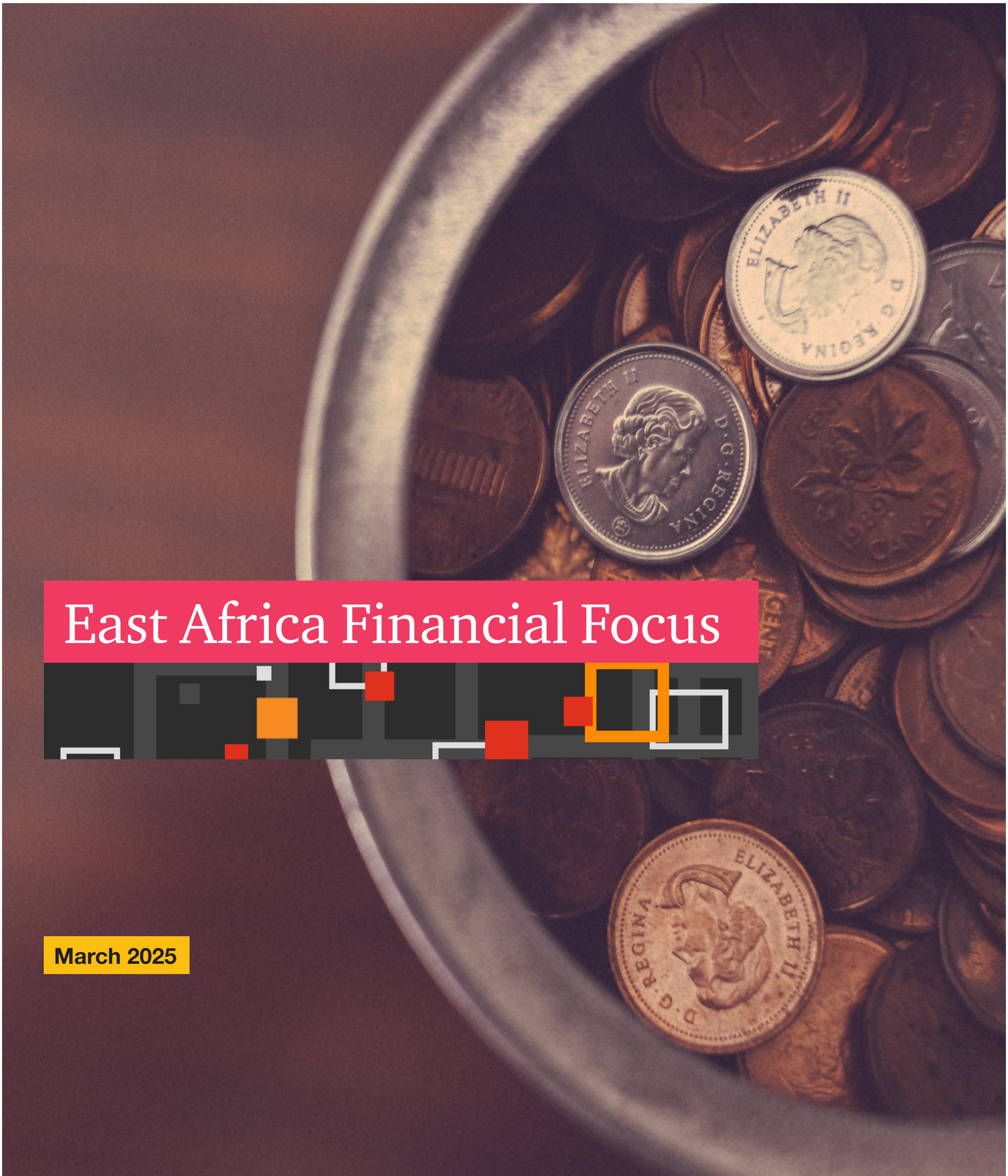
East Africa Financial Focus



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Introduction

Welcome to the 2025 edition of Financial Focus, PwC's industry publication for the financial services sector in the East Africa region. This year, we delve into several critical areas shaping the future of financial services in our region.

The financial services industry in East Africa is undergoing significant transformation. Financial industry players face a myriad of challenges that they have to navigate through to survive and thrive – regulatory pressures, the pressure to improve efficiency, cyber security, changing customer needs, and other challenges.

To succeed, banks, insurance companies and other FS players will need to embrace new technology and be innovative and proactive in responding to the rapidly changing customer needs, in an increasingly digital world. In this edition of Financial Focus we have put together articles addressing some of the trends and challenges that the sector is grappling with.

First, we discuss preparing for Year 2 of IFRS 17. Judy Manshau, Senior Manager, and Gauri Shah, Partner from PwC Kenya, reflect on the challenges faced by the Insurance industry during the first year of IFRS 17 reporting and outline the ongoing efforts to streamline data collection, optimize tools, and improve financial reporting processes. Next, Martin Bamukunde, Partner, Rabecca Hichilo, Associate Director, and Mulenga

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Chileshe, Manager at PwC Zambia, share insights from the 2024 Insurers Association of Zambia (IAZ) Conference.

On sustainability, we explore the urgent need for sustainable finance in Africa by Nitin Rampul, Senior Manager at PwC Mauritius. Sustainable finance emerges as a key driver for economic development and despite significant barriers, there is a growing focus on mobilizing sustainable finance. Howary Kharbush, Associate Director at PwC Tanzania, outlines the importance of sustainability reporting for banks in East Africa in his article. Rachael Wainaina, Culture and Change Management Advisor at PwC Kenya discusses building resilience through change management in the financial services industry.

Additionally, we cover the evolving cyber threat landscape and the need for effective cyber risk quantification. Diya Guttoo, Partner at PwC Mauritius, and Peter Ojekunle, Senior Manager at PwC Uganda, provide a detailed analysis of this critical issue. Thereafter, Ashley Adipo, Associate, and Brenda Guchu, Senior Manager at PwC Kenya discuss innovations in the financial sector driven by Artificial Intelligence (AI). Finally, Michael Wachinga, a Senior Manager and Doreen Max, a Senior Associate at PwC Kenya discuss balancing economic growth and tax revenue mobilisation with a focus on Kenya.

This Financial Focus edition provides valuable insights, reflecting the regional outlook of our financial services clients. We hope you find these articles informative and useful.

Please feel free to reach out to me or any of the PwC contributors featured in this publication if you require any clarifications. As always, we welcome your feedback and suggestions on how to improve our publication.

