Top 10 Business Risks in 2020/2021

April 2020

KPMG in Nigeria

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Contents


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GLOSSARY

CAE	Chief Audit Executive
CBN	Central Bank of Nigeria
CCO	Chief Compliance Officer
CFO	Chief Finance Officer
CIM	Consumer and Industrial Market Industry
CLO	Chief Legal officer
COO	Chief Operating Officer
COVID-19	Coronavirus
CRO	Chief Risk Officer
ENR	Energy and Natural Resources
ERM	Enterprise Risk Management
ERP	Enterprise Resource planning
FSI	Financial Services Industry
IGH	Infrastructure, Government and Health
IMF	International Monetary Fund
NBS	National Bureau of Statistics
MD/CEO	Managing Director/Chief Executive Office
TMT	Technology, Media and Telecommunications

FOREWORD

Dear Readers,

I have the great pleasure of presenting to you the third edition of our report on the top 10 business risks in 2020/2021. The Risk Consulting Practice of KPMG in Nigeria has been publishing the "Top 10 business risks" report since 2016 and has been highlighting in these reports the risks that are uppermost in the minds of Nigerian Business Executives.

The quantitative risk survey which is usually conducted every other year was administered to 108 professionals in C-suites, risk management and internal audit functions between November and December 2019. Respondents were selected from publicly and privately owned enterprises in the consumer & industrial markets, energy & natural resources, financial services, infrastructure, government & healthcare, technology, media and telecommunications sectors in Nigeria. As part of the survey, respondents were asked to identify and assess the risks likely to affect the business in the coming year. They rated the identified risks on a five-point scale, with "insignificant" and "extreme" being the lowest and highest ratings respectively.

Against the backdrop of a challenging business environment, the Top 10 business risks in 2020/2021 report offers a holistic look at the key risks that organisations will face in the coming year in Nigeria. Following the emergence of the coronavirus disease (COVID-19) after the survey launch, we have attempted to highlight in this report, the impact of COVID -19 on the macro-economic outlook of Nigeria and in each of the key business risks that had been prioritised by the respondents.

In order to provide further insights, we have discussed the root causes of the top ten business risks and proffered direction to help align and enhance risk management strategies for managing these risks. We have also assessed the underlying risk drivers to determine the risks that are considered key to the respective industries. Organisations are encouraged to review the analysis and strategic insights related to each of the top 10 business risks and to conduct a similar review of the knowledge and capability perspectives among their own organisation's executive management, risk and internal audit functions.

This report has been a collaborative effort and we would like to thank all our respondents for their contributions.

We are confident you will find the report insightful, illuminating and of immense value.

Yours Sincerely,

Tomi Adepoju
Partner, Risk Consulting
KPMG in Nigeria

1.0

Executive Summary

1.1 Overview of the Nigerian Business Environment

The Nigerian economy grew 2.3% in 2019, a further, albeit limited, acceleration of Nigeria's recovery from the 2016 recession. Compared to annual population growth, which hovers between 2.6% and 3%, the recovery, even at this pace, remains weak. In light of these and unanticipated economy shocks in Q1 2O2O, What are the prospects for a wider economy and business environment this year and the next?

KPMG in Nigeria is pleased to present the "Top 10 business risks in 2020 – 2021", a robust and comprehensive view of the top risks for the year and the next based on the perspectives of key players in the risk management process — our respondents included board members, C-suites, risk managers and internal audit executives.

1.2 Methodology

To produce this edition of its web-based biennial research report series, KPMG in Nigeria's 2020 survey has gathered responses from 108 risk decision-makers from 5 major industry sector groupings about their views on the potential impact of 31 specific risk issues they envisage would affect their organisations in the year and the next. Respondents profiles encompass large corporates, some operating solely in Nigeria and others multinational. 60 percent of the respondents represent privately-owned companies and 40 percent public organisations.

Each respondent was requested to assess the 31 risks using a 5-point scale. Lower scores denote "Insignificant impact" and "Minor impact" whilst higher scores denote "Extreme impact" and "Major impact". For each of the risks, we computed scores reported by all respondents and ranked from the highest to the lowest score. We then grouped the risks as high, medium or low on the basis of their average scores. To obtain an overall sense of the magnitude of the risks to be faced by organisations in the year and the next, we computed an average score of all 31 risks to arrive at 3.17, depicting a "medium risk" environment for Nigerian Businesses in 2020/2021. This is up from the 3.12 average risk score derived in 2018/19, suggesting an increase in the overall risk profile of the Nigerian business environment.

1.3 Snapshot of Top 10 Risks for 2020/2021

2020

3.69 Regulatory risk	3.60 Fiscal & monetary policy risk	3.56 Foreign exchange volatility risk	3.53 Cyber-security risk	3.50 Political risk
3.43 Technology infrastructure risk	3.42 Customer attrition risk	3.37 Talent shortage/attrition risk	3.34 Business continuity risk	3.28 Governance risk

2018

3.91 Foreign exchange volatility risk	3.67 Fiscal and monetary risk	3.57 Regulatory risk	3.56 Commodity price volatility (Crude oil) risk	3.52 Loss of reputation or brand value risk
3.48 Customer attrition risk	3.44 Political risk	3.41 Liquidity risk	3.41 Security risk	3.29 Interest rate risk

2016

3.85 Macroeconomic risk	3.76 Crude oil price risk	3.33 Political risk	3.21 Energy risk	3.19 Security risk
3.07 Capital availability risk	2.97 Regulatory risk	2.96 Competition risk	2.91 Supply chain risk	2.86 Business continuity and Disaster recovery risk

(red)	*High Risk: 3.5 - 5.0*
(amber)	*Medium Risk: 2.5 - 3.49*
(green)	*Low Risk: < 2.49*

1.4 Top 3 Risks plus One*

Prior to the COVID-19, the highest concerns for Nigerian Executives across industries were the regulatory, fiscal & monetary policy and foreign exchange volatility risks. They have also maintained their place at top 3 from our 2018 ranking. However, one cannot help but acknowledge the COVID-19 and its impact on Nigerian corporates and the global business climate at large.

*** COVID-19 risk**

This is the risk of financial loss arising from the emergence of COVID-19 and its impact on businesses. This risk is fueled largely by the health crisis, the lock-down measures (local and international) that have been put in place to address the pandemic and the apprehension of investors. Consequently, COVID's impact on Nigerian businesses can be classified into three (3) major channels, namely: the supply channel, the demand channel and the financial channel.

In subsequent sections, we have analysed the impact of the pandemic on the macro-economic environment, some of the top 10 risks identified by respondents, and some risks we consider to be emerging or under-rated as at the time the survey was completed in December 2019. Following the release of this thought leadership, we plan to issue several weekly business impact series on COVID-19. Kindly refer to them for more information.

I. Regulatory risk

This reflects the significant anxieties Executives have continued to have over regulatory uncertainty as a result of increased regulatory scrutiny and sanctions within the country as at 2019; and uncertainty about the actions to be taken by regulators to cushion the impact of the coronavirus pandemic on the economy.

II. Fiscal & monetary policy risk

Executives are also considerably concerned about the effects that fiscal and monetary policies may have on their strategic planning and the management of their core operations. This is particularly important given the strategic responses required from the government to safeguard the economy during and after the coronavirus pandemic.

III. Foreign exchange volatility risk

Executives are significantly concerned about foreign exchange volatility and its impact on profitability. Following a decline in crude oil price, the ravaging impact of the coronavirus pandemic on the global economy and the recent currency adjustment of the Nigerian Naira; uncertainty about a further devaluation continues to weigh on corporates.

1.5 New entries to the Top 10 List

Overall, about fifty percent (50%) of the risks on the Top 10 List are new. Such significant shuffling reflects the rapid changes in the macro and political environment in which organisations operate today.

In connection with accelerated rates of change in market factors, cybersecurity and technology infrastructure risks have also come to the fore. cybersecurity risk has risen from number 4, from number 11 in 2018/2019. Technology infrastructure risk has also risen to number 6, from number 22 in 2018/2019. The sharp rise in rankings for technology related risks is indicative of the rising influence of technology on businesses. Other new entrants that deserve mention include business continuity risk as well as talent shortage/attrition risks.

Regulatory, fiscal & monetary and foreign exchange risks have maintained their place as top 3 in 2020/2021.

1.6 Key Findings

Below are the key findings from the survey

1

31 Risks Assessed

An array of 31 risks were assessed by C–suite Officers. 5 of which were rated "high", 25 "medium" and 1 "low" based on our rating methodology

2

The aggregate score for the risk assessment was **3.17** depicting a **medium risk** environment for Nigerian Businesses in 2020. This is up from an overall risk score of **3.12 in 2018** and **2.77 in 2016**, suggesting an **increase in the overall risk profile** of the Nigerian business environment

3

Top 3 plus One*

The top 3 risks remain the top 3 risks from 2018/19, although in a different order. The risks are: **Regulatory, Fiscal & Monetary Policy and Foreign Exchange Volatility risks.** However, one cannot help but acknowledge the COVID-19 and its impact on Nigerian corporates and the global business climate at large.

