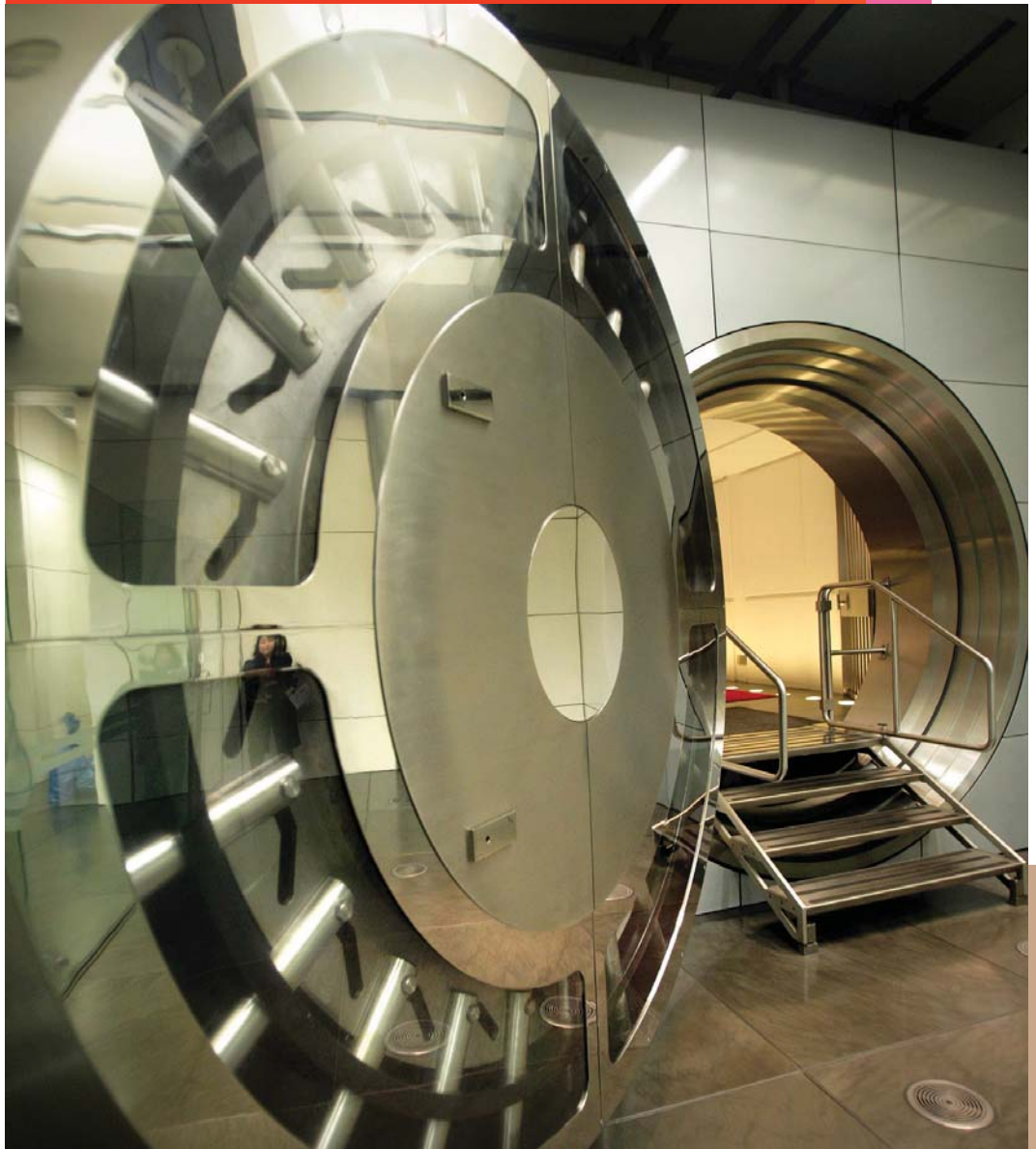


# *Spotlight on financial services*

## 2011 Risk Survey

*Risks and rewards in  
eastern Africa*



## Risks and rewards in eastern Africa

*When we look at the industry here in eastern Africa, what we see is a convergence of risks and opportunities that will influence the way that we all do business*

**Welcome to our first risk survey of banks and insurance companies in eastern Africa. For years, PwC has conducted a global survey including a representative selection of respondents from Africa. Our Banana Skins surveys are rightfully popular and informative, but we wanted to dive deeper into the financial services sector here in eastern Africa.**

This is a strong and dynamic region to do business. Financial services companies are expanding both geographically and in response to customer needs, which are increasing in complexity.

When we look at the industry here in eastern Africa, what we see is a convergence of risks and opportunities

that will influence the way that we all do business. Banks and insurers are cultivating innovations and addressing challenges around distribution, just as both are governed by tax and regulatory regimes badly in need of reform.

