced some of South Africa's best scenario planners: Frans Cronje looks at possibilities for South Africa in the 2020s, and Clem Sunter widens our horizon by considering key international indicators. In addition, you have a summary of the Indlulamithi scenarios and a few expert contributors who have suggested further scenarios. We debated whether we should consolidate these scenarios into one set to make it more accessible but decided that the correct approach is to showcase the diversity of opinions about the future. This is the new reality of uncertainty about what comes next. Use these insights and different expert opinions to build a comprehensive set of scenarios for your own organisation, to provide a framework within which to do your risk analyses for the 2020s.

### TOP RISKS ANALYSIS

Past IRMSA reports have shown a tendency by the risk community in South Africa to be slightly reactive and retrospective. An analysis by IRMSA of the past decade shows that risk managers are much more reactive than proactive. The 2020 edition of IRMSA's Risk Report has reduced the number of expert opinions, with the goal of providing a more focused, forward-looking and proactive analysis of key risks. Every risk in the final list in this report will impact your organisation in the next few years, and you must take each one into account in your analysis and planning.

### COMPETENCIES

I am particularly impressed with the section at the end of this report that highlights the competencies associated with building risk resilience.

Since we cannot predict the future, we can only ensure that we build resilience, adaptability and innovation into the very DNA of our organisations, our teams, and ourselves as individuals. This is will become an increasingly important component of risk management in the 2020s.

Risk management is more strategic than ever. The good news is that your CEO is probably as focused as you are on getting this right these days. When things go wrong in a complex system and its not obvious where the problem was or how to fix it, stakeholders invariably turn against the boss, and CEOs get fired if for no other reason than 'something needs to be done'. Your boss is focused.

You can use that focus to raise the profile of the risk function in your organisation. But to be taken seriously, you will need to up your game too, becoming more strategic, more business-value driven, and bringing clarity, calm analysis and insight into the chaos and complexity of the 2020s world.

This IRMSA Risk Report will be one of your most valuable tools in 2020.

## 6.3

### A PERSPECTIVE FROM BUSINESS

DR. LEILA FOURIE

When I considered the question what in my opinion has prevented South Africa from successfully addressing the top risks identified in the IRMSA Risk Reports over the past five years, the following warrants mentioning:

More can be done to improve our education system. A pragmatic plan is needed to close the gap between public schools in the urban areas and public schools in the townships. There are opportunities for the public and private sector to partner to address this challenge.

Progress should continue to be made on our transformation agenda. We need to continue to increase the focus on gender equality and ensure we mentor and appoint skilled females in leadership positions.

Breakdown of critical infrastructure (transport, roads, water, electricity, housing etc.) needs urgent attention. We need to prioritise the improvement of infrastructure to be able to cater for the current urban population which continues to rise. We also need to focus on building out/developing/establishing new urban centres to avoid overcrowding. Maintenance plans may need to be reviewed in order to ensure better infrastructure. Opportunities also exist for the public and private sector to partner to address this challenge.

If I relate the top risks identified in the IRMSA Risk Report to the National Development Plan (NDP), the NDP 5-year implementation plan will assist in meeting objectives, however, we need to work more on accountability as leaders - ethical and socially responsible leadership is key. Leadership accountability is vital to implement the objectives of the NDP. The implementation plan advises that the objectives of the NDP be filtered down to government employees' performance agreements hence accountability becomes critical. We will follow suit in the private sector and together we can deliver the agenda for SA.

Treating the top risks together with achieving the objectives of the NDP requires collaboration between public and private sector partnerships.

Reducing the top risks identified in the IRMSA Risk Report – specifically within the themes of leadership, a culture of ethical conduct, and consequence management towards greater accountability the private, corporate and public sector citizens of South Africa need to transfer skills and knowledge as it is essential and critical to ensure long term sustainability and empowerment. Both the private and public sector transformation is critical, along with ethical and socially responsible leadership where there is collaboration and partnerships.

A black and white portrait of Dr. Leila Fourie, a woman with shoulder-length hair, smiling. She is wearing a patterned jacket. The portrait is partially overlaid by a large red circle on the left and a red geometric shape on the right.

**DR. LEILA FOURIE**

## 6.4

# A YEAR OF ETHICAL AND EFFECTIVE LEADERSHIP

## PARMI NATESAN

We are all aware of the huge risks and challenges that our country, and thus our organisations, face. Poor leadership got us into this situation; good leadership is the only way out of it. As directors, we have the opportunity—and privilege—of providing that leadership within our organisations and thus contributing to the necessary change in our corporate culture. King IV places this leadership at the centre of everything, and it is embodied in its first, foundational principle: The governing body should lead Ethically and Effectively.

To bring ethical and effective leadership to life, it's first necessary to understand what it is. There is no better guide than King IV's ICRAFT principles, which provide an excellent guide to the underlying characteristics of such leadership. They are:

### **INTEGRITY**

Integrity. At base, this means that directors have to suspend their instincts to act in their own self-interest, and instead act in the interests of the organisation taking into account its stakeholders. King IV's recommended practices make it clear that mere legality is not sufficient: the bar is higher.

### **COMPETENCE**

Frequently overlooked but absolutely critical: a director with integrity and the best intentions but who lacks the necessary skills is arguably as destructive as a dishonest, self-serving one.

### **RESPONSIBILITY**

Directors should not only take collective responsibility for discharging their functions, but also act in a responsible manner. The latter speaks to the need to strike a balance between risk and opportunity in a responsible manner.

### **ACCOUNTABILITY**

Directors should always remain accountable for how their responsibilities were executed, even if these are delegated. The latter speaks to the need to strike a balance between risk and opportunity in a responsible manner.

### **FAIRNESS**

The issue here is that directors should take into account not only the organisation's interests but also those of all its stakeholders. The principle of fairness also requires directors to consider the impact of their decisions on the natural environment, society and future generations. The latter speaks to the need to strike a balance between risk and opportunity in a responsible manner.

### **TRANSPARENCY**

Directors should make a point of ensuring that they exercise their governance roles and responsibilities in a way that demonstrates how they arrived at their conclusions.

On an internal note, it's important to remember that following these principles is the best way to ensure that you do not find yourself on the wrong side of the law, or suffering a drop in reputation.

Focusing more externally though, the positive impact that you can make on our country as a whole, through the practice of ethical and effective leadership, is what should keep us all motivated.