4

#1

Regulatory Risk is the No. 1 for 2020 It has become a stay-awake issue for the C–suite, rising progressively from the 7th spot in 2016 to the 3rd in 2018 and now the 1st in 2020.

5

The current ranking of **Business continuity risk** as No. 9 and the COVID-19 impact on businesses as at March 2020 suggests that it may have been underestimated during the completion of this survey in December 2019

6

50%

50% of the top ten risks are new to the list presented in 2018/19 namely: business continuity, cybersecurity, technology infrastructure, talent shortage/ attrition and governance risks

7

40%

40% of the top 10 risks are reflective of the developments in the Nigerian political and macroeconomic environment. These include risks related to regulation, fiscal & monetary uncertainty, political and foreign exchange uncertainties

8

20% of the top 10 risks are new and reflective of the changes driven by technology namely: **cybersecurity** and **technology infrastructure** which climbed from Nos. 11 and 22 respectively in 2018/19

9

Disruptive business model is becoming a growing concern across industries and geographies. In the 2020/21, participants rank disruptive business model at number 12, from number 26 in 2018/19. It is expected to further rise to become part of the top 10 risks in the future

10

81%

About 81% of our respondents say they have effective risk management processes in their organisations

1.7 Emerging/Under-rated Risks for 2020-21

Following a review of the risk ranking, four (4) emerging risks that corporates need to keep a keen eye on are as follows:

01

Business Continuity Risk -
The assessment of this risk as No. 9 and the significant impact of COVID-19 on businesses as at March 2020 shows that while it made into the top 10 risks, its severity may have been underestimated by respondents during the completion of the survey in December 2019.

02

Crude Oil Price Volatility Risk-
This is another important risk which ranked No. 17 but has proved to be a key risk for 2020/21 given the sharp decline in oil prices to prices lower than $30pb; thereby creating a deficit from the benchmark of $57pb used in setting the country's annual budget.

03

Health, Safety and Environment Risk -
This is a risk to the health and safety of employees against the backdrop of the highly contagious COVID-19. Organisations need to strengthen their HSE policies and procedures to mitigate the risk of the virus spreading within and outside its premises. In a an effort to achieve this, a lot of businesses have had to shut down and implement a work from home policy where possible. Hence, essential companies need to put the right HSE measures in place and ensure employees comply.

04

Disruptive Business Model Risk -
This is a risk that is becoming a growing concern across industries and geographies. In the 2020 survey, participants ranked disruptive business model at number 12, from number 26 in 2018. It is predicted to rise to become part of top 10 in the future. In recent years, the wider use of disruptive innovation has dramatically transformed business thinking through the use machine learning and automated processes to improve operational efficiency and service delivery.

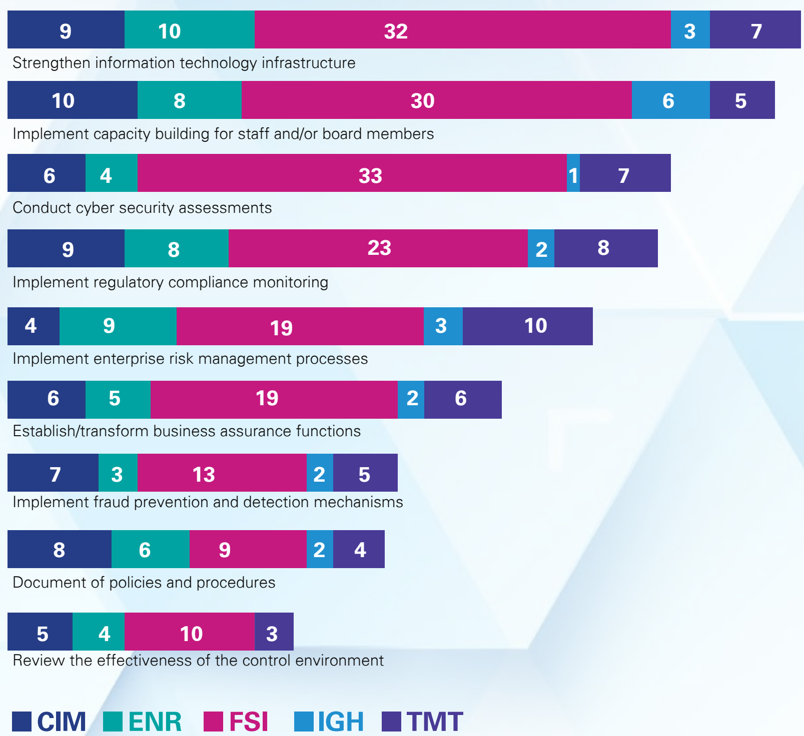
1.8 Strategic Actions for Risk Management

In light of the recent happenings in Q1 2020, all organisations are encouraged to develop and implement a robust enterprise risk management framework that also covers business continuity and disaster recovery planning. Where this has already been developed, organisations should seek periodic independent assurance on its effectiveness. All organisations are also encouraged to refer to our weekly business impact series on COVID-19 for more information on topical issues arising from the pandemic and suggestions on how to manage them.

During the survey (prior to COVID-19), We found out from participants some of the key actions that they would embrace in managing risks within their organisations. The top 5 were as follows:

1. Strengthen information technology infrastructure or governance
2. Implement capacity building for staff and/or board members in areas relating to governance, risk management, regulatory compliance, finance or accounting
3. Conduct cyber-security assessment and implement the relevant remediation steps
4. Implement regulatory compliance monitoring and management processes for existing and emerging regulations.
5. Implement enterprise risk management processes

See chart below for details on strategic actions



2.0

Background: The Macroeconomic Context for the Business Environment

2.1 The Economy in 2019

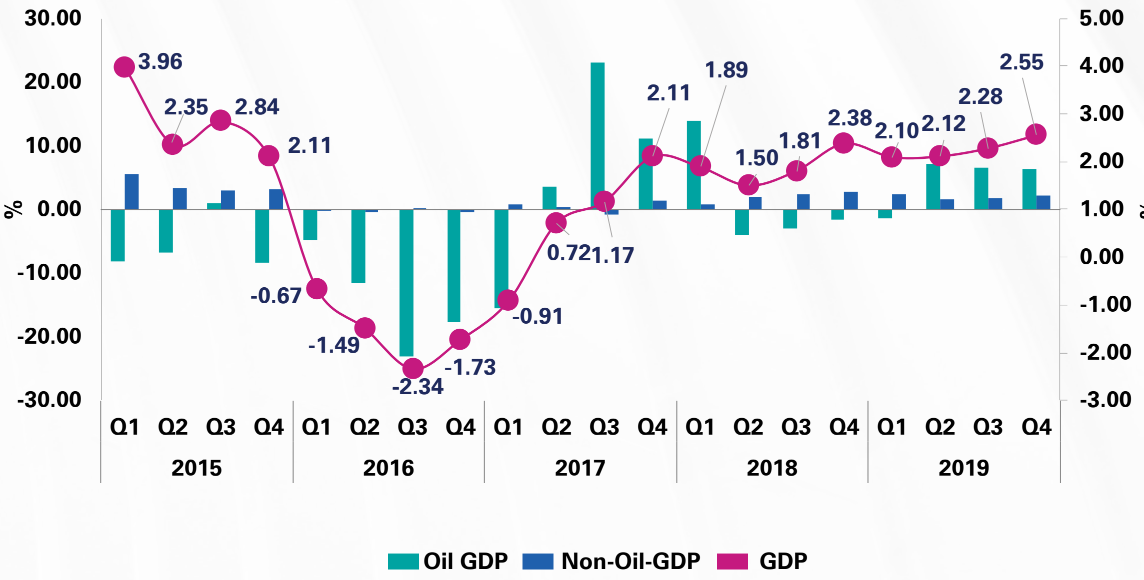
MACROECONOMIC PERFORMANCE SNAPSHOT - 2019

	REAL GDP GROWTH, %	INFLATION RATE %	OIL PRICE (AVERAGE), US$/BBL.	OIL PRODUCTION (MBPD.)	CAPITAL IMPORTATION US$ 'BN	FX RATE (I&E WINDOW), NGN/US$
2018	1.9	12.2	73.0	1.9	16.81	362.00
2019	2.3	11.4	66.0	2.0	23.99	361.88
	National Bureau of Statistics	National Bureau of Statistics	Central Bank of Nigeria	Central Bank of Nigeria	National Bureau of Statistics	Financial Market Dealers Quotation

The Nigerian economy grew by 2.3% in 2019, representing a slow acceleration of the country's recovery from the 2016 recession, when compared the annual population growth which hovers between 2.6% to 3%.

Below is an overview of output growth in Nigeria from 2015 to 2019:

GDP GROWTH (YEAR -ON- YEAR, %)



Refer to Appendix I for an analysis of the GDP Growth per Sector.