Fraud is another area of convergence. We're seeing more and more cases of fraud perpetrated by insiders—disgruntled or disillusioned employees who are usually young and more tech-savvy than their superiors. In fact, fraud is the only risk ranked among the top-five concerns by both banks and insurers in our eastern Africa survey.

In eastern Africa, the global economic crisis has had a muted effect and our clients are telling us that risks related to growing economies are more pressing—like competition from new entrants, a



high dependence on technology and industry reputation. Banks and insurers are also similarly focused on skills shortages that affect risk management quality and the accuracy of actuarial assumptions, respectively. This is one commonality where we see a real opportunity. Better skills, motivated employees, a culture of integrity and an embedded risk management strategy are the keys to success in our markets.

As financial services expand and grow in our markets, you've asked us what we see coming around the corner. We think that a carefully considered response to outdated regulations is essential to growth and innovation. We can learn a lot from the economic crisis in the Western developed world—particularly with regard to risk management—as well as growing markets like Brazil, India and China. Financial services companies in the BRICs are reaching under-served customers in new and innovative ways.

We hope that the following pages inspire new thinking, and we welcome your feedback and comments.

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### ***Regionalisation & shared services***

Regional trade is expanding, particularly within the East African Community. Financial services companies like banks and insurance companies are increasingly focused on supporting regional clients and satisfying their shareholders' appetite for accelerated and higher returns. Consequently, we are now seeing a marked shift away from territorial approaches to doing business towards a more centralised approach.

A centralised approach can help to eliminate the duplication of functions in different branches, achieve economies of scale and provide potential significant cost savings. From a strategic perspective, head offices are seeking to encourage a regional market view. The result is the creation of Shared Service Centres (SSCs) and regional offices.

SSCs can reduce costs by consolidating one or more back office operations (information technology, human resources, accounting, etc.) used by multiple divisions or subsidiaries as well as standardising technology and processes at a regional level.

To encourage the expansion of SSCs and regional offices, the East African Community can devise rules that provide SSCs with clarity on cross-border operations.

# Facing the future

## Risks among banks in eastern Africa

*The global economic crisis has had a muted impact on the banking industry in eastern Africa, with banks and industry observers in Kenya, Uganda, Tanzania, Rwanda and Zambia more concerned about competition and fraud and related risks such as a high dependence on technology and risk management quality.*

The 2010 Banking Banana Skins survey produced by the Centre for the Study of Financial Innovation in association with PwC surveyed over 400 industry insiders from 49 countries. A total of eight banks (2%) were surveyed in Africa. Recognising that the economies and risks in eastern Africa are substantially different than those in Europe or South Africa, PwC conducted a survey of 33 banks in Kenya, Rwanda, Uganda, Tanzania and Zambia in late 2010 and early 2011.

Our global and eastern Africa surveys asked respondents to rank risks by severity, to identify whether risks are rising, steady or falling, and to evaluate their preparedness in responding to these risks.

### **Banking in eastern Africa: risks and rewards**

The top three risks for eastern Africa banks—a high dependence on technology, competition from new entrants and fraud—show some correlation in root causes. Competition is influenced by banks expanding their branch networks as they seek higher

#### Top-5 risks perceived as most severe

Global Banking Banana Skins Respondents	Eastern Africa Banking Respondents (and as ranked by global respondents)
1. Political interference	1. High dependence on technology (18)
2. Credit risk	2. Fraud (15)
3. Too much regulation	3. Competition from new entrants (30)
4. Macro-economic trends	4. Credit risk (2)
5. Liquidity	5. Risk management quality (8)

market shares or compete for previously under-banked segments of the community. They are also setting up subsidiaries as part of their regional expansion programmes and investing in product and service innovation, including partnering with mobile money transfer services. To an extent, competition has resulted in reduced margins for banks as they compete for customers.

A high dependence on technology also subjects banks to more risk and incidences of fraud. Banks realise that

*Banks in eastern Africa are concerned about their ability to handle the risks they identified. Almost all respondents had a 'mixed' perception of their preparedness.*





they have to invest in modern technology to improve customer service and to keep up with competition, but advanced technology and dependence on it brings certain risks. The strategic implementation of technology in the banking sector is highly sensitive and banks are well aware that technology presents opportunities as well as risks.

### **High dependence on technology**

In eastern Africa, the pressures on resources for technology safeguards may be attributed to a highly competitive environment. Fears about inadequate resources and commitments to safeguarding information and processes may inflate the feeling of risk associated with a high dependence on technology. Banks will need to keep up with technology advances to help them meet higher thresholds for customer satisfaction.

Another issue influencing perceived technology risk is skills shortages. Banks may depend on one or two highly-specialised people or consultants, but retaining these individuals can be a challenge and their expertise is still relatively scarce.

We have seen huge amounts invested in core banking systems in the industry but in some cases, the benefit realisation from such implementation has been far less than was intended.