**THERE'S NEVER BEEN A BETTER (OR MORE CHALLENGING TIME) TO BE A MEMBER OF A BOARD. MAKE IT YOUR RESOLUTION TO LEAD FROM THE FRONT, AND PLAY A PART IN GETTING YOUR ORGANISATION, AND THE COUNTRY, BACK ON TRACK.**

A black and white portrait of a woman with long dark hair, smiling slightly. The portrait is partially overlaid by a large red semi-circle on the left and a smaller red semi-circle on the right. A black horizontal bar is positioned over the lower part of the portrait, containing text. A white arrow icon is located in the red area at the bottom left.

**PARMI NATESAN**

**CHIEF EXECUTIVE OFFICER  
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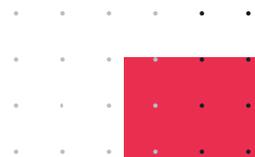
**ROBERT KOCH**

**6.5**

**NAVIGATING COMPLEXITY: THE FRONTIER OF RISK MANAGEMENT**

**SONJA BLIGNAUT AND ROBERT KOCH**

In the last decade, complexity has gone from an obscure science to a main-stream topic. The acronym VUCA (Volatile, Uncertain, Complex and Ambiguous), whilst used since the 1980's by the armed forces, now describes the lived experience of decision-makers in virtually all industries and societal spheres. The reason is that we live in an increasingly connected world, with many of those connections in near real-time; and the more connected the world becomes, the more complex it becomes.



**SONJA BLIGNAUT**



Let's look at what complexity is and isn't. Contrary to popular belief, complexity is not just "a higher order of complicatedness". Often it is referred to as an adverse condition, something to be simplified or avoided. When in reality, complexity is not good or bad, it simply is – and how we manage in complexity is different to how we manage in other contexts.

Human beings are complex; we live our lives in complex social structures embedded in complex adaptive systems like cities, organisations, and ecosystems. Our approach to managing risk in these socio-technical, socio-ecological, and socio-economic systems requires new skills and new ways of thinking. Let us explore the differences between complex and complicated systems. Roberto Poli articulates the main differences between complicated and complex as follows:

COMPLICATED SYSTEMS	COMPLEX SYSTEMS
Linear cause-and-effect pathways allow us to identify specific causes for observed effects.	Because we are dealing with patterns arising from networks of multiple interacting (and interconnected) causes, i.e. there are no clearly distinguishable cause-and-effect pathways.
Can be addressed piece by piece, i.e. they can be reduced to their parts. We can decompose the system into its structural components and fully understand the functional relationships between these parts in a piecemeal way.	Must be addressed as entire systems; they cannot be reduced to their parts. One cannot assume that one structure has one function as the structural parts of the system are multifunctional, i.e. the same function can be performed by different structural components. These parts are also richly inter-related, i.e. they change one another in unexpected ways as they interact. We can, therefore, never fully understand these inter-relationships.
Every output of the system has a proportionate input i.e. Newtonian physics apply.	Outputs are not proportional or linearly related to inputs; small changes in one part of the system can cause sudden and unexpected outputs in other parts of the system or even system-wide reorganisation.
Systemic contexts and interactions can be controlled, and the problems they present can be diagnosed and permanently solved.	Complex problems present as emergent patterns resulting from dynamic interactions between multiple non-linearly connected parts. In these systems, we're rarely able to distinguish the real problem, and even small and well-intentioned interventions may result in unintended consequences. They cannot be controlled –the best one can do is to influence them or learn to "dance with them" as Donella Meadows rightly said.
Complicated systems are closed systems, i.e. their environments are delimited by governing constraints that allow the system to interact only with selected or approved types of systems.	Complex systems are open systems, to the extent that it is often difficult to determine where one system ends, and another starts. Complex systems are also nested; they are part of larger-scale complex systems, e.g. an organisation within an industry within an economy. It is therefore impossible to separate the system from its context.
These systems, because they are closed and can be deconstructed, can be fully known or modelled.	A complex system can never be fully known or modelled. I think it was the physicist Murray Gellman that said: "The only valid model of a complex system is the system itself." We cannot transform complex systems into complicated ones by spending more time and resources on collecting more data or developing better theories.
Complicated systems need an external force to act on them to introduce change.	Complex systems can observe themselves, learn and adapt. They are creative.

**“DECISION-MAKERS COMMONLY MISTAKE COMPLEX SYSTEMS FOR SIMPLY COMPLICATED ONES AND LOOK FOR SOLUTIONS WITHOUT REALISING THAT ‘LEARNING TO DANCE’ WITH A COMPLEX SYSTEM IS DEFINITELY DIFFERENT FROM ‘SOLVING’ THE PROBLEMS ARISING FROM IT.”**

**ROBERTO POLI**

As long as decision-makers believe they are dealing with complicated systems they will assume that they can control outcomes, find permanent solutions to problems, and call on experts to provide them with “answers”. In reality, our organisational contexts are never purely complicated or complex. We will always have to deal with both of these contexts. The problem is that for the last few decades, we have assumed that we are only dealing with complicated systems and problems. For this reason, the mindsets, approaches and tools we have been using are typically suited to complicated environments. While we could get away with this in the past, in today’s VUCA world, that is no longer the case. To increase the resilience of our organisations, we have to build a repertoire of new skills and approaches to help us manage risk in complexity.

Risk management is defined as “the effect of uncertainty on objectives”. Risk management in the context of governance, risk, and compliance (GRC) tends to focus on “solving the problem” of uncertainty by using techniques applicable to a complicated realm, i.e. we assume that causes of uncertainty can be identified, and controls implemented to mitigate? these. If we assume that we can identify the causes of uncertainty and establish controls to address them, complexity presents us with an interesting challenge. If we cannot isolate individual causes (some of which may be undiscoverable), what can we control? If we can’t implement controls, how then do we manage risk?