External Conditions

Driving economic performance were uncertain external conditions, as well as a flurry of domestic policy developments, in the wake of the return of the incumbent administration after the 2019 elections, which created mixed effects on the operating business environment. The international macro-financial environment was characterized by jitters originating from the trade war between the United States and China, from the UK's exit from the EU, both of which combined with structural weaknesses in emerging markets to force the global economy into a noticeable deceleration. This resulted in a weaker energy demand, leading to lower oil prices in the second half after a rally in the first. The average daily price of Nigeria's reference crude variant, Bonny Light, averaged $66pb in 2019, down from $73pb in 2018. Meanwhile, under pressure from slowing growth, central banks, led by the US Federal Reserve, effectively switched from monetary tightening to easing, leading to a decline in interest rates that allowed interest rates differentials with Emerging and Frontier Markets to widen.

Higher oil prices supported a trade surplus in the first half, but was not sufficient to prevent a deficit in the current account. As global interest rates fell and the Nigerian economy successfully navigated the political risk associated with the 2019 general elections, foreign portfolio investors returned in droves, chasing interest-bearing assets, but shunning equities. The effect was to stimulate inflows of foreign portfolio investment (FPI) to the tune of $16.4bn in 2019, surpassing the $11.8bn haul in the entirety of 2018. Propelled principally by that, capital inflows returned to levels last seen in 2013/14.

Although, in an indication that confidence in Nigeria as a long-term investment destination remains low, the economy attracted less than $1bn in foreign direct investment (FDI), according to data on capital importation by the CBN.

Fiscal Policy

2019 also saw further deterioration of Nigeria's fiscal space. Rising spending obligations (which so far do not include the minimum wage) collide with stubbornly low revenue outturns to lead to an expanding deficit, which as at the end of the first half, was on track to far surpass the projected deficit as well as the previous year's record deficit. To fund the deficit, the government relied heavily on the central bank. This enabled it to limit activity in the domestic bond markets. However, the growing seriousness of Nigeria's fiscal challenge remains unmistakable. A major metric of fiscal sustainability, the debt service-to-revenue ratio, lies anywhere between 52% and 60% depending on the source you cite.

The concern about revenue shortfalls is uppermost in the minds of the government.

In 2019, the revenue shortfalls promulgated elaborate changes to the country's tax code, introducing a number of earmarked taxes on corporate profits, whilst raising value-added tax (VAT). These measures were enshrined in the 2020 Finance Act, Nigeria's first major tax policy reform in recent memory. A major concern about the government's revenue drive is that there is a limit to the extent to which a slow-growing economy can be squeezed for revenues.

Trade Policy

On trade policy, the government retained and even intensified its policy of import substitution. This is despite eventually acceding to the Africa Continental Free Trade Area (AfCFTA) in July. Against the backdrop of its domestic food security and exports aspiration, the government required the Central Bank of Nigeria (CBN) to prevent food importers from accessing foreign exchange (FX) through official channels. Then, in September, the border with Benin Republic and, by extension, other West African countries were closed to cross-border trading activities in line with the government's stated objective of reining in the impact of neighbours' trading strategy on the Nigerian economy. The effect of this was to push food prices upwards. Consequently, inflation, which had been sticky for most of the year, rose sharply in the last quarter.

Monetary Policy

By far the most active leg of policy was monetary policy. The contours of the CBN's announced embrace of heterodox policies took shape in 2019. Upon the governor's reappointment to another 5-year term, the CBN leadership put out its medium-term plan for the governor's second term. Headlining these measures was the proposed recapitalization of the banking industry.

In the near-term, motivated by a need to boost bank lending, deal with the rising costs of monetary policy and maintain exchange rate stability, aggressive and unconventional policy thrusts were introduced.

The CBN imposed a minimum loan-to-deposits ratio, setting a floor on how much of collected deposits banks were required to lend, and forcing banks to aggressively expand their loan books, with the attendant risk of asset quality deterioration – as banks rush to expand their loan books, the risk of taking on non-performing loans increase. Subsequently, the apex bank bifurcated the market for interest-bearing securities, barring local entities – corporates, pension funds non-bank financial institutions – from purchasing open market operations (OMO) bills, effectively creating a low interest environment for local investors/corporates and a high interest rate environment for offshore portfolio investors. Thus, whilst OMO rates remained elevated, yields on treasury bills, FGN bonds and other interest-bearing assets collapsed.

Allowing portfolio investors access to the OMO market was the CBN's way of supplementing inflows of FX. Its commitment to maintain exchange rate stability was primary to that consideration and concern was elevated by the depletion of foreign reserves by about $6.5bn between May and the end of year.

2.2 The Economy in 2020/21 – A black swan event defines the Outlook

In 2020/21, the outlook of the Nigerian economy will rely on possible eventualities surrounding a number of important issues in the global economy such as the COVID-19, crude oil price war, the balance of demand & supply conditions, US presidential elections and BREXIT.

Following Q1 2020, it is evident that how all of these issues shape up will be defined by the overarching black swan event in the form of the COVID-19 outbreak and its far-reaching impact on the global and domestic economy. Since the outbreak of COVID-19, there has been widespread disruption in the global economy in the form of slowdowns in production as factories and whole cities are shut down and labour is demobilised; restrictions in international travel; disruptions to global supply chains and international trade, erosion in the confidence of investors and households.

The effects of these developments on the global economy have been severe, manifesting in the following ways:

Significant erosion of value in global financial markets.

There has been significant erosion of value in the global financial markets, reflecting the collapse of investor confidence. The global capital flows to emerging markets including Nigeria is expected to be disrupted. This may ultimately lead to a decline in FPIs/FDIs and reduced access to credit, if global liquidity tightens.

Projections of decline in global GDP growth in 2020.

Latest projections from the IMF indicates that global economy has slid into a recession as at 23 March 2020. This is not farfetched as the investment bank, Goldman Sachs, anticipates a 4% contraction in the GDP of the US (which is the world's largest economy) in 2020.

Weak demand for energy and other commodities.

The weakness in activities has led to a fall in demand for energy and other commodities. In the oil market, demand has been further weakened by an oil price war between Russia and Saudi Arabia; post the collapse of the synergy between the OPEC bloc and the Russians which had moderated prices over the last few years. Oil prices are down 60% year-to-date. Futures markets anticipate a US$32.95pb average price for the rest of 2020.

The complexion of global policy has changed.

In March alone, the US Federal Reserve lowered its benchmark interest rates to the 0 – 0.25% range, whilst announcing fresh Quantitative Easing measures to the tune of US$2.2trillion. On the fiscal side, the US House of Representatives, at the time of writing, is prepared to vote on a US$2trillion fiscal stimulus package already passed by the Senate. Thus far, these measures, and intimation of them, have provided only minimal respite to markets.

What will be the impact on Nigeria?

A global recession, coupled with a sharp decline in oil prices, increases the risk of a recession in Nigeria by:

1. Consigning the Federal, State and Local governments to obtain lower-than-budgeted allocations, due to dwindling export revenues and severe reduction in revenue remittance to the Federation Account. In response, the 2020 Budget oil price benchmark has been slashed from $57pb to $30pb., whilst the FG budget itself has been slashed by N1.5trillion.
2. Inducing a major reduction in the inflows of foreign exchange, again on account of diminished export revenue, against the backdrop of sharply lower oil prices
3. Inducing another year of scarcity in terms of the flow of both direct and portfolio investments, given the collapse of global investor confidence and the consequent risk-averse disposition of portfolio managers on account of COVID-19's effects.
4. Inducing a balance of payments crisis, on account of the combined effect of diminishing export revenue and capital importation, leading to further and sharper dwindling of foreign exchange reserves, which will in turn cause a misalignment of the exchange rate and intensify pressure on the Naira.

All of the foregoing suggests that the likelihood of the Nigerian economy slipping into another recession in 2020 is high. Depending on the depth of the global downturn, the imminent recession could be deep.

Given prevailing fiscal tightness, the CBN has been center-stage in trying to provide emergency monetary support for the economy in the form of: an extension of a moratorium on principal repayments on loans under the CBN's intervention fund facilities, reduction of interest rates on fresh intervention fund loans, a N50bn credit facility targeted at SMEs, support for the healthcare sector, regulatory forbearance on banking sector loans to critical sectors, and extension of the CBN's minimum loan-to-deposits ratio policy. While these efforts are commendable, the government is encouraged to do more to either avert a recession or stimulate the economy, should it occur.