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IFRS 17: – Two years post implementation: Overcoming Challenges and Unlocking Value in the Eastern Africa Region

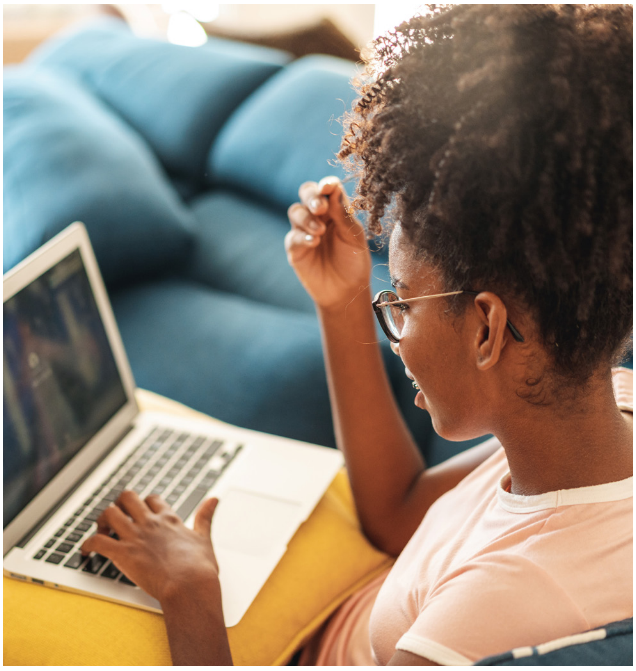
The first year of International Financial Reporting Standard 17 (IFRS 17) reporting across the Eastern Africa insurance industry can be summed up in one word: challenging. Many companies took a "patchwork" approach, rushing to meet deadlines—with some even missing the extensions provided. While the industry managed to report IFRS 17 numbers, this achievement is just the beginning. The road to full understanding and implementation is still long.

In hindsight, most companies underestimated the effort and costs required. Many didn't plan adequately, nor did they leverage their consultants and Quality Assurance (QA) partners effectively. Additionally, there was limited guidance and support from regulators and industry bodies to help prepare the industry.

Fixing IFRS 17: Ongoing Efforts Post-Implementation

Following the first year, post-implementation work is now the priority for many insurance players. Efforts are focused on several key areas:

- **Streamlining Data Collection and Processing**
  IFRS 17 requires a much larger volume and granularity of data than insurers are accustomed to. As a result, companies are investing in better data management systems to increase accuracy and speed up the reporting cycle.
- **Optimizing IFRS 17 Tools**
  Many insurers faced challenges with the IFRS 17 tools they initially implemented. Some have abandoned their tools, others have struggled to embed them effectively, and a few chose to outsource the process. However, most insurers are now reassessing their tools to ensure they align with their overall reporting process. This has led to additional investments, including upgrades to actuarial tools.
- **Improving the Financial Reporting Process**
  A major miscalculation was underestimating the effort and time required to translate the outputs from IFRS 17 engines into trial balances and financial statements. Most insurers are already witnessing a more refined and better-understood process of IFRS 17 reporting, which will continue to improve over the next few quarters.
- **Clarifying Areas of Judgment**
  IFRS 17 involves numerous policy choices, including product classification, measurement models, and discount rates. Now that insurers have had more time to understand the impact of these choices, we anticipate further rationalization and stabilization of methodologies, leading to greater consistency across the industry.



- **Building Capacity and Capability**
  Although technical capability in IFRS 17 reporting is improving, there's still much work to be done. With the second year of reporting now complete, insurers are expected to have better-resourced teams with enhanced technical expertise.

Creating Value from IFRS 17

Firms that have made more progress in their IFRS 17 implementation are beginning to extract value from the standard. The next steps involve improving process efficiency, strengthening validation controls, and ensuring robust reporting. This will enable timely, accurate analytics to support decision-making.

IFRS 17 offers deeper insights into the profitability of each cohort within a portfolio, enabling more informed product design and development. For example, the Contractual Service Margin (CSM) provides a valuation of future expected profitability, which is now being used to assess business performance, guide sales teams, and even in transactions—slowly replacing older metrics like Embedded Value for long-term business.

The first year of IFRS 17 reporting across the EMA insurance industry can be summed up in one word: challenging

Looking Ahead: Challenges and Opportunities

Having navigatedthe second year end of full IFRS 17 reporting, insurers are aiming for a smoother reporting cycle. However, post-implementation work is expected to continue for at least another 12 to 24 months. There are still areas that will require further refinement, and many uncertainties remain—including around the implications of IFRS 17 numbers for minimum capital requirements and tax computations in various EMA countries.

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Insights from the 2024 Insurers Association of Zambia (IAZ) Conference

PwC Zambia participated in the 2024 Insurers Association of Zambia (IAZ) Conference, held under the theme: "Adapting to the Changing Landscape of Economic, Environmental, and Social Risks."

The Zambian insurance sector maintains its crucial role in the country's financial landscape and various sectors. It serves as a pivotal provider of essential risk management products and services, catering to the needs of both businesses and individuals. The sector's resilience and adaptability are vital in navigating the complex and evolving risk environment.

Survey Methodology and Participation

As in previous years, we sought responses from insurance companies that represented the consolidated views of each company. Of the 39 companies surveyed, 25 responded, representing 79% of the market.

This high response rate underscores the industry's commitment to sharing insights and addressing common challenges.

One pronounced observation in this year's survey results is the significant continuity in the top five issues affecting the sector, which are similar to those identified in the 2023 survey. This highlights the persistent nature of these concerns for insurance companies and the need for ongoing strategic focus.

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Key Issues Highlighted

Martin Bamukunde, PwC Zambia's Partner and Financial Services Leader, presented the Annual Insurance Survey Findings, shedding light on the following top five issues affecting the insurance industry:

1. **Recoverability of Premium Debtors:** Addressing challenges in collection processes to enhance liquidity. The ability to recover premiums efficiently is crucial for maintaining cash flow and financial stability. Companies are exploring innovative solutions and technologies to streamline collections and reduce outstanding debts.
2. **Impact of the Amended Insurance Act:** Navigating the regulatory changes and aligning operations accordingly. The amended act introduces new compliance requirements and operational standards. Insurance companies are investing in training and systems upgrades to ensure full compliance and to leverage the opportunities presented by the new regulations.
3. **Competition and Erosion of Premium Rates:** Tackling the effects of heightened competition on pricing structures. The insurance market is becoming increasingly competitive, leading to pressure on premium rates. Companies are focusing on differentiating their offerings, enhancing customer service, and leveraging data analytics to optimize pricing strategies.
4. **IFRS 17 Sector Implementation:** Assessing the progress and hurdles in aligning with the new financial reporting standard. IFRS 17 represents a significant shift in how insurance contracts are accounted for, requiring substantial changes in financial reporting processes. Companies are at various stages of implementation, with ongoing efforts to address technical challenges and ensure accurate and transparent reporting.