***Risk management provides a framework for organisations to deal with and react to uncertainty and it can dilute the adverse impact of growing risk exposure.***

Country risk manager,  
Kenya banking respondent

### **Fraud and risk management**

Banks in eastern Africa are worried by the increasing level of fraud in the region. Fraudsters have become more sophisticated and in certain cases operate as organised syndicates targeting bank employees. Technological advances, while necessary, have made banks' businesses more vulnerable. As systems become more complex, the opportunities for fraud increase.

A new generation of employees who are tech-savvy and ambitious have also exposed banks to increasing incidences of fraud. Cheque fraud, electronic fraud, cash fraud, impersonation fraud such as with credit card theft, fraudulent loan applications and personal information theft are some of the current trends in fraud and are exacerbated by technology advances, competition and a rapidly evolving marketplace. Banks must continually update their risk management practices to keep up with these and other emerging trends.



### **Competition from new entrants**

This risk ranked third for eastern Africa respondents and last among global respondents, a vast discrepancy that marks a real difference in the way that respondents feel about their markets and their industry. Competition is cut-throat in eastern Africa, with banks competing for unbanked and under-banked customers as well as business generated from rapid economic growth and investment.

Banks in Kenya are fighting for market share with existing players, responding to the emerging influence of non-banking players, such as microfinance institutions and mobile banking products. With the introduction of fully-fledged Sharia banks, there is more competition for customers who seek services compliant with Islamic Sharia law. Interest rates on government securities have declined in recent years and banks have leant more to customers so as to earn higher returns, further

*The banking financial services sector may need to consolidate to enjoy economies of scale, gain maximum leverage from resources and capabilities and to create sustainable customer value.*

Head of finance,  
Zambia banking respondent



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### **Technology's risks and rewards**

In a dynamic and competitive market, the banking industry increasingly values technological agility as a strategic tool. New systems are improving cost efficiency, enhancing customer service, creating new service delivery channels, supporting business growth and replacing end-of-life legacy systems.

Most core banking system implementation programmes have been plagued with challenges, however. Banks have invested tens of millions of dollars on software, hardware and consulting services and yet many systems have not delivered their perceived benefits, long after implementation. Systems expected to improve competitiveness have instead created loopholes for fraud, eroded brand equity, raised regulatory concerns and increased operational costs.

To mitigate risk, banks should leverage the new systems to re-engineer or improve their processes, improve customer service and/or deliver new products. The high level of automation associated with new systems will deliver business value if new organisational structures and ways of working are adopted. Benefits need to be targeted, measured and secured at the organisational level, if they are to be met. Key performance indicators should be defined and put in place and employee engagement is critical.

*Business is becoming more and more sophisticated and yet risk controls re-engineering is not evolving at the same speed. There is a need to enhance risk management, embed it into business lines and set the tone at the top.*

Head of risk,  
Rwanda banking respondent.

increasing competition among banks. Banks elsewhere in eastern Africa are feeling competitive pressure more from new entrants who are establishing operations in their markets as regional economies expand.

#### **Credit risk**

Credit risk is a major risk for any bank. With increased competition for lending and as banks expand their retail networks, there is heightened risk of banks relaxing their credit approval and appraisal procedures, thereby increasing risk.

In Kenya, the level of non-performing loans as a proportion of total loans has actually declined even as the level of lending has grown. This may be attributed to better credit risk management and to a low interest rate regime. However, concerns remain

about concentration risk in some institutions and a slow judicial process, which hampers recovery efforts.

The default rate appears lower for micro-finance loans compared to corporate loans. This is in part due to the very short tenure of micro-finance loans, which enables delinquency to be identified almost immediately, especially in the case of micro-group lending.

Respondents recognise that their monitoring tools may not be adequately robust to identify loans before they default.

#### **Risks vary between countries**

In eastern Africa, banking sector respondents in different countries identified different top risks. In Kenya, respondents are most concerned about a high dependence on technology, money laundering and fraud. In Uganda, top risks are big market movements such as credit spreads and interest rates, a high dependence on technology and political risk.

Top concerns for Zambia respondents are credit risk, fraud and a high dependence on technology. Fraud is the most pressing concern for banks in Tanzania and banks in Rwanda are most concerned about competition from new entrants, credit risk and a high dependence on technology.

Some of these discrepancies can be explained by the relative sophistication of Kenya's economy and financial services sector compared to other regional economies. In the last two years, several Kenyan banks have traded in their legacy core banking systems and other business applications for modern, robust systems. New systems can create some uncertainty and a sense of risk, even if their security is assured. Kenya's relatively advanced banking sector could also be more conscious of the risks of fraud and money laundering than banks in more nascent markets.