In Summary

In summary, we classify the drivers of the Nigerian economic environment, and its attendant risks, into four broad factors:

1. **Global Factors**
   The key factors for decision makers to be mindful of in 2020 include:
   - **Coronavirus (COVID-19)** - On 28 March 2020, the International Monetary Fund announced that the global economy entered a recession due to the COVID-19 pandemic and containment will dictate the strength of recovery. The key question here is what are the possibilities for growth and recovery this year?
   - **Oil prices** - " The general concern is with the sharp decline in oil price following a weakened demand by oil importing countries as a result of the COVID-19, and the ongoing oil price war between Saudi Arabia and Russia
   - **Global monetary policy** – The key question here is will shift to monetary easing by leading central banks persist? The slow growth environment implies that central banks will at least sustain the easing status quo in 2020
   - **US elections 2020** – Will US electoral politics impair global trade relations?
   - **UK Brexit** - What will be the impact of the UK's all but certain exit from the European Union on the European economy and how it will reverberate across the world?
2. **Continental Factors**
   - The key issue is the Africa Continental Free Trade Area (AfCFTA). How positioned is Nigeria, including her subnational entities, to seize advantage of a 1.3bn people market?
3. **Regional Factors**
   - Border closure – Will there be a resolution of the closure of Nigeria's borders with its West African neighbours or not?
   - The potential arrival of the West African currency, the Eco. Could it happen in 2020?What would be the underlying arrangements and would Nigeria join the currency union?
4. **Domestic Factors**
   What are the policy options that the government would embrace in its efforts to stimulate investment and accelerate growth?
   - Electricity tariffs have already gone up
   - What other key pricing regimes would be reformed?
   - 2020 Finance Act signed into law
   - Continued implementation of the objectives set out in the CBN's 5-year plan, including the various unorthodox lending stimulation measures

3.0

Risk Survey Results

3.1 Objectives

The Risk Consulting practice of KPMG in Nigeria is pleased to present the third edition of its biennial risk survey report, "Top 10 Business Risks 2020/2021", conducted in Q4, 2019.

This report presents our findings from the survey of 108 executives of public and private companies across 5 industry sectors in Nigeria. This edition has expanded on the industries covered in the previous survey to include technology, media, infrastructure, and government.

The survey's objective is to obtain the perspectives of Nigerian business executives on the potential impact of 31 specific risks to their businesses. This report analysis the risks to provide insights on a number of dimensions namely: (1) Industries (2) Designation (3) Geographic span (4) Ownership

3.2 Methodology

The risk survey was conducted among several Nigerian business executives, out of which 108 responded. The respondents comprise: Managing Directors/Chief Executive Officers (CEOs), Chief Finance Officers (CFOs)/Heads of Finance, Chief Operating Officers (COOs), Chief Legal Officers (CLOs)/Company Secretary, Chief Risk Officers (CROs)/Heads of Risk, Chief Compliance Officers (CCOs), Chief Audit Executives (CAEs)/Heads Internal Audit, and Audit/Risk Committee Chairmen of publicly and privately owned companies across various industries. The industries comprise the Consumer & Industrial Market, Energy & Natural Resources, Financial Services, Infrastructure Government & Healthcare, and Technology Media & Telecommunication sectors in Nigeria. See **Appendix II** for further details on the profile of the respondents

The opinion of respondents on the present and future risks was sought through a web-based survey that was conducted between November and December 2019. Each respondent was requested to assess the impact of 31 risks to their organisations over the next 12 months, using a 5-point scale, as represented below:

3.3 Analysis of Risk Survey Results

For each of the 31 risk issues, we computed the average score reported by all the respondents and ranked from the highest to the lowest score. The risks were then grouped as high, medium, and low on the basis of their average scores:

1 Regulatory risk 3.69	2 Fiscal & monetary Policy risk 3.60	3 Foreign exchange volatility risk 3.56	4 Cyber – security risk 3.53	5 Political risk 3.50
6 Technology infrastructure risk 3.43	7 Customer attrition risk 3.42	8 Talent shortage/ attrition risk 3.37	9 Business continuity risk 3.34	10 Governance risk 3.28
11 Brand and reputation risk 3.24	12 Disruptive business model risk 3.22	13 Competition risk 3.18	14 Capital adequacy risk 3.17	15 Interest rate risk 3.15
16 Data privacy risk 3.15	17 Commodity price volatility (crude oil) risk 3.13	18 Money laundering, bribery & corruption risk 3.12	19 Security risk 3.12	20 Data mining and analytics risk 3.12
21 Corporate culture & tone at the top risk 3.10	22 Tax exposure risk 3.09	23 Asset misappropriation and fraud risk 3.05	24 Liquidity risk 2.99	25 Financial reporting risk 2.98
26 Route-to-Market risk 2.94	27 Third -party Alliance or partnership risk 2.94	28 Sourcing & procurement risk 2.92	29 Litigation risk 2.87	30 Health, safety and environment risk 2.82
31 Commodity price volatility (crude oil) risk 2.39				

High Risk: 3.5 - 5.0
Medium Risk: 2.5 - 3.49
Low Risk: < 2.49

3.4 Snapshot of Top 10 Risks for 2020/2021

2020	3.69 Regulatory risk	3.60 Fiscal & monetary policy risk	3.56 Foreign exchange volatility risk	3.53 Cyber-security risk	3.50 Political risk
	3.43 Technology infrastructure risk	3.42 Customer attrition risk	3.37 Talent shortage/attrition risk	3.34 Business continuity risk	3.28 Governance risk
2018	3.91 Foreign exchange volatility risk	3.67 Fiscal and monetary risk	3.57 Regulatory risk	3.56 Commodity price volatility (Crude oil) risk	3.52 Loss of reputation or brand value risk
	3.48 Customer attrition risk	3.44 Political risk	3.41 Liquidity risk	3.41 Security risk	3.29 Interest rate risk
2016	3.85 Macroeconomic risk	3.76 Crude oil price risk	3.33 Political risk	3.21 Energy risk	3.19 Security risk
	3.07 Capital availability risk	2.97 Regulatory risk	2.96 Competition risk	2.91 Supply chain risk	2.86 Business continuity and Disaster recovery risk

High Risk: 3.5 - 5.0
Medium Risk: 2.5 - 3.49
Low Risk: < 2.49

3.5 Analysis of Risk Survey Results - Geographic span Insights

The analysis below represents an overview of four (4) geographic spans of operations covered within this survey. This is essentially to determine if respondents rank risk differently based on area of operation.

3.5.1 Nigerian Companies with Multinational Operations

Indigenous firms with operations in Nigeria as well as other countries on a global scale pointed to cyber-security and technology infrastructure as the top risks confronting them with both factors having high risk impacts. This was followed by customer attrition, data mining & analytics and data privacy which were perceived as having medium risk impact on their business.

1	Cyber-security risk	3.73
2	Technology infrastructure risk	3.67
3	Customer attrition risk	3.47
4	Data mining & analytics risk	3.47
5	Data Privacy risk	3.47

Table 6: Top 5 risks in Nigerian companies with multinational operations

3.5.2 Nigerian Companies with Continental (Africa) Operations

Indigenous firms with operations in Nigeria as well as other African countries pointed to five major impact risk factors in their top five. Political risk occupied the top spot with a score of 4.13 which is a pointer to the 18 elections which took place across Africa in 2019 and expected elections in 2020. Elections are typically associated with heightened uncertainty on the continent. Technology infrastructure occupied the second spot with a score of 4.07, which represents a high-risk impact as technology is an enabler for growth and effective scaling. Other factors in the top five risk factors are foreign exchange volatility, regulatory risk, and fiscal & monetary policy risk.

1	Political risk	4.13
2	Technology infrastructure risk	4.07
3	Foreign exchange volatility risk	3.93
4	Regulatory risk	3.80
5	Fiscal & monetary policy risk	3.80

Table 7: Top 5 risks in Nigerian companies with continental (Africa) operations

3.5.3 Nigerian Companies only

Indigenous companies operating in Nigeria only, consider regulatory risk as the top risk factor with high risk impact on business. This may be connected to the bills passed by the legislative arm of government and endorsed by the executive in 2019. About four of them have significant impact on businesses in 2020 and beyond. Furthermore, other risk factors in the top 5 perceived to have a high impact revealed that executives were concerned about fiscal/monetary policy risk and foreign exchange volatility. Cyber-security and political risk factors were considered as medium risk factors by executives with a score of 3.46 and 3.39 respectively.

1	2	3	4	5
Regulatory risk	Fiscal & monetary policy risk	Foreign exchange volatility risk	Cyber-security risk	Political risk
3.69	3.61	3.51	3.46	3.39

Table 8: Top 5 risks in Nigerian companies

3.5.4 Multinational Companies in Nigeria

These companies considered foreign exchange volatility as the top risk for them. This is understandable as these firms need to repatriate profits and other permissible earnings to their home countries. Money laundering, bribery and corruption also featured as a high-risk factor for multinationals operating in Nigeria, and this may be on the backdrop of their perception of corruption in the country. In addition, they considered cybersecurity and regulatory risk , high risk factors.

1	2	3	4	5
Foreign exchange volatility risk	Cyber-security risk	Regulatory risk	Money laundering, bribery & corruption risk	Fiscal & monetary policy risk
3.91	3.82	3.82	3.82	3.73

Table 9: Top 5 risks in multinational companies in Nigeria

3.6 Analysis of Risk Survey Results - Area of Responsibility (Designation)

We analysed the responses to determine the trends across various areas of responsibility. Almost all the executives surveyed rated risks related to regulatory, fiscal & monetary policy, foreign exchange volatility as high risk factors.