5. **State of the Local Economy:**
   Evaluating the broader economic factors influencing sector performance. The local economy's health directly impacts the insurance sector, affecting everything from premium growth to claims frequency. Companies are closely monitoring economic indicators and adjusting their strategies to mitigate risks and capitalise on growth opportunities.

Industry Collaboration and Future Outlook

We extend our gratitude to the Zambian insurance industry for its unwavering support and valuable contributions to these insightful findings. Together, we continue to build a resilient and adaptive sector. The collaborative spirit within the industry is a testament to its commitment to overcoming challenges and driving progress.

Looking ahead, the insurance sector is poised to play an even more critical role in Zambia's economic development. As the country continues to face economic, environmental, and social risks, the insurance industry must innovate and adapt to provide effective risk management solutions. This includes embracing digital transformation, enhancing customer engagement, and developing new products that address emerging risks.

As the country continues to face economic, environmental, and social risks, the insurance industry must innovate and adapt to provide effective risk management solutions

Commitment to Thought Leadership and Innovation

PwC Zambia remains committed to supporting the industry through collaboration and thought leadership, fostering innovation and progress. We believe that by working together, we can create a more resilient and sustainable insurance sector that meets the evolving needs of businesses and individuals.

Our ongoing initiatives include engaging in continuous dialogue with industry stakeholders to understand their challenges and provide tailored solutions.

In conclusion, the 2024 Insurers Association of Zambia (IAZ) Conference highlighted the critical issues facing the insurance sector and the collective efforts to address them.

By focusing on key areas such as premium recoverability, regulatory compliance, competition, financial reporting, and economic conditions, the industry is well-positioned to navigate the changing landscape and continue its vital role in Zambia's financial ecosystem.

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The future of sustainable finance in Africa

Introduction

The sustainable finance market in Africa is driven by the urgent need to address the continent's complex challenges related to climate change, poverty, and governance, while simultaneously promoting economic development. Despite having the greatest need for sustainable financing, the region currently faces significant barriers to attracting such investments. This article explores the critical need for sustainable finance in Africa, examines the development challenges across the continent, and offers insights on how economic integration can serve as a powerful enabler.

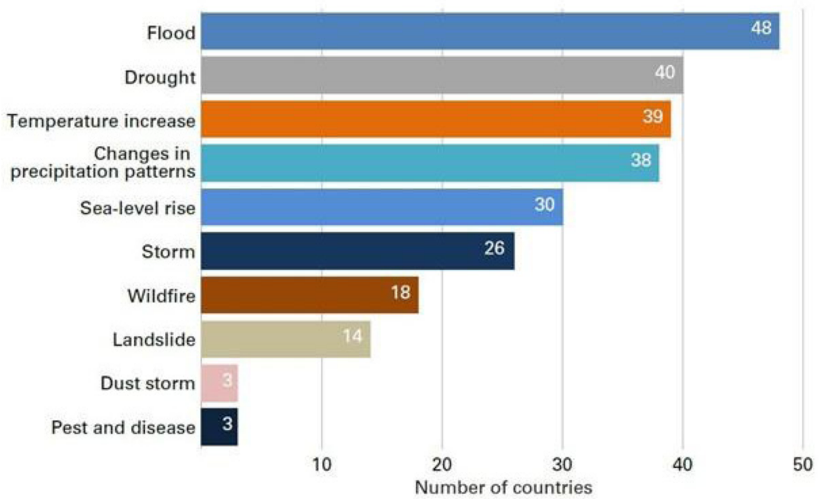
What is Sustainable Finance?

Sustainable finance incorporates environmental, social, and governance (ESG) considerations, over and above traditional financial metrics, to investment decisions. Mobilising sustainable finance means creating enough monetary returns to attract capital and directing this capital to fund specific needs.

Why is Sustainable Finance important for Africa?

Despite being among the lowest contributors to global Greenhouse gases (GHGs) emissions, Africa faces the significant consequences of rising temperatures, such as severe floods and droughts. Mobilising sustainable finance and directing funds to sustainable projects would directly contribute to both mitigating and adapting to these challenges.

Hazards of greatest concern for the African region (June 2024)



Source: World Meteorological Organisation

COP29 in November 2024 ended with a target of USD 1.3 trillion annual support to developing countries by 2035, including Africa

What are the current numbers?

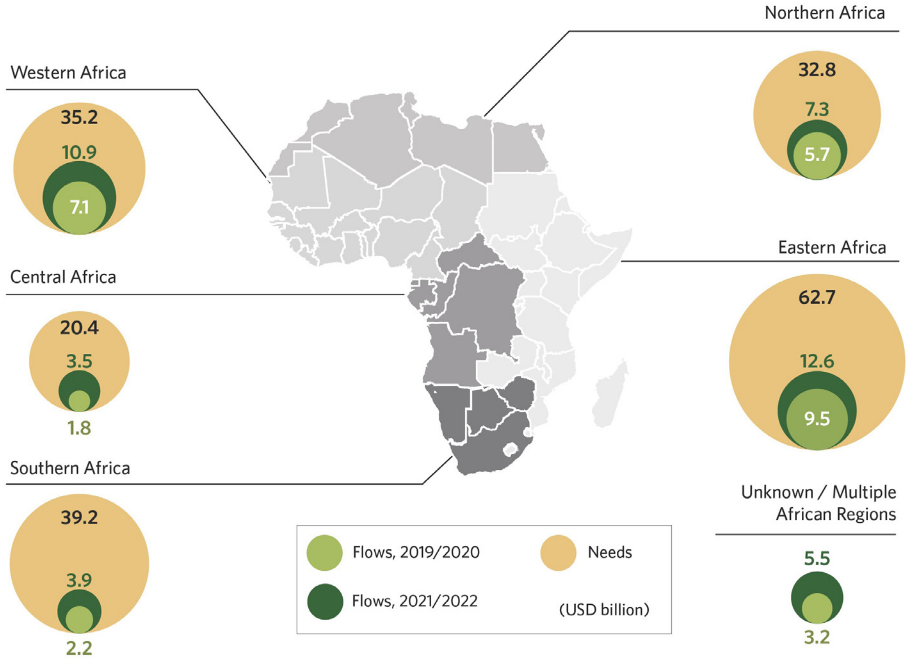
Under the Paris Agreement, Nationally Determined Contributions (NDCs) are action plans outlined by each country to reduce their GHG emissions and adapt to climate change. According to the NDCs submitted by African countries, climate initiatives alone will cost around USD 2.7 trillion by 2030.