Banks in Uganda are more concerned about big market movements such as credit spreads and interest rates. As in Kenya, new technologies coming online will contribute to a sense of risk. Elections in Uganda in early 2011 may have tipped off feelings of political risk.

In Zambia, credit risk is largely attributed to customer default, inconsistent credit stress test standards across the industry and unclear or insufficient regulatory requirements. Poor credit policies and portfolio risk from loans skewed in favour of particular industry sectors also contribute to increased credit risk.

Respondents in every market ranked the same risks at or near the top of their foremost concerns. Variance between the top three or four risks in each country is a matter of modest relativity.

### **Looking around the corner: risk management and innovation**

Banks in eastern Africa believe that the risks associated with a high dependence on technology, competition from new entrants and fraud are rising. Falling risks include macro-economic trends and big market movements. These perceptions generally reflect an evolving marketplace, where banks are introducing innovative products and expanding regionally.

Innovation is a source of competitive advantage as well as a source of risk for banks in eastern Africa. Respondents value creativity and a learning culture, but they worry that innovation is moving faster than risk management and regulatory controls.

Globally, the banking sector is moving towards adopting Basel III requirements but in eastern Africa, the industry observes much lower regulatory

standards on bank capital adequacy and liquidity. Basel II has not been adopted and whether a move to Basel II will be skipped in favour of moving ahead with Basel III requirements remains to be seen.

Innovations have tended to focus on delivery channels and the seamless integration of services. Looking ahead, innovation is likely to bring more services to more people in an integrated manner, but concerns about competition, fraud, technology, credit risk and the quality of risk management are also likely to increase.

Unbanked and rural populations are increasingly targeted by banks in eastern Africa as sources for customer growth and service expansion, but there are many challenges. Most banks struggle to attract or earn revenue on the under-banked population and the cost of bank branch expansion is high. A new concept called 'agency banking' is facilitating lower-cost expansion but there are operational and reputational risks to consider.

Innovative banking services aimed at small- and medium-sized enterprises (SMEs) and banking services that are compliant with Sharia law are also changing the landscape of banking services. Banks are also increasingly differentiating themselves with customer service as their customers' needs evolve.

*In the next two to three years, I see more players joining the banking industry. This is good for the economy. Competition will bring more benefits to customers and hopefully better customer service, too.*

General Manager, Finance,  
Tanzania banking respondent.

### **Agency banking breaks new ground**

Agents are being licensed to offer various banking services. So-called 'agency banking' allows banks to offer a majority of their services without the expense of a physical bank branch, improving efficiency and saving time for customers. Agency banking has the potential to increase the banking population in Kenya, currently estimated at slightly more than 20% of Kenyans over age 18.

Services available through agency banking include cash deposit and withdrawal, cash payment of salaries, cash disbursements and cash repayment of loans, transfer of funds, balance enquiry, generation and issuance of mini statements, collection of documents in relation to account opening, loan application, credit and debit card application, collection of debit and credit cards, cheque book request, cheque book collection by customers, collection of bank mail and correspondence and other activities prescribed by the Central Bank of Kenya.

Banks will need to streamline the cheque collection and posting process so that the clearing period is not affected by inclusion of the agents in the process. Other risks to agency banking include reputational risk and fraud.



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# Fraud

***Fraud is one of the most significant risks affecting chief executives and senior management at financial services companies in eastern Africa. Insurers have tended to focus on fraudulent claims, but the increasing frequency and sophistication of fraudulent activities occurring at banks should serve as a warning for the industry as a whole.***

Respondents to the eastern Africa financial services risk survey indicated that fraud was a top risk. Bankers ranked fraud second and insurers ranked fraud fourth.

In the last few years, many banks and insurers have invested heavily in upgraded systems that run on complex operating platforms. Reports suggest that this implementation period has been the most vulnerable and incidences of fraud are increasing. For both banks and insurers, fraud is perceived as a risk with a rising trend.

***Business is becoming more and more sophisticated and yet risk controls re-engineering is not evolving at the same speed. There is a need to enhance risk management, embed it into business lines and set the tone at the top.***

Head of risk,  
Rwanda banking respondent.



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## Kenya banks suffer losses due to fraud

The 2010 economic crime survey conducted by PwC indicates that incidences of fraud have soared sharply compared to previous years and fraud affects all sectors of the Kenyan economy. More than 90% of respondents said that their organisations have been hit by fraud. Banks in Kenya lost a staggering Kshs 1.7bn in the three months August to October 2010. Commercial banks lost Kshs 761m in the first six months of 2010 through fraud, according to the Central Bank of Kenya.

Many medium and large-sized organisations have recently incorporated risk management functions to help identify and address fraud. These functions have devoted significant effort and resources to address internal, financial, environmental, political, economic and commercial risks.

Even so, companies that are growing in size and complexity and implementing multiple technology-based systems are at risk of fraud. At some financial institutions, top management has delegated detailed supervision to middle management and operational clerks. Internal risk management systems are losing ground to highly-networked, sophisticated fraudsters.