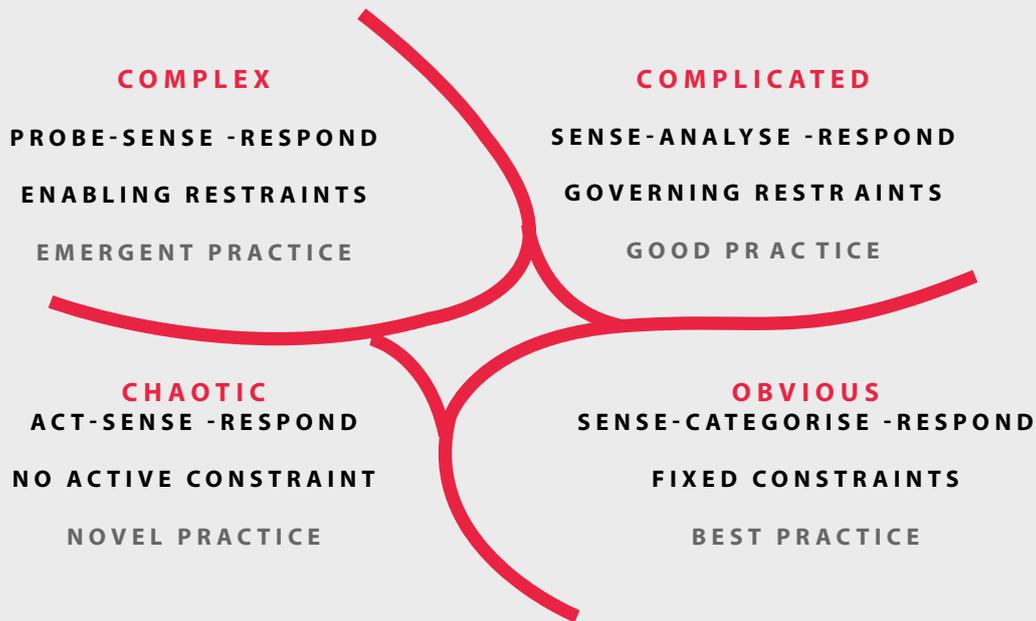
## **WHAT ARE THE SKILLS WE NEED TO CULTIVATE IN ORDER TO MANAGE RISK IN COMPLEXITY?**

A “problem-solving mindset” traps us in linear thinking, which is appropriate to complicated context but not complex ones. If we apply linear thinking and ordered approaches such as root cause analysis; traditional scenario planning and typical management best practices to complex problems we invariably end up making things worse. In complex contexts we need to adopt a sense-making approach, where we explore patterns and how things are connected. Here, we need to engage with the system to gain an understanding of how things are connected, we run safe-to-fail experiments and learn and adapt as we go.

One framework that enables us to distinguish between ordered or complicated aspects (where we can find root causes; do problem solving, involve experts; apply best practice; keep risk registers etc) and complex aspects where we are dealing with emergent patterns with no clear linear causality is Dave Snowden’s Cynefin framework.

**IF COMPLEXITY IS NOT JUST A STATE OF “GREATER COMPLICATEDNESS”, RISK MANAGEMENT REQUIRES MORE THAN “BETTER RISK REGISTERS”.**

# THE CYNEFIN™ SENSEMAKING FRAMEWORK: MAKING SENSE OF THE WORLD SO THAT WE CAN ACT IN IT



The Cynefin™ framework helps us define what kind of problem we are facing, what context we are in, and therefore what risk management methods and tools are applicable. Let's look at the 5 main domains of the framework: On the right-hand side of the framework we find two ordered domains: obvious and complicated order. In these ordered domains the constraints imposed on the system create predictability and certainty. The boundary between the Obvious and Complicated domains of Cynefin is a slightly artificial one as the difference between seeing something as obvious or complicated often depends on the observers' level of expertise. In the ordered domains of Cynefin™ we treat the world as certain and predictable. Here ordered approaches such as risk registers and implementing controls are valid and useful. In these domains, because causal relationships are predictable, we are able to apply best practices or make use of experts to do analysis.

However, once we move the left side of the framework, things change. Here we are dealing with unordered systems. As with order, in unordered there are also two domains. In the complex domain, typically we are dealing with emergent patterns, there are no repeating or linear causal relationships and we therefore need to interact with the system in order to understand the dynamics at play. Here risk registers and controls will blind us to the real issues and potential surprises, i.e. they often make things worse. In this domain we need to do sense-making, focus on asking questions not finding answers and among other things increase the diversity of perspectives we pay attention to. One way of doing this is by deploying human sensor networks and new forms of research like the distributed ethnography applied in the study undertaken in this IRMSA Risk Report.

The chaotic domain, the second unordered domain, differs from the others in the sense that it is transitory. Here there are no effective constraints, i.e. things are random. A system tends to collapse into chaos when an unforeseen crisis or event occurs. This state cannot be maintained for very long as constraints either emerge or are imposed. Chaos is a domain of crisis, but also innovation. Here Churchill's truism is valid: Never waste a good crisis.

Something risk managers in particular need to pay attention to is the fold at the bottom of the boundary between the obvious and chaotic domains. This boundary is drawn like that because it represents a "cliff". Systems very often collapse into chaos when they become complacent while the context around them is changing, or too many inappropriate rigid constraints are imposed it. For example, if we manage to the lowest common denominator, we often impose so many safety rules or financial governance constraints that it becomes almost impossible for people to get work done without breaking rules. Over time this creates a culture of rule-breaking that can lead to dire consequences and ultimately a collapse into chaos.

The final domain is the central domain of disorder. This is a state of confusion or not having sufficient information to make sense of the situation and determine which domain the system or problem is in.

Sense-making typically involves three inter-related processes: see (do we see what we need to see?); attend (do we know to pay attention to it?); act (can we act or get others to act?). In complicated systems we look at problems and causes. In complexity we need to learn to see patterns and relationships. In complicated systems we pay attention to known risks and probabilities. In complexity we need to pay attention not only to dominant patterns, but also to the outliers or weak signals. This is of particular importance due to the non-linear nature of complex systems: you never know when something that seems insignificant becomes a really big threat or opportunity. As risk managers we sometimes struggle with the importance of managing both opportunities and threats. In a complex world, the inability to rapidly identify and exploit opportunity is a threat in itself. For this we need tools that can rapidly identify not only the negative, but also positive “signals” in the patterns and outliers that complex systems present.

In complicated systems actions are based on expert analysis and standards. Centralised authority structures and clear role boundaries define who is able to act. In complexity our actions are in response to emergent patterns; often we need to experiment and try different things in order to progress; and we cannot afford for central authority structures to slow us down. In complexity we need devolved authority.

<b>SEE</b>	<b>ATTEND</b>	<b>ACT</b>
<p>Look for patterns, not individual causes, problems, and/or solutions</p> <p>Increase diversity and “see through many eyes” – don’t assume you know best; attentional blindness is a problem. Enlist your entire work force, especially those nearest to the front-line or coal face and on the edges of the organisation.</p> <p>Pay attention to outliers</p> <p>Learn to pay attention and cultivate diverse feedback &amp; data sources</p>	<p>Be curious, don’t assume you know what matters</p> <p>Be open to perspectives other than your own.</p> <p>Look for emerging weak signals – something that wasn’t important yesterday may be very important today</p> <p>Learn to identify emerging patterns</p>	<p>Establish feedback mechanisms that allow responses that match real-time needs</p> <p>Establish safe environments where even those on the front-line feel empowered to act</p> <p>Cultivate experimental mindsets</p>

In a complex world, we cannot afford to limit the detection and management of risk to those in formal risk related roles and the C-suite or board. While the role of formal risk management is crucial, in a complex world we need every person in our organisations, regardless of level or status to be vigilant and aware as well as curious and able to think critically. In addition, we need cultures where it is safe to not only speak up, but to “break rules” in order to take the necessary action when it is required. What we cannot afford is a workforce that are asleep at the wheel, or who are too scared to bring something to the attention of management. We also cannot afford a culture where people are fearful of raising concerns and making mistakes.