Climate finance on the continent will need to quadruple annually to meet these NDCs, as only about 23% of the need is currently met. The diagrams below illustrate Africa's climate finance flows versus its needs.

Moreover, COP29 in November 2024 ended with a target of USD 1.3 trillion annual support to developing countries by 2035, including Africa, as the New Collective Quantified Goal (NCQG). This figure is also considered as a floor and not a ceiling.

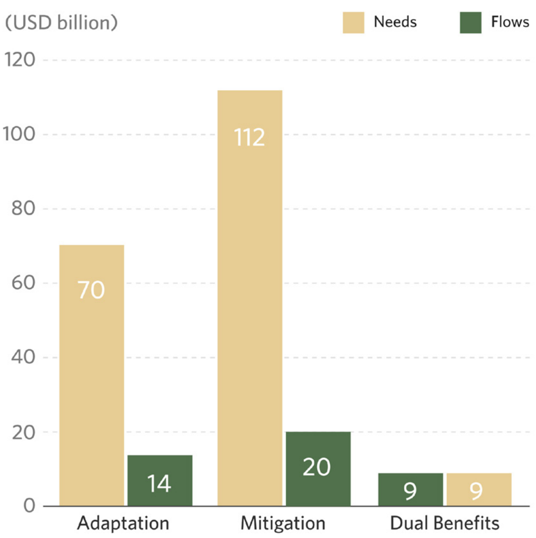
To mobilise these funds, African countries now must focus on defining their NDCs, scheduled for submission in 2025, and formulate a roadmap to be able to access the funds mobilised by the global north.

Climate finance flows & needs by subregions 2021/22



Source: Climate Policy Initiative

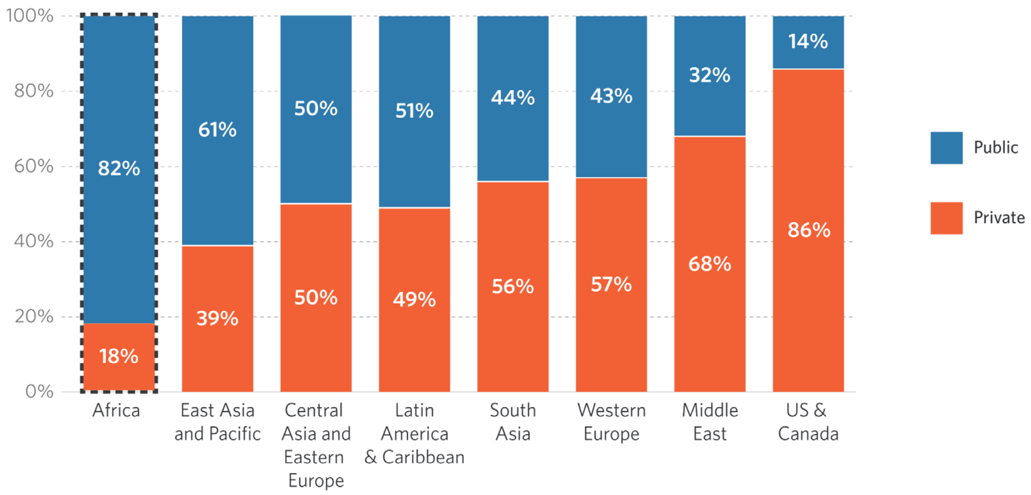
Climate finance flows & needs by uses in 2021/22



Source: Climate Policy Initiative

To date, Africa's climate finance has predominantly come from the public sector, as illustrated in the following figure. However, this is far from sufficient. Private investor flows represent a significant untapped potential. Surprisingly, the role of the private sector is rarely discussed in connection with the NDCs. It is imperative to make these NDCs investible to enhance private sector participation.

Share of private climate finance to total climate finance by region 2021/22



Source: Climate Policy Initiative

What are the main challenges for Sustainable Finance in Africa?

- **Lack of Standardised Reporting:** African borrowers often report inadequate and inconsistent data. While standards such as IFRS S1 and S2 have emerged, implementation in Africa remains slow. It is therefore difficult for investors to quantify and assess the true environmental and social impact of their funding, making such investments very unattractive.
- **Regulatory Barriers:** Regulatory frameworks in Africa on sustainable finance are still not well defined, with only South Africa and Kenya having a green taxonomy. This may lead to high greenwashing risk (where issuers provide overstated or misleading ESG information on their company/projects), thereby discouraging investors on the market.
- **Governance Issues:** Poor governance and corruption often deter investors and undermine trust in financial systems. Mismanagement of funds can lead to resources being diverted away from intended projects. Difficulty in repatriating funds outside of Africa also poses significant risk for investors.
- **Low Credit Rating:** African markets are often perceived as highly risky by investors given the ongoing political instability, currency volatility, and inadequate infrastructure. No African country, except Mauritius, holds an investment grade rating. As a result, liquidity in the sustainable finance market remains limited in the region.
- **Investor Inexperience:** While sustainable finance products have been gaining more popularity over the past few years, many investors on the continent including banks are still unfamiliar with them and thus do not have appetite for such. As a result, this further reduces the supply of funds available for ESG projects in Africa.
- **Product Structuring Gap:** Demand for sustainable banking products is often accompanied by poor structuring (for instance in terms of tenor, use of proceeds, collateral, repayment terms, covenants etc) and is thus not viable enough to attract lenders. Despite growing demand for sustainable finance, there is often a gap in the availability of well-prepared and bankable projects.

PwC's view on the way forward

While African leaders have left the COP29 frustrated by the low amount pledged by wealthy nations, their focus should also be on enticing more private finance to the region. Economic integration throughout the continent might be key to achieve this.

The African Union (AU) could start by creating an AU taxonomy. Like the EU taxonomy, this framework would unify Africa under a single system. An integrated approach would facilitate the pooling of capital from various countries, simplifying the financing of large-scale projects that benefit multiple nations.

This could encompass shared renewable energy grids, cross-border infrastructure development, and sustainable agriculture plans. Additionally, the AU taxonomy would provide clearer definitions and structures for sustainable initiatives, enhancing their bankability.

Moreover, establishing ambitious pan-African capital markets could significantly enhance access to blended finance mechanisms, where public and private funds are combined to de-risk sustainable investments.