## Prevention and detection

Banks are looking for robust fraud prevention measures supported by timely fraud detection systems. Prevention encompasses policies, procedures, training, and communication that stop fraud from occurring. Detection focuses on activities and techniques that promptly recognize whether fraud has occurred or is occurring.

*Effective prevention techniques include:*

- promoting a strong control culture of sound risk management from the board down throughout the organisation,
- ensuring that everyone in the business knows what constitutes unacceptable behaviour,
- thorough vetting new-hires,
- implementing strong internal control systems,

- regular training for employees and awareness programmes for customers and
- fraud risk assessments conducted regularly.

One of the strongest fraud deterrents is the awareness that effective detection controls are in place.

*Common detection controls include:*

- data analysis and access authorisation reviews that raise red flags on abnormal transactions,
- segregation of duties, circumvention of which is made known to risk management and
- effective whistle blower procedures and the protection of whistle blowers.

The best deterrent to fraud is well-trained employees who can identify and report suspicious activity without fear of reprisal. The Kenya Bankers Association



has proposed the creation and maintenance of a confidential database to monitor fraud activity, including method and occurrence, personnel or companies involved, banks at risk, conviction of cases and systems weaknesses. At present, there is no consolidated system for tracking fraud and perpetrators in eastern Africa.

All banks should also have in place a clear policy on fraud. The policy should establish a process to ensure that any new or changed activity, such as new products or systems, will be evaluated for operational risk prior to going online.

### **Regulators and the judiciary**

Central banks in eastern Africa can provide specific guidelines on risk management requiring banks to have policies, processes and procedures to control or mitigate material operational risks. These policies and procedures should be documented and communicated.

Judiciary systems in eastern Africa currently do not provide a significant deterrent to fraud. Systems are slow and the fines are small compared to the value of fraudulent activities. Law enforcement authorities are poorly equipped to deal with white collar crimes like bank and insurance fraud. Banks and insurance companies avoid publicity around fraud, as it can damage company reputations. A large number of frustrated fraud activities may effectively demonstrate detection but their secrecy does not help to prevent the activity in the first place.

*All financial institutions should have in place a clear policy on fraud, communicated clearly across the organisation*

### **Types of fraud and areas of vulnerability**

- Identity fraud tops the list: card skimming, key loggers, loan fraud, mortgage fraud, global withdrawal (devices installed at ATM machines that capture card data used to make duplicate cards), phishing
- Internal fraud: fraudsters colluding with bank employees
- Circumvention of IT controls by individuals with superior administrative rights or management
- Electronic Funds Transfer (EFT) frauds are uncommon, but a few successful cases have resulted in substantial losses
- Cheque fraud: stolen cheques or forged cheques

### **Challenges to fraud detection/prevention**

- Lack of expertise among fraud detection/investigation units
- Younger generation of employees who are IT savvy
- Resistance to change among older, established workers
- Incomplete recruitment and vetting processes
- Slow and ineffectual judicial processes, small fines, lenient sentences
- Poor cooperation among banks to track and advise on incidences of fraud; fraudsters are intricately networked and sophisticated



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### **New law to fight money-laundering**

Over the last decade, the financial services sector in Kenya has witnessed significant growth and sophistication, but it has come at a cost: increasing incidences of money laundering.

To address this risk, The Proceeds of Crime and Anti-Money Laundering Act 2009 was gazetted and became effective from June 2010. The Act effectively criminalises money laundering and spells out measures to identify, trace, freeze and seize proceeds of these crimes.

The AML law will reinforce and strengthen financial institutions' existing operational and reporting mechanisms, but it could pose a dilemma for institutions as they try to balance the legal requirements for greater transparency and disclosure with client expectations of confidentiality.



# Managing perceptions

## Risks among insurers in East Africa

**Global insurers were badly affected by the global economic crisis but insurance companies in East Africa rank risks associated with their industry's reputation, actuarial capacity, pricing uncertainty, fraud and investment performance as more severe.**

While the global financial crisis may have interested East African insurers, it appears not to have significantly affected their perception of specific risks.

These are the results of PwC's survey of 12 insurance companies in Kenya, Uganda and Rwanda. By comparison, the 2009 Insurance Banana Skins survey produced by the Centre for the Study of Financial Innovation in association with PwC is based on 403 responses from 39 countries. Most survey respondents (74%) are located in Europe and just 1% from Africa.

### **Modern risk management tools and implementation can help address insurers' risks**

Recognising that the insurance industry is very different in East Africa, PwC initiated an additional survey of East African insurers in late 2010.