3.6.1 Audit/Risk Committee Chairman

Risk committee chairs considered regulatory, and technology infrastructure as the top risk factors for their companies and having major impact on their business. They equally regarded foreign exchange and cyber-security risk as having an equal risk and having high risk on their companies.

1	2	3	4	5
Regulatory risk	Technology infrastructure risk	Foreign exchange volatility risk	Cyber-security risk	Fiscal & monetary policy risk
3.75	3.75	3.58	3.58	3.50

Table 10: Top 5 risks for audit/risk committee chairman

3.6.2 Chief Audit Executive/Head of Internal Audit

CAEs considered the risk associated with fiscal and monetary policy as being foremost with a high impact on their companies. Furthermore, cyber-security and regulatory featured as the second and third in their ranked risk scores. Finally, data mining & analytics was perceived as having a medium risk impact on their companies.

1	2	3	4	5
Fiscal & monetary policy risk	Cyber-security risk	Regulatory risk	Disruptive business model risk	Data mining & analytics risk
3.67	3.60	3.60	3.53	3.47

Table 11: Top 5 risks for Chief audit/Head, internal audit risk committee chairman

3.6.3 Chief Compliance Officer

CCOs regarded regulatory as foremost and having major impact on their business closely followed by the risk of technology infrastructure. They ranked capital adequacy, foreign exchange volatility and political risk equally, all having high risk impact on their companies.

1	2	3	4	5
Regulatory risk	Technology infrastructure risk	Capital adequacy risk	Foreign exchange volatility risk	Political risk
4.00	3.83	3.67	3.67	3.67

Table 12: Top 5 risks for Chief compliance officer

3.6.4 Chief Executive Officer/Managing Director

CEOs rated the risks associated with fiscal & monetary policy, cyber-security, and asset misappropriation & fraud equally, all having high risk impact on their companies.

Furthermore, shortage of skilled workers and regulatory were ranked next as also having high risk impact on their companies.

1	2	3	4	5
Fiscal & monetary policy risk	Cyber-security risk	Asset misappropriation and fraud risk	Talent shortage/ attrition risk	Regulatory risk
3.88	3.88	3.88	3.75	3.75

Table 13: Top 5 risks for Chief executive officer/Managing Director

3.6.5 *Chief Finance Officer/Head of Finance*

CFOs ranked risk associated with foreign exchange and regulatory as having high risk impact on their companies. They also considered fiscal & monetary policy, customer attrition and political risks as having medium risk impact on their companies.

1	2	3	4	5
Foreign exchange volatility risk	Regulatory risk	Fiscal & monetary policy risk	Customer attrition risk	Political risk
3.50	3.50	3.46	3.43	3.39

Table 14: Top 5 risks for Chief finance officer

3.6.6 *Chief Legal Officer/Company Secretary*

CLOs considered regulatory as foremost in the ranking of risks affecting their companies with a score of 3.80. Risks associated with foreign exchange, money laundering, and technology infrastructure were considered as having the same risk score and having high risk impact for their companies.

1	2	3	4	5
Regulatory risk	Foreign exchange volatility risk	Money laundering, bribery & corruption risk	Technology infrastructure risk	Fiscal & monetary policy risk
3.80	3.70	3.70	3.70	3.60

Table 15: Top 5 risks for Chief legal officer/company secretary

3.6.7 *Chief Operating Officer/Executive Director*

COOs rated fiscal & monetary policy and foreign exchange equally, having high risk impact on their companies. They also considered by order of rank; business interruption, political, and interest rate risks as having high risk impact on their companies.

1	2	3	4	5
Fiscal & monetary policy risk	Foreign exchange volatility risk	Business continuity risk	Political risk	Interest rate risk
3.92	3.92	3.75	3.67	3.58

Table 16: Top 5 risks for Chief operating officer

3.6.8 *Chief Risk Officer/Head of Risk*

CROs rated cyber-security as foremost, presenting the highest risk to their companies, closely followed by regulatory. They also considered shortage of skilled workers, technology infrastructure, and political risk as having high risk impact on their companies as well.

1	2	3	4	5
Cyber-security risk	Regulatory risk	Talent shortage/ attrition risk	Technology infrastructure risk	Political risk
4.06	3.94	3.75	3.71	3.59

Table 17: Top 5 risks for audit/risk committee chairman

3.7 Analysis of Risk Survey Results - Ownership structure

Respondents in this survey represent two types of organisations – publicly and privately held companies. According to the survey results, all the organisational types have concerns on regulatory and fiscal & monetary policy as high impact risk factors.

3.7.1 *Listed*

1	2	3	4	5
Regulatory risk	Foreign exchange volatility risk	Cyber-security risk	Fiscal & monetary policy risk	Political risk
3.77	3.74	3.74	3.72	3.53

Table 18: Top 5 risks for listed companies

3.7.2 *Non-Listed*

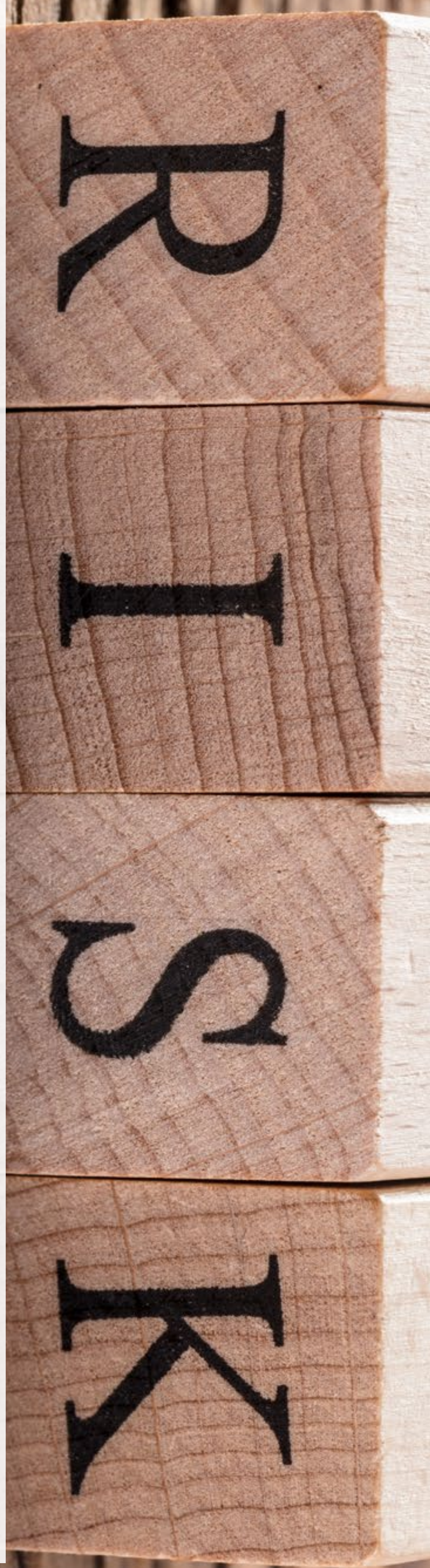
1	2	3	4	5
Regulatory risk	Fiscal & monetary policy risk	Customer attrition risk	Political risk	Foreign exchange volatility risk
3.63	3.52	3.48	3.48	3.45

Table 19: Top 5 risks for non-listed companies

4.0

Top 10 Business Risks

1. Regulatory Risk
2. Fiscal & monetary policy Risk
3. Foreign Exchange volatility Risk
4. Cybersecurity Risk
5. Political Risk
6. Technology Infrastructure Risk
7. Customer attrition Risk
8. Talent Shortage/ Attrition Risk
9. Business Continuity Risk
10. Governance Risk



4.1.1 Regulatory risk

Overview

A variety of regulatory and legislative changes coupled with a focus on compliance makes this the number one risk for respondents in 2020/21. This risk examines the challenges organisations face in a dynamic, and sometimes volatile, regulatory and legislative environment ranging from changes in the tax laws to the minimum wage amendment act, amongst others.

In light of a looming economic downturn, the domestic laws and regulations to be issued this year and their ability to stimulate the economy will be critical.

Risk Score in Survey

Analysis

Since 2016, regulatory risk has occupied a high perch on our top 10 risk list. It ranked at number seven in 2016 and rose to number 3 in 2018. In the current survey, regulatory risk has risen, somewhat to number 1. The overall rise in ranking of the regulatory risk is likely to be driven by pressure from regulators, heightened regulatory compliance requirements and legislative bills that would significantly impact businesses. Respondents from the financial services industry who represent 50% of the respondents see it as the number one risk for their industry, which faces stricter rules relating to capital requirements, financial intermediation as well as financial stability to inspire confidence in the system. The new rule by the Central Bank of Nigeria that mandates banks to maintain minimum loans to deposit ratio of 65 percent will likely result in deteriorating assets quality. The aim of the stringent rule is to force lenders to extend credit to the real sector of the economy but these sectors are highly risky as they do not have the cash flow to payback interest on loans which increase the risk of accumulating Non-Performing Loans (NPLs).