## CREATING A RISK CULTURE FOR MANAGING IN COMPLEXITY:

**CULTIVATE CURIOSITY** – in complexity threats, opportunities and answers are transient. Questions remain useful

**HARNESS DIVERSITY** – a diversity of perspectives enables us to see what we don't expect to see

**ESTABLISH SITUATIONAL AWARENESS** – resilience requires mechanisms and mindsets that expedite feedback and action

**PROMOTE SENSE-MAKING** – establish competencies and tools that allow context-sensitive action

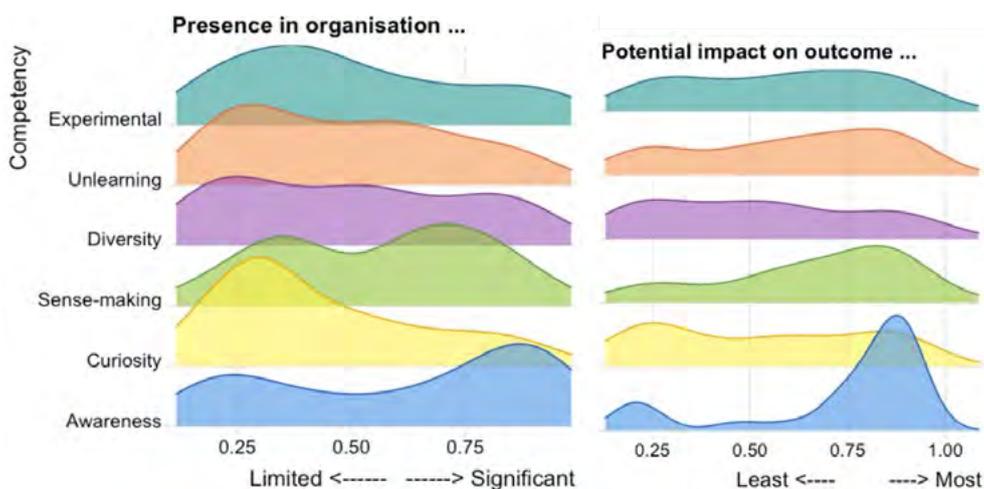
**NURTURE UNLEARNING (AND RE-LEARNING)** – habits and mental models require continual revision

**DEVELOP AN EXPERIMENTAL MIND-SET** – multiple safe-to-fail experiments promote novelty and innovation and mitigate unintended consequences

**CREATE SAFETY** – people need to feel safe to speak up and take appropriate action (sometimes by “breaking the rules”)

A helpful tool for managing risk in such systems is a “human sensor network” which, like “the internet of things” can provide information on emerging local and systemic patterns. Rather than static controls, the management of risk here involves small interventions in real time that respond to these trends. In effect, a meta risk “control” is established by responding to emerging patterns, small signals, and outliers.

In complex systems, surveys - like KPIs - can be “gamed”, providing misleading indicators and biased patterns. Human sensor networks therefore make use of narrative (story) and metaphor to access “unfiltered” information. Brené Brown refers to this as “data with a soul”. The bias that experts bring when engaging with complex systems is well documented - and these stories therefore are self-signified by the storyteller, thereby allowing quantitative techniques to be applied.



Digital platforms allow such human sensor networks to be implemented across entire organisations and across organisational boundaries e.g. with customers, suppliers, and even citizens. As part of its 2020 Risk Report, IRMSA conducted a study among executives, risk managers and specialists using just such a platform called Sensemaker®. One of the key results of the survey is summarised below; how some of the competencies listed above are currently present in risk-based decision making in the stories collected.

## CONCLUSION

The management of risk in an increasingly complex world requires a new set of competencies and tools - from the C-suite to risk practitioners and staff throughout the organisation. These competencies include the ability to identify context-appropriate interventions. Where traditional risk management for complicated systems controls causes of uncertainty, risk management in complexity builds organisational resilience through enhanced sense-making, increased diversity, curiosity, situational awareness, unlearning (and re-learning), and fostering an experimental mindset. Human sensor networks provide a powerful tool for making sense of the world so that we can act in it.

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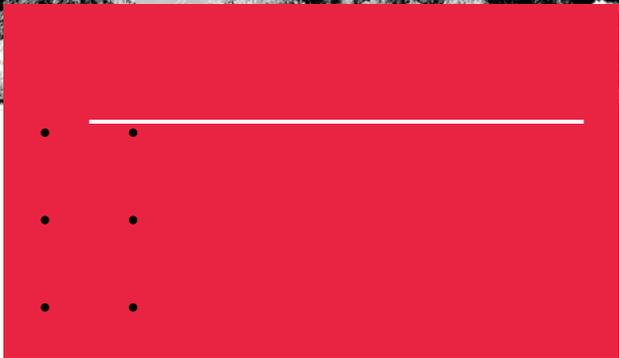
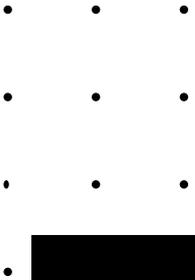
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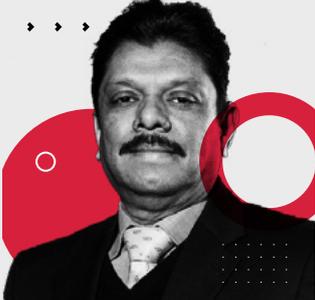
IRMSA would like to thank all the members that took part in the surveys, which greatly contributed to making the 2020 IRMSA Risk Report a high quality, credible report. This project would not have been successful had it not been for our strategic partners, the IRMSA Risk Intelligence Committee, the IRMSA Executive Committee and the Subject Matter Experts who provided their inputs.

We would like to thank the working group and contributors who gave considerable time to the project.