Our global and east African surveys asked respondents to rank risks by severity, to identify whether risks are

#### **Top-5 risks perceived as most severe**

##### **Global Insurance Banana Skins Respondents**

1. Investment performance
2. Equity markets
3. Capital availability
4. Macro-economic trends
5. Too much regulation

##### **East Africa Insurance Companies (and as ranked by global respondents)**

1. Insurance industry reputation (15)
2. Accuracy of actuarial assumptions (9)
3. Managing the pricing cycle (12)
4. Fraud (23)
5. Investment performance (1)

rising, steady or falling, and to evaluate their preparedness in responding to these risks.

### **Insurance in eastern Africa: risks and rewards**

The perception that insurers' fail to honour claims on 'frivolous grounds' or do not settle claims on time causes reputational damage across-the-board, regardless of an individual insurer's actual performance. This perception along with poor financial literacy has contributed to the low penetration of many insurance products. Insurers struggle to manage the pricing cycle without accurate actuarial data and analysis.

Even for products with wider (or compulsory) coverage, like motor insurance, cut-throat competition and price under-cutting eat into insurers' profits. There is a general view that the number of insurers is disproportionate to the size of the market, particularly in Kenya which has over 40 insurers.

### **Most insurance respondents in East Africa feel a 'mixed' sense of preparedness to the risks they identified**

Consequently, insurers in East Africa largely depend upon investment income to generate profit and not their core business of underwriting. They tend to invest locally, where returns are significant but so is the threat of volatility. The post-election violence in Kenya in early 2008 demonstrated the vulnerability of the stock market to not only the fragile economic fundamentals, but also the significant impact of politics on the fortunes of the local investment community; the global economic crisis, which at that time was rapidly gathering pace, had a comparatively weaker impact.

### **Insurance industry reputation**

Insurers in East Africa view their industry's reputation as the most significant risk facing their companies. Reputational risk is seen to be the result of poor claims payments practices, the collapse or insolvency of industry players, low profitability, inadequate customer handling processes and poor-quality customer service, low contract certainty and a lack of proper complaints monitoring and handling processes.

A number of insurers, particularly those insuring risks in the public transport sector, have gone into liquidation in the last decade resulting in the perception that the insurance industry is unstable. The recent court injunctions against claims liabilities by some PSV underwriters—widely reported in the Kenyan media—did not help the situation.

***The insurance industry has experienced a bad reputation for many years. This is mainly the result of the quality of insurance agents, with selling of insurance regarded as a last-resort career. –Regional head, internal audit, Kenya insurance respondent***

Most insurers in East Africa lack proper customer handling processes. The main areas of weakness include a lack of appropriate training for customer service staff and agents, failure by agents to understand the insurer's products and ambiguity in the wording of policy documents. The Kenyan Insurance Regulatory Authority has recently moved to address the issue of contract certainty through standardisation of insurance contract documents.

Several other risks identified by East Africa respondents feed into a perception of reputational risk. The pricing of insurance products is poorly understood in the marketplace and when insurers engage in price undercutting, customers learn to focus on the pricing of products rather than their value, affecting insurers' reputations.



### **Actuarial assumptions**

Actuarial standards are perceived to be lagging behind strategic needs. Outdated actuarial assumptions in regulations, a shortage of qualified actuaries and the use of inaccurate data in the actuarial processes contribute to the perception of risk. The East Africa region has very few fully-qualified actuaries. Most companies requiring actuarial services have to rely on external actuarial firms for the service. External actuaries, while qualified, may not have sufficient internal knowledge of working companies. An over-reliance on external actuarial expertise could result in inappropriate pricing strategies on incorrect assumptions in the valuation of policyholder contracts.

The East Africa insurance market suffers not only from a lack of actuarial expertise but also from factors like demographic shifts, climate change and political volatility that further complicate actuarial modelling.

### **Managing the pricing cycle**

In East Africa, respondents cited price undercutting as a significant concern. A lack of actuarial expertise also contributes to the perception of pricing as a source of risk, as does a poor understanding of internal operations and operational risk. Weak product innovation also contributes to poor pricing and product differentiation.

### **Fraud**

Among East Africa respondents, fraud is perceived as a risk insofar as it relates to fraudulent claim activity. The fundamental transactions and activities occurring in the banking and insurance industries are similar, which implies that banking risks like technology fraud and internal fraud might also be risks for insurance companies. While fraud registered significantly among respondents, it was poorly understood to what extent insurance companies have been affected.

In insurance markets where the industry is still relatively immature, like East Africa, an increasing incidence of fraud will test the capacity of insurance claims settlement procedures and consumer protection laws.

***Risk is the core business of insurers but risk management practices are new to the insurance industry in Rwanda. Awareness and training are very important for top and middle managers. –Audit and Risk Manager, Rwanda insurance respondent***



### **Investment performance**

Generating a return on policyholders' savings is complicated in emerging markets like East Africa. Price undercutting and low product penetration leaves insurance companies with little revenue to invest other than savings; companies need a significant capital position to realise a return without compromising reserves.