From the legislative perspective, of the bills passed by the legislative arm of government and endorsed by the executive in 2019, about four of them have significant impact on businesses in 2020 and beyond:

a. **The Finance Act** made changes to the Company Income Tax (CIT) Act, Value Added Tax (VAT) Act, Petroleum Profit Tax Act (PPTA), Personal Income Tax Act (PIT), Capital Gains Tax Act (CGTA), Customs and Excise Tariff and Stamp Duties Act

- ***Company Income Tax (CIT) Act:*** Companies with less than an annual turnover of N25 million will be exempted from CIT, while companies with revenues running between N25 – 100 Million will be required to pay a CIT of 20%. The exemption of taxation on dividends paid out on retained earnings will help eliminate double taxation risks. Taxation will also under this act be applied to digital and e–commerce platforms, applicable to non-resident companies with significant presence in Nigeria to ensure the nation earns a fair amount of revenue from such activities.
- ***Value Added Tax (VAT):*** Increase in the rate of VAT from 5% to 7.5% and exemption from VAT registration and filing for companies with an annual turnover of N25 Million or less.
- ***Customs and Excise Tariff*** to include goods imported into Nigeria, in order to incentivise local production, thereby getting rid of the undue advantage that imported items have over locally made products. In the long run, this will discourage the importation of some goods into the country and could reduce the pressure on the foreign exchange market.
- ***Personal Income Tax (PIT) Act:*** Individuals are now required to produce their Tax Identification Number (TIN) to operate their bank accounts. In addition, the amendment deletes PIT relief for children and dependant adults.
- ***Capital Gains Tax (CGT) Act:*** The amendment grants clarity on the circumstances under which CGT will apply to transfer of assets during business reorganisation. In addition, it also increases the maximum amount of "compensation for loss of office" exempted from tax to N10 million.
- ***Petroleum Profit Tax (PPT) Act:*** Companies engaged in the petroleum industry will be required to pay a 10% withholding Tax on dividends paid out of their profits. This nullifies the tax exemption previously granted on such dividends.
- ***Stamp Duties:*** The bill has been amended to clarify its scope which includes electronic transactions and implies a N50 duty on electronic transfers from N10,000 and above. Furthermore, it excludes regulated securities lending transactions and share transfers.

b. **The Minimum Wage Amendment Act:** The minimum wage act reviewed upward by 67 percent, the amount paid to the least workers in the country from N18,000 to N30,000.The upward review was necessitated by the agitations from the labour unions who held the view that the N18,000 minimum wage was inadequate given the higher inflation rate and naira devaluation that have eroded the real value of money

c. **Deep Offshore (and Inland Basin Protection Sharing Act) –** Under the old act, royalties were calculated based on the water depth of the field. This ranged from 12 percent to zero percent. The amendment eliminates the zero percent as royalties would now be calculated on field basis, dependent on the chargeable volume of the crude and condensates produced per field. The new rates are 10 percent (for field fields in the deep offshore – greater than 200m water depth) while that of the frontier or inland basin is 7.5 percent as opposed to 10 percent under the old act. The amendment also imposes an additional royalty rate to account for an increase in the price of crude above $ 20 per barrel. Some stakeholders hold the opinion that the new levies would make deep offshore projects less profitable and result in lower investment

d. **Police Trust Fund Act:** With this new law, companies operating in Nigeria will now have to pay a levy of 0.005 percent (N5 per N100,000) of net profits in to the funds. Corporate taxpayers who have seen weak sales owning to poor purchasing power of consumers see this as an additional burden.

Other noteworthy regulatory developments that also have business implications in 2020 and going forward include:

- **2019 Common Reporting Standards (CRS) Guidelines and Regulations**
  The Federal Inland Revenue Service (FIRS) issued the CRS Regulations which require Nigerian Financial Institutions to file certain information on Reportable Accounts maintained during the year ended 31 December 2019 and every subsequent calendar year, with the FIRS. The penalty for non-compliance is N10 million in the first instance and N1 million for each month in which the default continues.

- **2019 Nigeria Data Protection Regulations**
  The National Information Technology Development Agency (NITDA) issued the Nigeria Data Protection Regulation (NDPR) on 25 January 2019 provides guidelines on the use of personal data by organisations who collect and/or process such data. The NDPR requires Data Controllers and Data Processors to engage a Data Protection Compliance Organisation to perform a Data Protection Audit and file a report with NITDA within a stipulated timeline. The Regulation also imposes penalty of up to N10 million for breach of data privacy rights.

Actions

Regardless of how the regulatory landscape will evolve, companies have increasingly recognised that regulation is no longer a secondary concern but is now a primary consideration in their business strategies. Rather than seeing it as a burden, they should look at this risk as an opportunity to create a competitive advantage over peers who do not manage this process effectively. Therefore, we propose companies consider the following actions:

1. In managing regulatory compliance, ensure adequate oversight processes have been established. Specifically, organisations can achieve this by developing and maintaining an up-to-date regulatory rulebook as a comprehensive repository of all regulations impacting it.

   The rulebook may be further enhanced by automating the process for notifying responsible officers of their compliance obligations and escalating non-compliance to supervisors in a timely manner. It should also set up relevant oversight structures at the board and management level for periodically monitoring to receive assurance on regulatory compliance.

2. In managing regulatory uncertainty, companies should develop a framework for engaging and managing their regulatory stakeholders. This includes identifying the regulators, prioritizing them based on defined criteria and developing new strategies for managing them with a view to building sustainable relationships not just with regulators but across a broader base of key public sector stakeholders. This will help to ensure a structured and consistent approach to managing regulators while streamlining the company's time and efforts. It will also deepen the understanding of regulators' priorities, improve trust, facilitate dialogue that will improve policy formulation, and consequently help companies to shape the business environment around their operations.

3. Assign internal or external resources to continually monitor new and proposed regulatory changes; and report on their impact to the business. In highly regulated industries, ensure that monitoring activities are in place and properly resourced.

4. Dedicate audit resources to evaluating the organisation's processes for monitoring and complying with all applicable laws and regulations.

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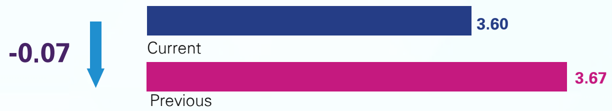
4.1.2 Fiscal & monetary policy risk

Overview

Fiscal policy risk has become elevated by the COVID-19 impact and a recent sharp drop in oil prices below the originally budgeted benchmark. This has led to a downward revision of the FG 2020 budget benchmark and spending outlay, and the prospects for further belt-tightening measures both at the Federal and subnational levels in the face of significant reductions in statutory allocations. The risks and opportunities around monetary policies are also critical given the role CBN has to play in our fiscal tight environment

Risk Score in Survey



Analysis

Corporate exposure to fiscal policy takes two forms:

1. **Liabilities or obligations due to government from corporates:** At the onset of 2020, pressure was anticipated to emanate from a more aggressive drive in form of taxes and other levies, at all levels of government, to boost public sector revenues. The low revenue yield of the government stood in the face of rising public debt and the rising burden of debt service. Consequently, this revenue drive was enshrined in a legislative framework known as the 2020 Finance Act. This risk factor is expected to drop for the remaining part of this year as concessions are being granted to enable businesses survive amidst the COVID-19 pandemic

2. **Liabilities or obligations due to corporates from government:** Currently, a downward review of the FG 2020 budget and reduced government spending may in turn reduce economic activities and consumer spending. Therefore, a number of government sponsored projects or contracts may be suspended and the government's approach to managing contingent liabilities (i.e. debt liabilities incurred outside of borrowing such as delayed payments to contractors) will continue to evolve. One of the measures increasingly adopted by the government is to issue promissory notes to contractors, which market value has to be discounted before contractors get the nominal value. It is expected that the government will continue to resort to this strategy in 2020. Consequently, where government obligations to corporates arising from government purchases and procurements are concerned, the risk of corporate receivables tied to government spending outlays represent the most direct corporate exposure. This risk factor is expected to rise for the remaining part of this year given the prospects for further belt-tightening measures both at the Federal and subnational levels.

On the other hand, uncertainties around monetary policy ranked high given the role CBN has to play in a fiscally tight environment. The channel through which monetary policy directly impacts corporates is credit, specifically lending rates. Given prevailing fiscal conditions, the CBN has been center-stage in trying to provide emergency monetary support for the economy in the form of: an extension of a moratorium on principal repayments on loans under the CBN's intervention fund facilities, reduction of interest rates on fresh intervention fund loans, a N50bn credit facility targeted at SMEs, support for the healthcare sector, regulatory forbearance on banking sector loans to critical sectors, and extension of the CBN's minimum loan-to-deposits ratio policy.
The CBN's LDR policy has led to a widening of the gap between falling rates charged to banking sector's prime customers and steady/increasing rates charged to subprime customers. On one hand, large-sized corporates, many of which constitute the banking sector's prime customers, are looking at lower direct interest costs. On the other hand, small-scale enterprises operating on their route-to-market (i.e. their distribution networks) are not, and in some cases, face even higher interest costs. Small and medium corporates therefore remain vulnerable under the CBN's new lending stimulation regime .