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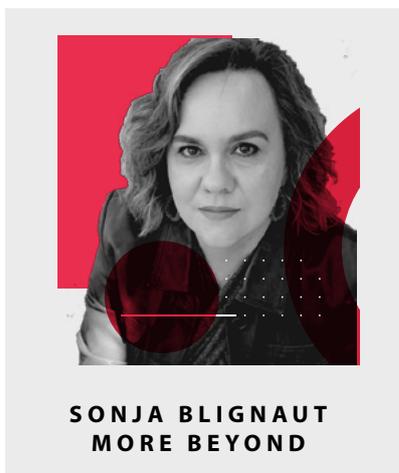
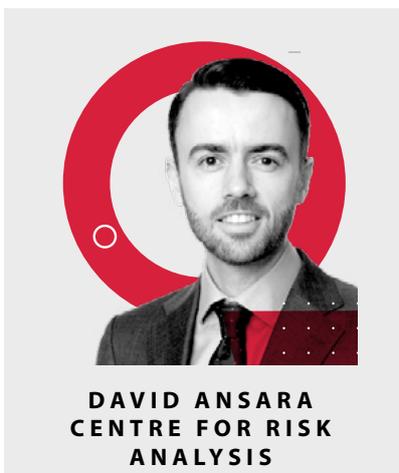
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Dr Crisp is a medical doctor and public health specialist who has for many years focused on health management consulting across the African continent. He served as Superintendent General (HOD) of the Department of Health and Welfare, Northern Province (Limpopo) from 1994 to 1999.

Dr Crisp was then a self-employed consultant and has worked on projects in several African countries including South Africa, Nigeria, Ghana, Lesotho, Botswana, Namibia and Tanzania. In 2009 he served as Special Adviser to Minister Barbara Hogan. He was intimately involved in the establishment of the National Health Laboratory Service (NHLS), the transfer of the medicolegal mortuaries from police to health and the creation of the Forensic Pathology Services, and in the establishment of the South African Health Products Regulatory Authority (SAHPRA).

He is now working with the Minister of Health on implementation of the National Health Insurance Fund.



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Nicky has been in the business of developing software solutions to specific business requirements around improvement to business management and performance for the last 18 years. Nicky has more than 15 years' experience in the design, architecture and successful deployment of GRC solutions. As CEO, of Guideline BizTech, it has been very important to Nicky, that BizTech Team, goes the extra mile to deliver highly practical and genuinely, easy workable business management aids, with no marketing frills, no PR bells and whistles and no empty sales promises.



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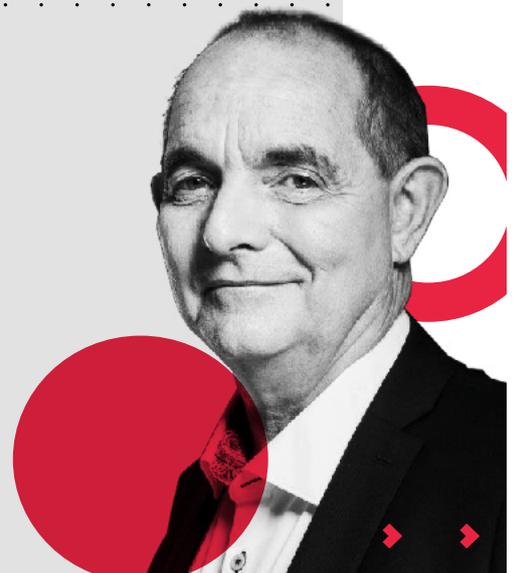
Ross is a technology and disputes lawyer at Norton Rose Fulbright based in Cape Town. He is the head of the technology law practice, as well as the leader of the technology and innovation headlight for Norton Rose Fulbright in South Africa. He is involved in advising on commercial and data considerations in the adoption of innovative technology solutions, and is involved in major technology outsourcing projects, in both South Africa and the United Kingdom. Ross also advises on the protection of personal data, and has been involved in numerous responses to cyber-attacks and breaches.



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**DEAN AND DIRECTOR, HENLEY BUSINESS SCHOOL**

It takes a multi-talented leader, innovative businessperson and expert in curriculum design to direct Henley Business School South Africa. Dean and Director Jonathan Foster-Pedley has worked in six continents and has over thirty years of global business experience. He is a former airline pilot and senior executive in the European aerospace industry and has guided and facilitated cohesion and productivity in international and local multicultural sales and marketing and management teams. He is also an entrepreneur, a leading academic and coach (working as a visiting professor in Strategy, Creativity and Innovation), and a writer and blogger. He is Vice Chair for the South Africa Business Schools Association.

Foster-Pedley's expertise in strategy, creativity, design, thinking and innovation are key features of the Henley MBA curriculum. He has developed hands-on programmes designed to stimulate innovative business thinking strategies, to increase productivity in the workplace, and to develop self-confidence, self-belief, creativity, proactivity and out-of-the-box thinking. Foster-Pedley has the business acumen, the academic prowess, and the social conscience to direct Henley students so that they reach the full productive potential in every facet of their daily lives.



**DR. LEILA FOURIE**  
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With over 25 years of international experience, primarily in financial services, Leila Fourie has served on multiple boards and held senior roles in banking, capital markets and payments. Dr. Fourie was appointed as CEO of the Johannesburg Stock Exchange effective 1 October 2019. Previously, Dr. Fourie served as Executive responsible for Consumer Finance at Australia's largest bank, The Commonwealth Bank of Australia, and also served as the NSW Vice President of the Economic Society of Australia and on the Board Audit Committee of Lifeline Australia. Prior to this role, she held the role of CEO of the Australian Payments Network.

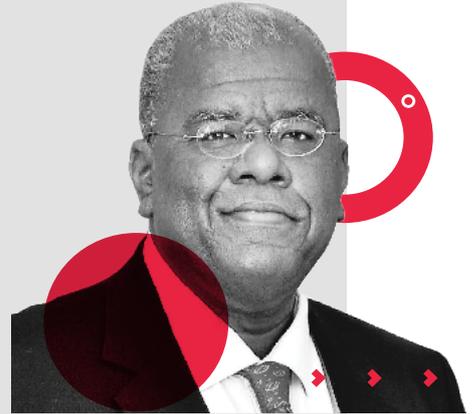
Before moving to Australia, Dr. Fourie served on the Board of the Johannesburg Stock Exchange as Executive Director. Dr. Fourie previously worked for one of South Africa's largest banks, Standard Bank as Card Division Managing Director. During this time, she served as Chairman on the board of Diners Club and Board Member on Discover's Chicago-based Diners Club International Advisory board. Leila started in Standard Bank's Investment Bank as Global Director Credit analytics, capital and portfolio management for SA, UK, Hong Kong, Russia, Brazil and Argentina.

Leila has a PhD in Economic and Financial Sciences and won the Economic Society South Africa Founders' award in 2012 for best Masters Economics thesis in the country.