Economic integration can also help mitigate governance issues by fostering collaboration, increasing transparency, and strengthening institutional capacity. Standardised governance procedures across nations would be facilitated, with regional bodies like the AU and the African Continental Free Trade Area (AfCFTA) promoting policies that require transparency and accountability.

A more integrated and transparent Africa would expose countries to peer pressure, making leaders more accountable for their practices. Improved governance will undoubtedly make Africa more attractive to private investors.To accelerate the unification of the African continent, strategically positioned jurisdictions such as Mauritius can act as gateways for sustainable finance into Africa. Leveraging its location, strong regulatory framework, and favourable tax treaties, Mauritius can serve as a financial hub to channel sustainable FDI into the region. Creating specific hubs for investments and logistics can further enhance economic integration and unlock sustainable funding opportunities.

While an integrated Africa could be a crucial enabler for the deployment of sustainable finance, its implementation would require significant political will and consistent action from the AU.

Conclusion

Africa's sustainable finance market holds immense promise, but addressing the substantial financing gaps requires rigorous and coordinated efforts. The collaboration between public and private sectors is essential to foster economic integration, which will be a crucial enabler for sustainable development.

By effectively harnessing sustainable finance, Africa can drive inclusive growth, mitigate climate risks, and make significant strides towards achieving 'Agenda 2063: The Africa We Want'—the African Union's visionary framework for transforming the continent into a global powerhouse by 2063.

Economic integration will facilitate the pooling of resources and expertise, enabling the continent to tackle its most pressing challenges more effectively. This includes developing resilient infrastructure, promoting renewable energy projects, and enhancing agricultural productivity. Moreover, a unified approach will attract more private sector investments by creating a stable and transparent business environment, thereby unlocking new funding opportunities for sustainable projects.

While the journey towards an integrated and sustainable Africa is complex and requires significant political will and consistent action from the AU, the potential benefits are immense. By leveraging sustainable finance, Africa can not only address its current challenges but also pave the way for a prosperous and sustainable future for all its citizens.

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How banks in East Africa can unlock value with Sustainability Reporting

The banking sector has increasingly recognised the importance of sustainability, as evidenced by the growing emphasis on Environmental, Social, and Governance (ESG) principles. However, unlocking value from sustainability reporting involves more than just a compliance mindset. Banks need to embed sustainability deeply within their operations and consider it as a critical component of strategic planning and decision-making, crucial for long-term viability and success.

By embracing comprehensive and transparent sustainability reporting practices, banks can enhance their operations, comply with regulatory requirements, and contribute positively to societal goals. In doing so, they secure their long-term success and play a vital role in fostering a more sustainable and equitable financial system.

In East Africa, regulators are increasingly mandating sustainability reporting, with non-compliance resulting in legal repercussions. For example, central banks, stock exchanges, and accounting institutes in several East African countries have issued guidelines mandating a focus on ESG and sustainability reporting by banks. By aligning with these regulatory requirements, banks avoid penalties and position themselves as proactive leaders in sustainability and regulatory compliance.

Here are a few ways banks in East Africa can go beyond compliance to fully reap the benefits of sustainability reporting.

According to the 2024 PwC's Global Investor Survey, 50% of investors believe it is very or extremely important for organizations to change the way they create, deliver, and capture value in response to climate change. Moreover, 71% of investors agree that organisations should incorporate ESG/sustainability directly into their corporate strategy. These findings indicate that investing in ESG initiatives not only reflects ethical values but also yields tangible financial benefits for banks.

Attracting Investments

Banks with robust sustainability reports are more likely to attract investors, leading to increased access to capital and more favourable financing terms. Investors are increasingly incorporating ESG factors into their decision-making processes, recognizing that banks with strong ESG strategies often exhibit better risk management and long-term financial performance.

Building Trust and Reputation

Banks that demonstrate strong commitment to ESG will likely enjoy a more positive public perception. High-quality and transparent disclosures on ESG strategies and performance demonstrate a bank's commitment to responsible business practices. This transparency fosters stakeholder confidence and loyalty, ultimately strengthening the bank's reputation.

Risk Management

Banks with robust ESG frameworks are considered low risk due to their proactive approach to managing environmental, social, and regulatory challenges. Climate change, regulatory changes, and social issues pose significant risks that can impact a bank's financial stability and reputation. Sustainability reporting enables banks to identify and manage risks related to ESG factors. By proactively addressing these risks, banks can enhance their resilience and ensure long-term sustainability.

Operational Efficiency and Cost Savings

Sustainability reporting can help banks identify opportunities for operational efficiency and cost savings. The pursuit of sustainable practices can lead to the development of new, more efficient technologies and processes and can help banks identify areas for improvement in their operations. These improvements can lead to cost savings and contribute to the bank's overall sustainability goals.

Competitive Advantage

In a highly competitive market, sustainability reporting can help banks gain competitive advantage. Banks that demonstrate leadership in sustainability often set themselves apart as leaders and innovators. This competitive edge can translate into increased market share, customer loyalty, and enhanced brand value.

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Customers gravitate towards banks that embody sustainability principles. Additionally, investors are increasingly channelling funds into banks that demonstrate a solid commitment to ESG criteria, recognising that such investments are both ethically sound and financially prudent in the long run.

Conclusion

In an era where transparency, accountability, and ethical practices are increasingly valued, sustainability reporting is becoming a strategic asset for banks. Far from being a compliance exercise, robust sustainability reporting offers numerous benefits that can enhance a bank's operations, reputation, and profitability.

As the financial landscape continues to evolve, banks that prioritise sustainability and transparency will be best positioned to thrive in the future.

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Building resilience: Change management in the financial services industry

The financial services sector has over the years set the pace when it comes to adoption of technology. With heavy reliance on the use of technology for service delivery and improvement of customer experience, it is necessary for the sector to continuously enhance resilience across institutions to achieve the vision of digital transformation.

Building resilience from a people lens focuses on getting the workforce more comfortable in adopting and using emerging technology while building new skills to achieve envisioned business outcomes. It involves giving people the necessary motivation, the vital skills, and the right tools to adopt new ways of working.

The ultimate goal of this endeavour is to enable the user to utilise and appreciate the end-to-end benefits of the technological and digital tools at their exposure to their fullest extent.

While massive investments go into procuring and onboarding technology for digital transformation projects, having them in place is not sure proof to get the desired business results. Changing mindset, creating awareness and supporting the workforce through the transformation can potentially produce better outcomes and results for financial services organisations.

Organisations have often deployed change management initiatives when there is evidence of challenges related to technological adoption during the digital transformation.