Actions

In mitigating fiscal and monetary risks, we propose companies consider the following:

1. Review of organisations' credit exposure to public sector, with a view to reducing concentration.
2. Implementation of sales incentives by organisations to stimulate consumer spending through near-term price changes and discounts.
3. Review of existing credit terms between banks and borrowing corporates to minimise the risk of non-perfoming loans and ameliorate the impact of COVID-19 and cash flow of organisations.
4. Increase in support provided by big corporates to small and medium corporates operating along their routes-to-market.
5 Implementation of strategies by SMEs, including the development of viable business plans and supporting documents, required to access the N50 Billion credit facility being made available by CBN to cushion the effect of COVID-19 on SMEs.

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4.1.3 Foreign exchange volatility risk

Overview

Foreign exchange volatility risk is reported to carry 'extreme impact' especially among multinational corporates, for obvious reasons of importation and capital repatriation. Going into 2020, we believe this risk to be critical to corporates.

In 2019, the naira remained fairly stable at the official and Investors and Exporters' FX (I&E FX) windows. For most of the second half of the year, given lower oil prices and the gradual tapering of the post-elections surge in foreign portfolio inflows into the fixed income market, maintenance of naira stability came at the cost of a $6.5bn depletion in gross foreign exchange reserves between May (when they peaked for the year) and year-end.

Risk Score in Survey

Analysis

In 2020, the following are three major frontlines that Corporates should watch out for:

- **Oil Price Movement:** In 2020, oil price is expected to remain weak as pressures continue to build in the global market due to the low demand triggered by the COVID-19 and oil price war between Saudi Arabia and Russia. As at 26 March, Brent crude oil prices had fallen 60% year-to-date to prices below $30pb. However, the movement in the exchange rate of Naira this year has been rather too modest to reflect underlying conditions in the oil market, when compared with other petrocurrencies. See below for details:

YtD Change in OIL PRICES vs PETROCURRENCIES - as of Mar 26, 2020

- **External Reserves:** In November 2019, the CBN Governor suggested that $30bn is the level to which reserves would have to fall in order for the CBN to consider a devaluation. In 2019, Nigeria's foreign reserves depleted by $4.42 billon, ending the year at $38 billion. Currently, the CBN's reported holdings of gross foreign exchange reserves have dipped 7.2% year-to-date and presently hover around $35.7bn. A continuous free fall of the country's foreign reserves at this rate increases the risk of devaluation.
- **Capital Importation:** Against the backdrop of the collapse of investor confidence in the wake of the COVID-19 crisis, global financial conditions, the principal determinant of capital flows to emerging and frontier markets, have tightened. The thrust of domestic policy, which revolves around using high-return open market operation (OMO) instruments to attract foreign portfolio investors, has begun to show cracks given recently observed low-levels of subscription to OMO instruments issued by the CBN.

Already, in the face of these conditions, it is interesting to observe policy responses appear to replicate the sequence that attended the oil price and investment inflows shock of 2015/2016, with the CBN:

(i) Using its best efforts to defend the Naira by proclaiming on March 12 that "market fundamentals did not support devaluation" at the time.

(ii) Subsequently allowing a 15% devaluation of the currency at the official window to (N360/$), but only a modest 4% adjustment at the more market-reflective I&E window to about (N380/$) on March 20.

(iii) Subsequently adopting administrative rationing measures targeted at achieving exchange rate stability by trimming foreign exchange demand – this time through the temporary suspension of FX sales to BDCs on March 26, all of which measures are unlikely to address the demand gap post COVID-19.

Although the multiple exchange environment which has been the status quo since 2016 has been rationalized into a two-tier FX market (comprising the official and I&E windows respectively), disadvantages such arbitrage, lower investor confidence and medium-term distortionary effect may continue to impact economy. Whilst we expect the monetary authority to continue to use a blend of orthodox and unorthodox measures to attempt to maintain exchange rate stability (an example being the recent introduction of 5-year dollar futures contract), and possibly more administrative restrictions targeted at foreign exchange demand, we believe that the question of the Naira's fair valuation, against the backdrop of recent developments, will continue to be revisited.

One possible reason is that it may be necessary to adjust the Naira further in order to boost the Naira equivalent of every dollar of oil revenue, thus creating fiscal space for governments at all tiers, in light of an oil price benchmark that is now $27 lower than it once was.

Actions

We recommend companies consider the following in mitigating this risk:

1. The traditional mitigant against foreign exchange volatility risk is for business entities resident in Nigeria, whether indigenous or multinational, to build a stream of foreign currency income or inflows. This includes evaluating opportunities to diversify into export markets to generate avenues for foreign exchange earnings.

2. Identify potential hedging instruments such as futures and forwards, to effectively mitigate volatility. In adopting these instruments, a cost-benefit analysis of the hedging instrument should be conducted.

3. Identify and convert opportunities to reduce foreign denominated outflows by sourcing raw materials & services locally and reducing exposure to foreign denominated loans.

4. Where the former is not possible, scenario planning which anticipates multiple exchange rates and plans the volumes of transactions against worse-case scenarios may be highly useful.

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4.1.4 Cyber-security risk

Overview

The business ecosystem is rapidly evolving across different sectors and economies. Advancement in digital technology has continued to enable business innovations and agility across the world. New digital companies are disrupting the market with unconventional but innovative products, while the incumbents are also transforming their products and services to stay relevant.

Across Banking, Insurance, Telecommunications, Manufacturing, Retail and Government sectors, digitisation is being leveraged to improve service delivery, enhance customer experience and drive operational efficiency. However, the digital evolution brings a new dimension into the enterprise risk - the cyber-security risk. Unfortunately, cyber-security risk is not conventional, neither are the threat actors.

With the exponential growth of digital touch points, the new reality is this: Cyber-security now directly affects the resilience of organisations, our economy and our individual safety. The volume, sophistication and the ever-involving nature of cyber-attacks in the recent times, demands every organisation to adopt innovative approaches to the management of cyber-security risks; if they will stay relevant and agile.

The result of this year's survey revealed that of the 108 global and local organisations surveyed, 95% of the respondents believe cyber-security will have an impact on their businesses; making cyber-security to be ranked number four risk facing organisations. While cyber-security risk has climbed to one of the Top 10 risk for the first time in this survey; the past four KPMG Global CEO Outlook surveys have shown cyber-security to be in the top 5 agendas of CEOs.

Over the past years a broad array of factors has propelled many organisations' increased focus on cyber-security and information protection: rapid shifts in technology, the growing volume and sophistication of threats, the ongoing migration to automated and cloud-based services, the explosion of and focus on data and more rigorous regulatory requirements, to name a few .
As cyber threats have defied boundaries in our hyper-connected world, it is pertinent that an effective cyber -security strategy is developed and implemented to manage this risk.

Risk Score in Survey

As organisations continue to hold more personal data, breaches are increasing in size and cost with data breaches exposing over 4.1 billion records in the first 6-months of 2019. Within the first half of 2019, 3,800 publicly disclosed breaches were recorded along with a 54% increase in the number of reported breaches in comparison to those recorded in the first 6-months of 2018 .

The result of this year's Risk Survey revealed that approximately 38% of respondents agreed that Data Privacy Risk will have extreme or major impact on their businesses. Stringent regulations such as GDPR have continued to compel organisations to adopt cyber-security measures to protect personal data or face heavy fines for non-compliance. As a result, organisations must prepare themselves for imminent regulatory challenges as well as high customer expectations for a meticulously controlled and protected data privacy environment. The National Information Technology Development Agency (NITDA) issued the Nigeria Data Protection Regulation in 2019 which seeks among other things, to safeguard the rights of natural persons to the privacy of their personal data. The regulation appears to be a very promising start for Nigeria, particularly in ensuring Nigerian businesses remain competitive in international trade through the provision of a legal regulatory framework on data protection.

Actions

We propose companies consider the following:

1. Establish accountability for cyber-security risk– Cyber-security risk should be a board room agenda and be effectively governed
2. Adopt a risk-based approach and protect what matters – Identify your crown jewels and invest in securing them
3. Assess and manage third party cyber-security risk – Assess and manage your risk exposure which are due to third-party connections and/or relationships
4. Build capacity to effectively respond to cyber incidents – It is no longer enough to invest in prevention of cyber incidents; organisations need to build capacity to respond and stay resilient to cyber attacks
5. Identify new cyber threats and risks proactively – Threat intelligence is as important as visibility into security incidents
6. Conduct Data Privacy Impact Assessment of existing processes and build capacity in data privacy measures.

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4.1.5 Political risk

Overview

2019 presented a significant political risk to the Nigerian business environment in the form of the 2019 general elections. In the main, corporates, investors and markets were mindful of the possibility of inconclusive polls, a disorderly transition or even a civil breakdown. The return of foreign portfolio investors to domestic financial markets, particularly the fixed income segment, in the wake of the conclusion of the polls, signalled the recognition that investor concern about political risk had been alleviated. In 2020, with the country now outside the electoral cycle, we do not expect the manifestation of this form of political risk, defined by the prospects for the disruption of business on account of political instability.