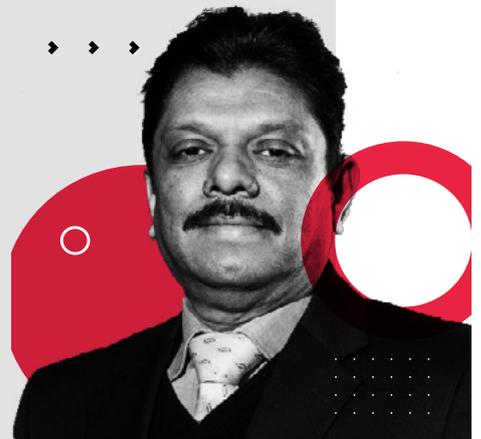
**PROF. JONATHAN JANSEN**  
**DISTINGUISHED PROFESSOR IN EDUCATION**

Few people have had the positive societal impact in recent South African history as Professor Jonathan David Jansen. He is an internationally renowned education academic and a leading intellectual expert. He has a solid academic grounding, is a captivating speaker, a best-selling author and a master storyteller. His insightful and forthright comments on education and societal issues as a speaker and columnist are the stuff of legends. Jansen, in short, calls it as he sees it – and he sees through the eyes of a free thinker. He is, indeed, a most worthy Chivas Humanitarian Award winner. In his more recent leadership roles at Universities, his true wisdom and leadership colours have shone through “with compassion, humility and deep understanding,” as one pundit put it.



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Chandu is a member of the Lucidum network and provides consulting services based on more than 40 years’ experience in auditing, general & corporate finance, risk management, legal compliance, ethics, safety, health & environment, corporate governance, brands, communication and marketing, business development, government regulation, business optimization and business strategy. He has extensive experience in the corporate sector, having served as Senior Auditor at Deloitte, Divisional Finance Manager at Columbus Steel, GM Strategy and Corporate Finance at Exel Petroleum, Manager Government Relations and Strategy at Sasol Gas, BU Manager of Fuel Oils, Retail Strategy Manager at Sasol Oil, Group Risk Manager (including Group Compliance and Group Ethics) and Executive in the office of the Executive Director and Vice President: Strategy and Sustainability for Sasol, Chairperson of the Chemical and Energy Industry SETA’s Audit Committee, governance advisor to the Board of the SA Heart Association, Director on the Board of Black Top Holdings (including Chairman of the Audit Committee and member of the Remuneration Committee) and advisor to the Risk Intelligence Committee of the Institute of Risk Management South Africa. Chandu is a public speaker on the topics of corporate governance, transformation and business strategy.



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Robert Koch has over 10 years of experience in heading enterprise resilience programmes. He has led national and international working groups and is the recipient of several national and international awards. His interests lie in managing complexity, resilience, narrative-based sensemaking, and identity in leadership thinking. Robert is a regular guest speaker at local and international conferences and events.



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**SENIOR RESEARCHER, COUNCIL FOR SCIENTIFIC AND INDUSTRIAL RESEARCH (CSIR)**

Alize Le Roux has 10 years’ experience in spatial data analyses, geoinformatics and decision support. She holds a Master’s in geographical sciences from the University of Utrecht in The Netherlands. She has extensive experience in providing planning and decision support to local, regional and national decision-makers in the research areas of regional socio-economic and environmental analysis, planning support systems, spatial data management and risk and vulnerability analysis.



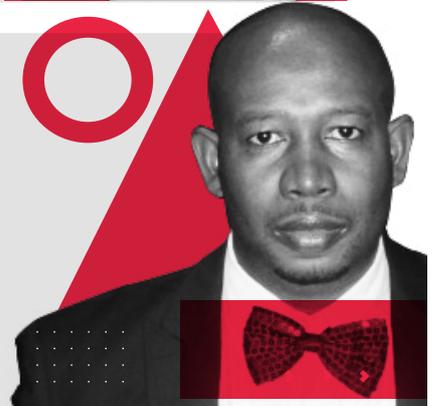
**CHRISTELLE MARAIS**  
**EXECUTIVE DIRECTOR, LUCIDUM**

Since 1991, Christelle has been active in various roles within corporates such as Department of Science & Technology, IRMSA, Marsh, Sasol, South African Post Office and various clients across Africa in governance, company secretarial services, risk management, ethics, compliance, business continuity management, risk financing (insurance, cell captives), litigation, economic crime as well as asset and liability management. Christelle's career has provided her with experience in various industries including financial services, manufacturing, healthcare, logistics, retail, agriculture, energy, mining and government entities. She has served in various capacities at subsidiary, joint venture and group levels and has often been co-opted to conduct risk management for major organisational change and restructuring projects. Christelle's focus is to enable Boards, Risk Committees, Audit Committees, Social & Ethics Committees, EXCOs and divisional teams through risk intelligent programs to govern risk and make informed decisions. She has developed risk management frameworks (policy, strategy, standards, processes and risk maturity evaluations) for various entities and serves as independent board and/or committee member.



**THULANI MKHUNGO**  
**CHIEF RISK OFFICER, SPECIAL INVESTIGATING UNIT (SIU)**

Thulani Mkhungo worked for Transnet Freight Rail as the Senior Manager driving Infrastructure Capital Projects risks for more than 6 years before he moved to join Special Investigating Unit in February 2016 as the Chief Risk Officer where he established the Enterprise Risk Management & Internal Audit Department.



**PAUL NEL**  
**ENERGY LEAD: AFRICA, AURECON**

Paul has been involved in the Power Generation field for 27 years. During his time at Aurecon he has been actively involved in expanding our business interest in the African Renewable market driven by significant growth in the South African Wind and Solar market under the South African REIPPP program as well as Hydro in the whole of Africa. Prior to this he was largely involved in construction, refurbishment and upgrading, commissioning, performance testing, general engineering and technical management in the field of hydroelectric generation.

He has worked in many African countries as well as in the Middle East. These experiences as well as his interest in African and World economics have strengthened his interest and passion for the development of South Africa and Africa.



**ALEX ROBERTS**  
**REGIONAL DIRECTOR: SALES AND OPERATIONS, CURA SOFTWARE**

Alex has been involved in the enterprise software space for the past 14 years and in the risk space for 10 Years. Alex is the Regional Director for Sales and Operations for Cura Software South Africa. Cura offers a variety of Governance, Risk, Compliance and Audit Software Solutions and has in over 250 enterprise customers worldwide across a number of verticals including global 500, Insurance, Financial Services and Utilities Companies.