Benefits that could have been realised from onboarding change management from the onset of such a transformation, such as, risk management planning, resistance management planning and change impact assessment, may not be fully realised. In this regard, it is now considered favourable for organisations to

consider integrating change management at inception of a digital transformation journey.

A baseline change readiness assessment is necessary to establish the organisational health in relation to previous transformation journeys and potential people related risks that will need to be mitigated, among other insights.

The change readiness assessment enables change managers to understand the different roles and cultures within the organisation through interviews and focus groups. These insights are integral in creating a personalised change approach tailored to different personas of the digital transformation journey.

Deploying change management initiatives to build resilience in digital transformation requires strategic communications management planning, specifically related to workforce requirements from the technology and how it will help them do their job.

Changing mindset, creating awareness and supporting the workforce through the transformation can potentially produce better outcomes and results for financial services organisations

Communications should be tailored to various audiences placing into consideration the envisioned impact of the digital transformation on the daily operations of the various user groups. This makes stakeholder mapping necessary to enhance strategic messaging and use of appropriate tools in the dissemination of information.

Training forms a core pillar of successful digital transformation. In recent times, to ease the transition, a blended approach incorporating both role-focused and functionality-focused training is crucial to driving the desired traction.

Training needs and skills requirements insights form the basis of targeted user support upskilling areas. It is essential that the training needs assessments is deployed on a regular basis to identify emerging needs during the transformation to inform capacity building initiatives. In certain instances, it might be necessary to onboard interactive and immersive experiences, which help build capability and embed desired behaviours. This may include escape rooms, videos and virtual reality experiences.

An impact driven element of digital transformation in financial institutions is sustaining the desired outcomes beyond deployment or ‘go-live’. Building a strong change network and embedding business actions into business as usual are key in driving sustainable adoption.

In this regard, during the digital transformation, it becomes important to focus on changing behaviours and celebrate successes along the way to maintain momentum. To enhance sustainment actions, it is necessary to set clear expectations of leadership.

This can be achieved through establishing the sustainment pillars, success factors, sustainment priorities and initiatives that are then cascaded within the organisation. These are further enhanced by creation of a network of influential change agents to inspire others to leverage the technology to its desired use and business potential.

Driving ownership with a business-led design authority set up from day one of go-live sets the tone towards achieving desired outcomes. Defining key sustainment roles and associated action plans with specific timelines is also necessary in driving cross-cutting accountability in achieving adoption milestones and entrenching behaviour change to support the digital transformation.

In conclusion, digital transformation within the financial services sector is necessary to keep at pace with the demands of the operating environment and evolving customer needs. Integrating change management to complement the digital transformation journey and support the people side of change is necessary in improving business outcomes and maximising the return on investment in the digital transformation journey.

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From Uncertainty to Clarity: Bridging the Gap in Cyber Risk Quantification

In today's digital age, cyber threats are evolving at an unprecedented pace, posing significant risks to organisations worldwide. According to a report by Cybersecurity Ventures, the global cost of cybercrime is projected to reach $10.5 trillion annually by 2025, up from $3 trillion in 2015.

The financial services sector is particularly vulnerable to these evolving cyber threats due to its reliance on technology, the sensitive nature of the data the sector holds and the critical role it plays in the global economy.

Despite the growing threat landscape, many organizations, including those in the financial services sector, struggle to understand their actual cyber risk exposure and the potential impact of a breach.

Such a gap in understanding inevitably results in, to mention a few, inadequate allocation of resources to address the most critical cyber risks, inadequate implementation of mitigation strategies, inability to secure the right insurance premium, insufficient oversight from those charged with the responsibility of governance, and inability to measure the Return on Security Investment (RoSI).

Organisations are increasingly turning to innovative approaches that enable them to quantify cyber risk in financial terms – a concept commonly known as Cyber Risk Quantification – (CRQ)

Top 3 concerns from Boards and Executives

1. What are our top cyber risks and how much exposure do they represent?
2. Where are we allocating resources and dollars? Are we investing too little or too much?
3. How effective are our investments in risk reduction?

To address this challenge, organisations are increasingly turning to innovative approaches that enable them to quantify cyber risk in financial terms – a concept commonly known as Cyber Risk Quantification –(CRQ).

By so doing, organisations can prioritise their cybersecurity investments, allocate resources more effectively, communicate risks to stakeholders in a language they understand (in dollar value) and make data-driven decisions that protects what matters most to the business and enhances overall resilience.

These benefits are relatively common knowledge, however, despite increasing attention towards CRQ, the gap between recognition and action remains significant. According to PwC's 2025 Global Digital Trust Insights Survey, only 15% of organisations measure the financial impact of cyber risks to a significant extent.

Bridging this gap requires a holistic approach which integrates CRQ into an organisation's existing risk management framework.

For an effective outcome, the following key actions delivered in phases are typically required:

Stage 1: Foundation and Planning

1. Establish a CRQ program team. Constitute a team with expertise in cybersecurity, risk management, and finance to lead the CRQ implementation.
2. Define objectives, scope and expected outcomes of the CRQ program. Develop a framework, methodology and governance structure for the program.
3. Integrate the CRQ Framework in line with the Enterprise Risk Management (ERM) framework and practices. This will facilitate adoption and subsequent roll-out at an organisation level, covering enterprise risks.
4. Conduct a diagnostic study to determine the confidence level in cyber related data. Assess what data is available within the organisation to improve the accuracy and confidence level of the output generated by the CRQ model.
5. Develop a CRQ Roadmap. Outline the key milestones, timelines, and resources required for the CRQ implementation.

Stage 2: Risk Identification and Assessment

1. Collaborate with stakeholders to identify and select potential cyber risks. These include threats scenarios, vulnerabilities, and potential impact.
2. Evaluate the likelihood and potential impact of each identified cyber risk. Use a combination of qualitative and quantitative methods.
3. Categorize and prioritize cyber risks based on their likelihood and potential impact. This will enable the organisation to focus on the most critical risks.

According to PwC's 2025 Global Digital Trust Insights Survey, only 15% of organisations measure the financial impact of cyber risks to a significant extent

Stage 3: Risk Quantification and Modelling

1. Choose a suitable risk quantification methodology. For instance, FAIR (Factor Analysis of Information Risk) or NIST's (National Institute of Standards and Technology) Cybersecurity Framework.
2. Create a risk quantification model (cyber value at risk model). Choose one that translates cyber risks and threat scenarios into financial terms using exposure information and loss drivers.
3. Utilise advanced analytical tools and technologies. Consider tools integrated with security feeds, such as internal and external threat intelligence to enhance the accuracy and efficiency of risk quantification.
4. Calibrate the risk quantification model. Use historical data, industry benchmarks, and expert judgment to ensure accurate and reliable results.