### **Looking around the corner: competition and regulatory adjustments**

For East Africa respondents, most of the risks identified have remained steady in terms of their perceived severity. Risks which are increasing in significance include managing costs, an insufficient regulatory regime and interest rates. These risks indicate a market that is increasingly sophisticated and competitive, with insurers competing on price and seeking to earn a return on their investments but hindered by inadequate or outdated regulations and political volatility.

Risks with a falling trend in East Africa include distribution channels, insurance industry reputation and corporate governance. These all indicate a market that is increasingly sophisticated and expanding, driven by cut-throat pricing and competition.



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### **Looking around the corner: Insurers face legislative, regulatory adjustments**

Financial and regulatory reporting for the insurance sector has undergone a significant change in information user needs driven by industry developments including product innovation. International standard setters have recognised the need to harmonise financial reporting and auditing standards for insurance companies in various jurisdictions and with other sectors.

A revised Insurance Act in Kenya is under review, and could form the basis for other East African countries' legislative and regulatory changes. The Act should take into account international standards; while the pace of change in East Africa may be slower than in more developed markets, it is important to think ahead and modernise standards now with an eye to future developments.

*Due to the cost of communications and other basic infrastructure, the distribution of insurance is very expensive and costly to set up. But government policies are targeting efficient Internet connectivity.*

Audit and risk manager,  
Rwanda insurance respondent



# Research methodology and key contacts

In total, we surveyed 33 banks in Kenya, Rwanda, Uganda, Tanzania and Zambia in late 2010 and early 2011. We also surveyed 12 insurance companies in Kenya, Rwanda and Uganda during the same period. The surveys were conducted electronically and included opportunities for additional comments. All surveys were conducted confidentially.

Our Africa surveys are based on criteria used to survey global banking and insurance industry insiders for PwC's global Banana Skins surveys.

The 2010 Banking Banana Skins survey produced by the Centre for the Study of Financial Innovation in association with PwC surveyed over 400 industry insiders from 49 countries.

The 2009 Insurance Banana Skins survey produced by the Centre for the Study of Financial Innovation in association with PwC is based on 403 surveys from 39 countries.

These are the most recent Banana Skins surveys conducted by PwC and both are available at [www.pwc.com](http://www.pwc.com)

Acknowledging the interests of our markets in eastern Africa, we modified survey criteria from the global surveys. For banking respondents, we did not ask respondents to comment on commodities, emerging markets, hedge funds, environmental risk or merger mania.

For insurance respondents, we did not ask respondents to comment on complex instruments, natural catastrophes, terrorism, climate change or pollution. These criteria were included in the global surveys.

## Eastern Africa Banking survey: Risks ranked in order of perceived severity (2010 Global ranking in brackets)

1. High dependence on technology (18)
2. Fraud (15)
3. Competition from new entrants (30)
4. Credit risk (2)
5. Risk management quality (8)
6. Big market movements: interest rates (14)
7. Political risk (1)
8. Big market movements: credit spreads (9)
9. Regulation: too high (3)
10. Money laundering (27)
11. Payment systems (26)
12. Macro-economic trends (4)
13. Capital availability (6)
14. Retail sales practices (22)
15. Corporate governance (12)
16. Regulation: too little (29)
17. Big market movements: currencies (11)
18. Liquidity (5)
19. Back office (24)
20. Business continuation (21)
21. Management incentives (16)
22. Big market movements: equities (10)
23. Conflicts of interests (23)
24. Rogue trader (20)
25. Derivatives (7)

## East Africa Insurance survey: Risks ranked in order of perceived severity (2009 Global ranking in brackets)

1. Insurance industry reputation (15)
2. Accuracy of actuarial assumptions (9)
3. Managing the pricing cycle (12)
4. Fraud (23)
5. Investment performance (1)
6. Distribution channels (16)
7. Equity markets (2)
8. Interest rates (11)
9. Risk management techniques (6)
10. Regulation: too little (35)
11. Managing costs (14)
12. Back office/systems quality (24)
13. Capital availability (3)
14. Corporate governance (17)
15. Managing technology (21)
16. Product development (29)
17. Regulation: too much (5)
18. Retail sales practices (25)
19. Management quality (13)
20. Business continuation (27)
21. Macro-economic trends (4)
22. Long tail liabilities (10)
23. Demographic trends (30)
24. Political risks (18)
25. Contract wording/coverage (33)
26. Managing mergers (31)
27. New types of competitors (32)
28. Reinsurance: availability (20)
29. Reinsurance: security (7)
30. Complex instruments (8)

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# Our people working alongside you

## We are industry experts in financial services



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In my work with financial services companies, we often talk about what challenges are coming around the corner in Kenya and East Africa. A number of our insurance clients are going through corporate actions like listing and re-organisation and they have turned to us for advice. I've learned to listen carefully and to offer insight gained from working across the sector and the region for 14 years.