**DANIEL SILKE**  
**DIRECTOR, POLITICAL FUTURES CONSULTANCY**

Daniel Silke is recognised as one of South Africa's leading political economy analysts, futurists and most passionate keynote speakers. His success lies in blending both economic and political trends in highly accessible yet insightful presentations. As Director of the Political Futures Consultancy based in Cape Town, Silke serves a host of major global blue-chip companies with outstanding keynotes and workshops aimed at the convention, conference and events industries. He has over 15 years' experience in delivering flagship presentations on Global, African and South African political and economic trends. Silke holds a Masters degree from the University of Cape Town in South African and International Politics and was attached to the university's Institute for the Study of Public Policy where he tutored within the broader Department of Political Studies. Silke then served in public office as a Member of the Western Cape Provincial Parliament and City Councillor in the City of Cape Town holding positions of whip for his party as well as portfolio committee chair for economic development. Since launching his consultancy, Silke has become a familiar name on the corporate speaking circuit and in the media - both within his native South Africa and overseas.



**SYDNEY SOUNDY**  
**EXECUTIVE MANAGER: STRATEGY AND COMMUNICATIONS,  
LAND BANK**

Sydney is a seasoned professional with over fifteen (15) years of executive leadership experience in both the Public and Private Sectors, with at least ten (10) years of which has been at executive level in the financial services sector.

Sydney is currently responsible for the Strategy and Communication division at Land Bank. He has been with the Bank for just over four (4) years, having joined the Bank in August 2015 in the role of Executive Manager: Commercial Development Banking before being appointed to his current role at the beginning of May 2017.

Sydney has a wealth of executive management and financial services expertise, honed over 30 years, a majority of which have included senior management roles in both the private and public sector institutions, including as Chief Operating Officer at the South African National Parks; Assistant General Manager at the South African Revenue Services; Managing Executive for Vehicle and Asset Finance at Absa and Head of Vehicle and Asset Finance at Standard Bank.



**PROF. JACKIE YOUNG**  
**PROFESSOR IN RISK MANAGEMENT**

After a career in the military, Professor Young joined one of the leading banks and gained valuable knowledge and experience in the development and implementation of operational risk management. He obtained a doctorate in operational risk management and published various articles in international accredited journals on various topics relating to governance and risk management. He also authored a book on operational risk management published by Van Schaik. He is currently a professor specialising in operational risk management at the University of South Africa and mostly supervises masters and doctoral students. He endeavours to establish operational risk management as an integral part of managing a business.



## PARTNERS

### AIG

AIG is a world leading property-casualty and general insurance organisation serving more than 70 million clients around the world. With one of the industry's most extensive ranges of products and services, deep claims expertise and excellent financial strength, AIG enables its commercial and personal insurance clients alike to manage risk with confidence. For over 50 years AIG has been dedicated to servicing the South African insurance market. Their products are characterised by innovation, outstanding "value added" services and underpinned with their underwriting specialists, unparalleled global network and the expertise of our local claims team.



### BARNOWL

BarnOwl is a fully integrated governance, enterprise risk management, compliance and audit software solution used by over 200 organisations in Africa, Europe and the UK. BarnOwl supports best practice risk management, compliance and audit frameworks (e.g. COSO, ISO31000, Compliance Institute's handbook, International Professional Practice Framework), whilst offering a highly flexible and configurable parameter-driven system allowing you to configure BarnOwl to meet your specific requirements. BarnOwl is the preferred enterprise risk management (ERM) software solution in the South African public sector, endorsed by the Office of the Accounting General (OAG). BarnOwl is developed, implemented and supported by IDI Technology Solutions (Pty) Limited (IDI). IDI is a well-established software development company based in Johannesburg, South Africa



### CENTRE FOR RISK ANALYSIS

The Centre for Risk Analysis (CRA) helps business and government leaders plan for a future South Africa and identify policies that will create a more prosperous society. As a leading South African think tank, we understand what drives the country's political economy within the context of the broader international strategic environment.

Using our unique scenario planning methodology, we work with organisations that want to anticipate long term risks and opportunities in order to thrive in a future South Africa.



### COMPLIANCE INSTITUTE SOUTHERN AFRICA

The Compliance Institute Southern Africa encourages and promotes professional compliance and sets the standard for leading practice. It is the SAQA-recognised professional body for compliance officers, with members from a range of industries. Our aims and objectives are to: encourage and promote compliance within the South African regulatory environment; alert members of new developments in, and changes to, legislation and the interpretation and application of such by the relevant authorities; promote the professional status, image and credibility of compliance officers, our members, by providing accreditation for compliance officers; identify, establish, maintain and promote leading compliance standards and practices; promote education and training in the field of compliance to its members and other stakeholders and encourage and facilitate forums for the exchange of information and ideas among members / other stakeholders.



## CONTINUITYSA

ContinuitySA is the leading provider of business continuity management services, all designed to enhance business resilience in an age of escalating threat. ContinuitySA helps clients to prepare for, and deal with, any threat to the smooth, efficient functioning of their business as a result of unforeseen or sudden disruption due to man-made or natural events. Our clients have a commitment to sustainable business, and we understand the importance of protecting their brand, reputation, revenue, service levels, and staff interest at all times, and especially during operational frailty. ContinuitySA's core of highly skilled and experienced Advisors and Practitioners, who have had successful individual careers in this specialist field with a number of major multinational corporations, backed by a comprehensive range of professional services and a nation-wide infrastructure of facilities, is uniquely positioned to provide clients with total business continuity solutions and complete outsourcing services.



## CURA SOFTWARE

CURA Software Solutions is a leading provider of Governance, Risk, Compliance and Risk-based Audit software solutions, implemented across more than 250 enterprise customers globally. These solutions offer a clear picture of risk across the organisation which leads to better decision-making and risk management. CURA enhances visibility into business activities and allows for information to be easily consumed and actioned, enabling better business performance and managing the uncertainty of risk.

CURA Software Solutions was the recipient of the 2019 IRMSA Award for Risk Management System Provider as well as multiple awards in 2019 from The Davinci Business Innovation Awards Programme (TT100) for Excellence in the Management of Technology, Innovation and Systems. CURA was also received the GRC 20/20 Risk Management Value Award 2019.



## HENLEY BUSINESS SCHOOL

Henley Business School Africa is an internationally triple accredited business school; the number 1 business school in the world with the potential to network (Economist 2017); and, the number 1 business school in Africa for executive education (FT 2018), as well as the Number 1 MBA business school in South Africa as rated by corporate SA (PMR 2018, 2019).



## INDWE RISK SERVICES

Indwe Risk Services (Pty) Ltd is a leading personal, business and specialist risk and insurance advisory business. Indwe came into existence in 2006 – the product of a merger between Thebe Risk Services and Prestasi Brokers, both of which had a formidable history in insurance.