Stage 4: Risk Mitigation and Treatment

1. Create risk mitigation strategies to address cyber risks above tolerance levels, including preventive, detective and corrective controls.
2. Evaluate and prioritise risk mitigation strategies based on the Return on Security Investment (RoSI).
3. Use insights generated by the CRQ exercise to support decision making on cyber-insurance.

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Stage 5: Ongoing Monitoring and Review

1. Continuously monitor cyber risks. Update the risk quantification model and mitigation strategies as needed.
2. Regularly review and refine the CRQ program. This is to ensure its effectiveness and alignment with evolving business needs and emerging threats.
3. Develop clear and transparent reporting mechanisms. Communicate quantified cyber risks to the board and executive leadership on a regular basis.

In conclusion, bridging the gap in cyber risk quantification is essential for navigating the complex and evolving cyber threat landscape. By integrating CRQ into business strategy, leveraging risk quantification methods, automating data collection and collaborating with industry peers, organisations can move from uncertainty to clarity in their cyber risk management efforts.

As cyber threats continue to grow in sophistication, the ability to quantify and mitigate these risks will be a key differentiator for organisations seeking to secure their digital future.

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Leveraging Artificial Intelligence (AI) in the fight against financial crime: Innovations for the financial sector

Introduction

The financial services sector is a cornerstone of modern economies. It plays a critical role in the economic development of any society, ultimately providing economic stability. Players within the sector continuously seek new and innovative ways to streamline operations and cater to the ever-changing needs of the industry.

The simulation of human intelligence processes by computer systems, commonly referred to as Artificial Intelligence (AI), has driven significant advancements in the financial sector. It has increased the efficiency of doing work and provided better solutions for the operational challenges faced by Financial Institutions (FIs).

AI has gradually become an indispensable tool for Financial Institutions with at least 75% of global banks implementing AI-driven solutions in at least one operational area according to Statista (Statista.com, 2024). Its use has facilitated the integration of fraud prevention and Anti-Money Laundering (AML) efforts, helping in identification of overlapping risks and streamlining their strategies.

The 2024 PwC Europe, Middle East and Africa (EMEA) AML survey report further revealed that emerging financial markets in Middle East and Africa are eager to implement new technologies to fight money laundering. 71% of African Financial Institutions stated that they will allocate over 10% of their budget to digital spending.

Innovations in the financial services sector

A key area where AI has been instrumental is in the analysis of transactions in real-time, identifying patterns and anomalies that may be indicative of fraud. For instance, while traditional rule-based systems may flag many false positives, AI and Machine Learning (ML) models can learn from historical data and confirmed fraud cases to continuously improve their accuracy. This results in a reduction in the number of false positives, allowing experts to focus their efforts on investigating suspicious transactions and increasing detection rates.

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The integration of AI into Know Your Customer (KYC) processes has also proven to be beneficial within the financial services sector, by enhancing verification and monitoring of customer identities.

This is achieved through automated data collection and verification methods such as biometric authentication. Through use of unique biological features such as fingerprints, voiceprints or facial recognition, Financial Institutions can accurately identify individuals. This makes it difficult for criminals to impersonate customers or create false identities.

The use of AI also enables players in the financial services sector to remain compliant with the laws and policies while managing their costs. Through use of AI-driven compliance tools, they can stay up-to date with legal and regulatory requirements by automating the monitoring of regulatory changes.

In Singapore, an information sharing platform, Collaborative Sharing of Money Laundering/ Terrorism Financing (ML/ TF) Information & Cases (COSMIC), has been developed

Customer experience and awareness has improved significantly, through the use of interactive chatbots which provide guidance on various aspects, including alerting customers to potential scams. AI systems are also equipped to monitor customer accounts, sending proactive notifications and alerts about unusual account activities.

Global trends and challenges

The use of AI for the detection and prevention of financial crime has been backed by various laws and policies globally. The European Union (EU) Payment Services Regulation (PSR) provides a legal basis for information sharing under the Global Data Protection Regulations (GDPR).

Under the PSR, the revised Payment Services Directive (PSD2) requires Financial Institutions to strengthen their security protocols and cooperate through information sharing to prevent fraud. AI and other digital technologies can be leveraged upon to collect this data from a variety of sources and ensure there is secure information sharing.

In Singapore, an information sharing platform, Collaborative Sharing of Money Laundering/Terrorism Financing (ML/TF) Information & Cases (COSMIC), has been developed to enhance the detection of financial crime. This progressive approach can be adopted by other countries to help them be recognized as trusted financial hubs.

Beneath the transformative promise of AI for the FS sector lies a darker side. Criminals may also use AI to simulate legitimate transactions or behaviors. These activities may include vishing which aids fraudulent activities through voice impersonation as well as AI-generated digital forgeries to deceive biometric authentication systems.

As a result, it is advisable that Financial Institutions ensure that their systems are continuously monitored and updated so that they are resilient against new fraud techniques.

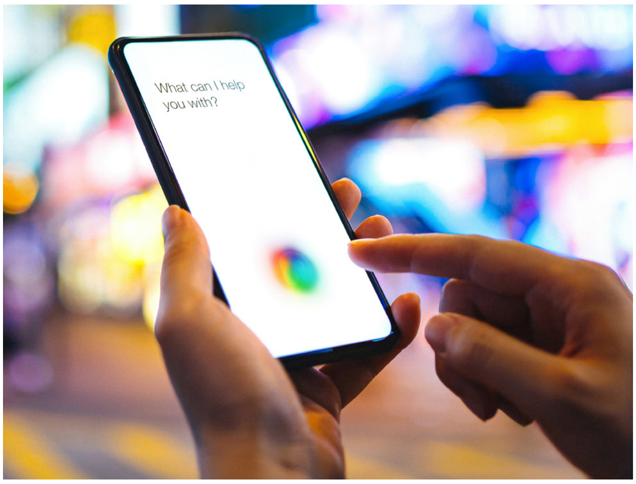
Barriers to adoption of AI in Kenya's financial services sector

Despite AI taking root in some countries and sub sectors, its full potential in financial crime management is yet to be realised. Notably, in Kenya, the adoption of AI by Financial Institutions is still in its nascent stages due to challenges in data quality as well as the often prohibitive initial acquisition cost.

Financial Institutions are faced with the need to balance their obligations to detect and report financial crime with the need to uphold the privacy and security of data subjects. This requires robust data governance policies and systems, demanding an investment in both expertise and data infrastructure. The absence of clear guidelines and standards for AI implementation in the financial services sector also creates uncertainty, which hampers the ability of Financial Institutions to utilize AI optimally.