At PwC, I lead a group of insurance specialists with decades of collective experience in the insurance industry. We offer a detailed understanding of the issues that you face and clear advice, careful reasoning, open communication and world-class expertise.

Outside PwC, I am the convenor of the Institute of Certified Public Accountants of Kenya's Financial Services Work Group and also a member of the Professional Standards Committee. Through these relationships I interact with many different players in the sector.



### **Richard Njoroge**

**Assurance Partner – Banking**  
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Across East Africa, our banking clients are looking for expertise in transfer pricing and other taxation matters, support with International Financial Reporting Standards compliance and implementation, assurance on internal control systems and risk management processes, financial due diligence and special investigations. I lead a specialist, multi-disciplinary financial services team at PwC with experience in these and other areas.

Over the last 23 years, I have listened to many clients and industry observers talk about what keeps them awake at night. We can help by evaluating the risks affecting your operations, your people and strategies.



### **Nancy Onyango** **Consulting Services Partner – East Africa**

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Financial services companies are looking for internal audit advice and solutions around ICT applications and risk management that add value and improve efficiency—and strengthen information security. No solution is one-size-fits-all, even if we've seen the problem before.

For the last 18 years, I have worked with companies across the eastern Africa region and in Europe to provide a broad range of consulting services that have helped to achieve business objectives and generate value.



### **Eric Nipah**

**Advisory Director – Business Recovery Services & Forensic Investigations**  
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Sometimes the best thing to do when I'm working with troubled or underperforming companies is to listen. They need support to help make informed decisions—from turnaround strategies to exit plans—and I help them through a range of tailor-made, individualised solutions.

I work with colleagues across a range of service areas, including tax, assurance and advisory, to provide specialist situational knowledge drawing upon in-market experience and regional depth. Together with my team, we have helped financial services companies to identify improvement areas, define and prioritise remedial actions, gain cooperation and implement solutions with sensitivity and precision.



**Anthony Murage**  
Assurance Director  
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I have worked in PwC's Assurance practice for over ten years. My experience includes working with companies in the financial sector in Kenya and in the United Kingdom. I've been involved in the provision of audit services, financial due diligence reviews, regulatory and risk reviews and other financial advisory projects for clients in Kenya and the UK.

I've also supported transactions involving the listing of securities on the Nairobi Stock Exchange and other major exchanges such as the London Stock Exchange.



**Thomas Kon'gon'go**  
Advisory Senior Manager –  
Information Technology  
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I've spent the last ten years managing IT business solutions in complex enterprise environments for a number of clients in different sectors in Kenya, Tanzania and Uganda. I focus on all tiers of technology and architecture including hardware, operating systems and application development and implementation and post-implementation value realisation.

Our clients are often concerned about getting the right technology and realising the business returns on technology investments. We offer a variety of solutions to ensure business leads in the technology acquisition process and employee buy-in through effective implementation involvement, training and change management.



**Moses Nyabanda**  
Assurance Senior Manager  
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As the audit methodology manager, I'm constantly researching new developments in global audit methodology and developing tools and training for our assurance staff.

I've spent the last ten years with PwC providing assurance services to some of Kenya's largest banking and insurance companies. I also worked in London for two years auditing complex credit and equity-based products for investment banks. While I was there, I worked on the post-acquisition harmonisation of accounting and valuation processes for a top-tier bank and I gained experience in reporting under multiple international financial reporting frameworks.



**Jeff Aludo**  
Advisory Senior Manager –  
Financial effectiveness  
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Our clients are feeling increasing competitive pressure—both in-market and regionally. Streamlining operations and becoming more responsive and flexible can help meet this challenge. A good place to start is the value chain, where core capabilities start and end. At PwC, we can identify non-core functions, revenue leakage, wastage and potential process improvement areas. We can help you through a collaborative approach, including employee buy-in and cost benefit.

Over the last ten years, I've realised that the ability to comprehend and contribute meaningfully to client solutions is about engagement—not just value on paper.



**Douglas Mwangi**  
Assurance Manager  
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As Nairobi moves towards becoming a regional financial services hub, companies in the sector are increasingly in the spotlight to meet growing consumer needs and offer the highest global standards.

After eight years with PwC providing assurance services to the sector in both Nairobi and London, I've learned to always keep on top of industry developments as I manage client relations and guide engagement teams to deliver assignments that meet our clients' needs.



**Jackson Theuri**  
Assurance senior manager  
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I've worked with numerous clients in the insurance and investment management sector in Kenya, East Africa and in the United Kingdom to provide financial and regulatory audits, IFRS compliance and business advisory services. At PwC, we provide expertise and best practices around International Financial Reporting Standards (IFRS) and regulatory compliance. We understand that public and private companies, as well as regulators, need experience and understanding relevant to particular industries and issues.



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