## GUIDELINE BIZTECH

RUBIQ set out to make Governance, Risk and Compliance management efficient, effective and resource light whilst still being robust, fit-for purpose and aligned with the latest global standards, compliances and best practices. We achieved this through development in the latest technologies and collaboration with leading subject matter experts across artificial intelligence, cloud computing, IT risks and governance, cyber security, information privacy, risk management and enterprise GRC.

The RUBIQ approach allows organizations to quickly identify their weak spots through an array of constantly updated maturity assessments which then provides the guidance, recommendations, tools and support to close out the gaps. The RUBIQ management platform then provides all the necessary modules to implement a comprehensive and robust approach to GRC.

We are proud to be leading the way in which organizations navigate GRC in today's ever evolving and challenging business, regulatory and IT landscapes.



## LEXISNEXIS

In a constantly changing corporate, political and legal landscape, you require information you can rely on. You need innovative ways to bring your organisation fully up-to-date on changes to stay one step ahead. At LexisNexis we work together to deliver efficient knowledge-based solutions. With the unique combination of Butterworths authoritative content, powerful online research, and advanced productivity tools, LexisNexis can help you stay one step ahead in a time of change. Our content, tools and expertise deliver a unique portfolio of offerings designed to help you succeed.



## MONDIAL CONSULTANTS

Mondial has a strong culture of client service and its management team, consultants and employees have been performing a range of enterprise and related risk management projects for local and international clients since 1995.

We believe that we are in the position to offer innovative and pragmatic solutions to our clients taking into account our unique experience in a range of Risk, Business Continuity Management, Governance, Compliance, Sustainability and Assurance related disciplines.



## MORE BEYOND

More Beyond was founded in 2013 by Sonja Blignaut. We specialise in helping organisations and people become more resilient and adaptive in the face of uncertainty. More Beyond partners with several international thought leaders in the field of complexity. We play various roles:

- we are thinking partners, bringing new ways of thinking and seeing the world, new tools and frameworks alongside the expertise that already exists in your organisation and team. Often, leaders don't need a coach or consultant, but rather someone to think with them, to challenge their patterns and broaden their ideas.
- we challenge orthodoxy: to be effective in the so-called VUCA world requires us to not only think differently, but also to structure our organisations differently and to stop doing some of the things that we have been taught are best practices. It normally takes someone from outside the organisation to bring blind spots and complacencies to the surface. Sonja is globally a sought-after speaker.
- we provide custom learning journeys in sense-making, resilience, future-fitness, adaptive organisations and more
- we facilitate adaptive strategy and other emergent processes.
- we provide access to unique software tools that enable organisations to create narrative landscapes to guide decision-making



## THE ETHICS INSTITUTE

The Ethics Institute is an independent public institute producing original thought leadership and offering a range of ethics-related services.

Our vision is: Building an ethically responsible society. We pursue our vision through thought leadership and an ethics-related offering, including training, advisory services, assessments, products and membership opportunities. We work with the public and private sectors, and with professional associations.



## THE INSTITUTE OF DIRECTORS SOUTH AFRICA

The Institute of Directors in South Africa (IoDSA) supports business leaders and directors in reaching their full potential by ensuring they fully understand the latest governance practices and are empowered to discharge their duties effectively.

The IoDSA offers exclusive programmes to develop existing and aspiring directors through thought leadership and providing a platform for peer interaction. We are committed to fostering better directors, better boards and better business in SA.



INSTITUTE OF DIRECTORS  
SOUTH AFRICA

## THE INSTITUTE OF INTERNAL AUDITORS SOUTH AFRICA

The Institute of Internal Auditors South Africa (IIA SA) is part of an international network representing the interests of Internal Auditors worldwide. As a part of this international network, the IIA SA upholds and supports the fundamental tenets of the profession - the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

The IIA SA supports the profession by providing a wide range of services dedicated to the education and advancement of internal auditors and dynamically promoting and developing the profession in South Africa. The IIA SA's objectives are to build the profession, its credibility and a thriving business environment in South Africa.

We serve internal auditors in South Africa by offering Technical Guidance, Professional Training Programs, Certification Programs, Continuing Professional Development Opportunities, Conferences and Networking Opportunities.



## TOMORROW TODAY

We provide insights, inspiration and the strategic vision necessary for future focused leaders to know what to do when they don't know what to do. Our leadership programmes, presentations and workshops are delivered globally, and companies repeatedly request our involvement in shaping their leadership and future direction.



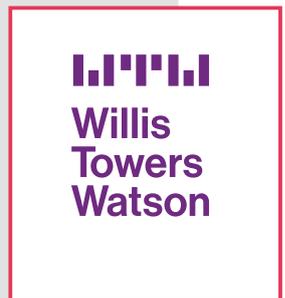
## THRYVE

thryve is a provider of cloud-based insurance administration, risk management information and customer relationship management systems. thryve is part of the Eikos Group and has been developing tailored insurance administration systems for insurance intermediaries for over 15 years. We market and support Riskconnect, a risk management information system solution that is provided in the cloud and developed on the Salesforce.com platform. We partner with Salesforce to deliver the world's leading cloud-based sales, service and marketing platform to clients. Our web-based insurance administration systems are hosted in the cloud and are developed on the Microsoft.net and SQL Server platforms. We employ developers, data analysts, business analysts, client support technicians, project managers and IT engineers, all key to delivering a robust and reliable solution to our clients. Our clients are large southern-African corporates, insurers and insurance brokers.



## WILLIS TOWERS WATSON

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees in more than 140 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas — the dynamic formula that drives business performance. Together, we unlock potential.





THERE IS A REASON THE  
CENTURY'S GREATEST THRILLER  
IS CALLED **IT**

Do you really understand the scope  
of your digital landscape?

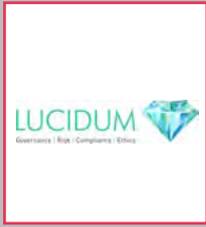
Cybercrime costs today's global economy an average of \$4 billion annually; and it's getting worse. Evolving at rates faster than the speed of light, digital disruption is leaving no organisation untainted.

At RUBIQ, we've designed an array of online, out-of-the box Maturity Assessments that hone in on your organisation's capability and resilience levels, and then identify the rapidly emerging risks in your growing digital landscape. Our assessments further establish the maturity of your processes, the readiness of your leadership, expertise of your supporting resources and a whole

lot more. They're quick and easy to complete and expertly identify your "As Is" strengths and weaknesses.

Today, IT's no longer a question of IF, but WHEN you fall victim to a cyber event. To prevent a catastrophe from impacting your sensitive data and the protection of your IT environments, call the RUBIQ experts.





**IRMSA RISK REPORT  
SOUTH AFRICA RISKS 2020  
SIXTH EDITION**

**CONTACT IRMSA**

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