Conclusion

With the advent of new and emerging technologies, the Financial Services sector faces the crucial task of balancing the use of AI with data privacy obligations. To achieve this, Financial Institutions must ensure that the AI systems they implement are secure and ethically designed to prevent misuse and maintain the integrity of the financial system.



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Balancing Economic Growth and Tax Revenue Mobilisation: The Evolving Future of Financial Services in Kenya

Have you ever noticed how every Marvel movie ends with a teaser, hinting at the theme for the next one? This teaser builds excitement, leaving fans eagerly anticipating what's to come. Similarly, the National Tax Policy ("NTP") and the Medium-Term Revenue Strategy ("MTRS") represent a forward-looking plan in Kenya's taxation framework. A very mindful strategy one might argue as it creates anticipation of the fiscal changes over a specific period, much like a movie teaser.

The evolution of tax policies in Kenya has been influenced by both domestic needs and global trends. Historically, the financial services sector has seen various tax regimes, each aimed at balancing revenue generation with economic growth. The introduction of the NTP and MTRS poses a significant transformation for the sector.

The NTP provides guidelines to mitigate challenges affecting revenue collection by amongst others expanding the tax base, embracing international best practice on revenue mobilisation and reducing tax expenditure to minimize market distortions.

In tandem, the MTRS, for instance the most recently issued, covering the financial year 2025 to 2027, themed "An Approach for Enhancing Domestic Revenue" provides strategies for the implementation of the NTP.

The Finance Bill, 2024 ("the Bill"), which was subsequently withdrawn had proposed significant tax changes in line with the MTRS including proposals to limit Value Added Tax ("VAT") exemptions and rather impose VAT on certain financial services. Despite the withdrawal of the Bill, the government remains committed to implementing the MTRS.

This said, it is our view that the deferral of the implementation of the measures proposed in the Bill is a blessing in disguise. Our view is based on the fcat that the proposed changes present risks that must be managed effectively to avoid market distortions and unwarranted complexities in the financial sector.

Indirect taxes such as VAT and excise duty play a vital role in generating revenue for governments. These taxes are typically levied on the consumption of goods and services rather than on business income or profits.

The financial services sector, encompassing banks, insurance companies, and other financial institutions, is not immune to these taxes, although the application can be nuanced due to the intangible nature of many financial products.

Policymakers should be alive to the adverse effects of levying both excise duty and VAT on financial services which has potential to negate government's efforts in relation to financial inclusion

Generally, VAT is a broad-based consumption tax applied at each production and distribution stage of goods and services[1]. However, international best practices highlight the difficulty of applying VAT on financial services primarily because of the difficulty in measuring the value add associated with financial services and consequently the tax base for which VAT should be applicable[2].

Accordingly, examining case studies from other countries can offer valuable lessons for Kenya. For instance, the United Kingdom's approach to VAT exemptions on financial services has helped maintain a competitive financial sector while ensuring revenue growth. Similarly, South Africa's reduced exemption model balances tax collection with economic activity. These examples can guide Kenya in refining its VAT exemption policies with regards to financial services.

Excise duty on the other hand has traditionally been considered a sin tax charged to discourage consumption of harmful products.

However, over time the scope of excise tax has been broadened in countries such as Kenya to include, what in our view are essential services such as money transfer services and other fees charged for financial transactions.

Accordingly, the proposed introduction of VAT on excisable financial services in bound to have a cascading tax effect. This is because VAT is generally levied on the excise-inclusive value of services or goods. The imposition of both VAT and excise duty on the same transaction places a significant burden on the final consumer.

For instance, a 15% excise duty is currently levied on money transfer fees. Imposition of VAT on the same transactions will results in an effective additional 18.4% tax i.e. 16% of 115% excise inclusive value of the services. Ultimately, this multiplicity of taxes on such transactions results in a 33.4% increase in the transaction price borne by the final consumer.

[1]https://www.elibrary.imf.org/doc/IMF071/06719-9781557754905/06719 9781557754905/Other_formats/Source_PDF/06719-9781455212361.pdf. https://www.urban.org/sites/default/files/publication/25031/412489-Using-a-VAT-to-Reform-the-Income-Tax.PDF.

[2]https://www.elibrary.imf.org/display/book/9781589063167/ch05.xml#:~:text=Basic%20Exemption&text=Under%20this%20approach%2C%20 financial%20services,followed%20by%20many%20other%20countrie.

Policymakers should be alive to the adverse effects of levying both excise duty and VAT on financial services which has potential to negate government's efforts in relation to financial inclusion. For instance, increasingly financial services are offered through technology-enabled channels.

The rise of fintech and digital financial services presents new opportunities to serve the previously marginalized population but also represents employment opportunities for Kenyans, especially the youth. As these technologies innovations evolve, policymakers need to adopt a forward-looking approach that embraces technological advancements, especially those that support the government's agenda of financial inclusion and job creation.

Introducing tax breaks for specific periods or concessional rates until the sector is established goes an extra mile to promote industry growth while also ensuring that digital transactions are appropriately taxed without stifling innovation. Thus, a balance must be struck between revenue growth goals and maintaining a competitive and efficient financial services sector.

Separately, transactional taxes are regressive by nature as they do not differentiate based on the ability to pay, applying the same rate across all income groups. Consequently, lower-income groups are more adversely affected since a larger portion of their income goes towards tax payments compared to higher-income earners.

This clearly illustrates how tax policies can significantly impact financial inclusion. Applying multiple taxes to financial services can discourage low-income individuals from accessing these services, thereby worsening financial exclusion. Policymakers must consider how tax reforms can promote financial inclusion, ensuring that all citizens benefit from financial services.

Therefore, while VAT's broad-based structure is favoured by governments world-over owing to its revenue-raising potential, other socioeconomic factors should be considered, particularly in developing countries where levels of poverty are high and wealth disparity prevalent.

Multiplicity of taxes and the regressive nature of transaction taxes in totality brings misalignment with the government policies of supporting businesses and individuals achieve high quality lives and avoiding tax increments on adversely affected households.

It is our submission that , effective tax policy formulation requires engaging various stakeholders, including financial institutions, consumer groups, and tax experts. Collaborative efforts can help identify potential headwinds and co-develop solutions that balance government's revenue needs with economic growth.

Accordingly, policymakers should prioritize genuine stakeholder engagement to create inclusive and sustainable tax policies, failure of which could have significant consequences for the financial sector and the broader economy.

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