Risk Score in Survey

Analysis

The outcome of the polls was to consolidate the dominance of the incumbent ruling party, which secured solid majorities in the legislature in addition to the presidency, and retained its numerical superiority in terms of the control of governorships across the country. Another obvious way through which political risk impacts the business community is through the policies that emanate from the political process. On this premise, the implications of dominance of the ruling party in the current dispensation, from the standpoint of business, is double-edged.
On one hand, a ruling faction of like minds is likely to see that the policymaking arms of government – the executive and the legislature – work hands-in-gloves to expedite policymaking. From the standpoint of corporates, it is essential that the policies put forward are pro-business. The risk arises when the political harmony leads to policies that are unfavourable for businesses, because, in that event, the absence of a mitigating opposing political force to contest and debate such policies or to prevent their enactment and implementation is elevated.

Our view is that, with elections in the rear-view, this second form of political risk is of greater importance in 2020. We also reckon that policy would feature a mix of favourable and unfavourable mix of policies from the standpoint of businesses.

Actions

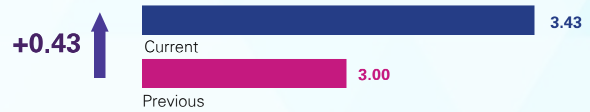
The sensitivity of politics makes hedging against political risks difficult. Foreign investors in any particular jurisdiction are often encouraged to buy political risk insurance. However, the best response to political risk often comes from those who best anticipate political moves that are consequential for their business. Investment in information and intelligence networks are useful in this regard.

4.1.6 Technology infrastructure risk

Overview

This risk examines the inadequate information technology infrastructure and ERP system to effectively and efficiently support the current and future needs of businesses.
Financial Services Industry participants in 2020 Risk Survey see cyber-security as a number 2 risk facing the industry today. The Technology infrastructure risk can therefore be considered highest in this industry. In spite of huge investments by banks into upgrading and acquiring new digital technology tools like cloud computing, artificial intelligence and diverse software to secure their position from the impending threat from Fintech companies, long queues still abound in our banking halls.

Risk Score in Survey



The analysis of the 2020 Risk Survey by industries revealed that the Technology, Media and Telecommunication Industry consider Technology Infrastructure risk as number 2 risk. These sectors rely heavily on technology advances to improve operational efficiency and increase their competitiveness.
Moreover, 96% of respondents across all industries deemed the inadequacy of technology infrastructure and systems to have some form of negative impact on the current and future needs of their business
81% of the respondents from Financial Services Industry deemed technology infrastructure risk as having extreme or major impact on their businesses. The impact of technology infrastructure risk could be enormous and could vary from one sector to the other; depending on the level of reliance of critical business operations on technology infrastructure. Unavailability of critical data for decision-making, unavailability of the critical business systems such as ERP leading to operations shut down, degradation of IT service due to inadequate capacity leading to customer dissatisfaction, data breaches and compromise leading to regulatory fines, technology misuse or abuse, system malfunction due to malicious configurations, etc. are some of the potential impacts of improper management of technology infrastructure risks.

In the recent years, the growing adoption of cloud-based systems has introduced a new dimension into the technology infrastructure risk. According to Gartner, the worldwide public cloud services market is forecast to grow by 17% in 2020 to $266.4 billion, up from $227.8 billion in 2019. Also, in a recent KPMG/ Oracle Cloud Threat Report, nearly half (49%) of all respondents expect to store most of their data in a public cloud by 2020. This growing adoption globally is certainly not without its attendant risks. There have been growing incidents of service unavailability, data breaches, misconfiguration of cloud systems, third-party exposures, use of unapproved cloud services, to mention a few.

Inadequate cloud governance as well as non-existent cloud migration strategy is aggravating cloud infrastructure risk in many organisations. Hence, there is a need for organisations to develop a clear strategy for cloud adoption and establish relevant cloud governance structure in order to derive optimal benefits from investments in cloud solutions

Actions

We propose that companies consider the following:

1. Develop a technology strategy that aligns with business objectives
2. Establish adequate governance for technology infrastructure management and investment
3. Develop and implement a technology risk management framework
4. Establish a cloud adoption strategy as well as cloud governance framework to guide the journey to cloud

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4.1.7 Customer attrition risk

Overview

This risk examines the loss of key customers and patronage resulting perceived or actual inability to meet customers' expectations. Participants in 2020 Risk Survey see customer attrition as the seventh most important risk facing organisations today. The risk was ranked at number 6 from 2018, before slipping to number 7 in 2020.

Risk Score in Survey

Analysis

With digital and emerging technologies continuing to rapidly reshape the business landscape, customer expectations and behaviour are also evolving rapidly and often faster than businesses can respond. Customers expect organisations to keep up with their demands and will often compare their experiences across sectors using the best experience as the baseline for all others. This customer behaviour coupled with the emergence of ecosystem-driven business models (that go beyond their core offerings) presents a heightened risk of attrition for businesses.

Additionally, the shape of the economic landscape over the last few years has made customers more sensitive to the quality of experience they receive and their perception of value for money. In some sectors, businesses face a higher level of attrition risk and decline in brand loyalty.

Our survey reveals that businesses in the technology, media and telecommunication industry consider customer attrition as a most important risk they face this year. This is hardly surprising given the very competitive nature of the telecoms sector and the difficulty for players to achieve differentiation of core product offerings.

Actions

We have identified some key priorities to address customer attrition risk that businesses face.

- Businesses must set out a clear vision for customer experience, invest in understanding the value drivers for customers and build them into the propositions and experiences they offer. This requires the integration of voice of the customer data with business and operational metrics to create a continuous and comprehensive view of the customer journey that ensures businesses keep in step or ahead of customer expectations.

- It is important to align the organisation around the customer experience vision. Delivering a valuable customer experience that prevents or minimises attrition risk spans the enterprise, not just one department. It also involves a lot more than designing the front-end experience, businesses need to consider it from all angles across the enterprise.

- Leverage digital and emerging technologies such as artificial intelligence and machine learning to improve customer experience and drive internal efficiencies across the business. Digital transformation must cut across all parts of the business.

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4.1.8 Talent shortage/attrition risk

Overview

This risk examines the level and quality of skills, knowledge and experience required to achieve business objectives and/or sustain growth. Participants in this survey see shortage of skilled work and talent as the eighth most important risk facing organisations today. This is the first time this risk is coming up as a top 10 business risk and it goes to show how businesses are beginning to understand the importance of their employees in achieving business goals and objectives.

Risk Score in Survey

Analysis

About 23 percent of Nigeria's labour force population are unemployed as they lack the relevant skills to fill vacant jobs. Changing skills in demand, increased talent mobility, shifting employee expectations and the integration of human and intelligent automation are reinventing the workplace. Studies estimate that by 2030 the demand for a skilled workforce will exceed supply worldwide, possibly leading to an overall global talent shortage of more than 85.2 million people. In Nigeria, two key factors contribute to the widening talent gap:

- **Quality of Education:** Nigeria's educational system is riddled with a multitude of challenges. Decades of under-funding, regular strikes by academic and non-academic staff and a curriculum that is yet to onboard the technological disruption have churned out graduates who lack the requisite skills needed by employers in today's labour market.

- **Talent Migration:** The brain drain of highly skilled Nigerians to countries such as Canada, the United Kingdom and Australia has accelerated in recent years, especially against the backdrop of the economic and political situation in the Country. The talent exiting the Country mainly comprise mid-level professionals and this forceful exit with a non-producing pipeline is fuelling the shortage of skilled workers in businesses.

Actions

In response to the changing world of work and talent shortages, businesses must adopt a strategic, agile approach for managing talent in order to remain competitive and profitable. We propose companies consider the following:

1. Clearly define and execute a succession management plan in order to ensure a ready pool of talent for critical roles at any point in time. To drive this, the Board of Directors must conduct a periodic review of successor development and hold Executives accountable for successor readiness by including it as KPI for incentive-based compensation
2. Enhance the employee experience in order to attract and retain key talent. Businesses need to be deliberate about the design of their employee experience if they are to attract and retain the most talented people. When asked about priorities considering digital disruption and implications of AI, redefining the employee experience to create greater engagement, motivation, and productivity of the workforce is one of the top priorities for 60% of HR executives
3. Design learning and development solutions that equip talent with the emerging skills of the future. Companies must leverage digital and emerging technologies such as virtual reality, artificial intelligence, machine learning and biometrics to take learning to the next level.

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4.1.9 Business continuity risk

Overview

Organisations globally are faced with countless threats of potentially disruptive and unexpected adverse developments in their operating environment, including pandemics, wars, terrorist attacks, weather, natural disasters and cyber attacks. Those charged with the management of organisations are responsible to customers and shareholders to ensure that the business can withstand adverse events. Beyond simple survival, companies also need to be prepared to manage disputes and other complexities that arise in the aftermath of a crisis.

Risk Score in Survey

Analysis

For instance, the occurrence of COVID-19 makes it challenging for organisations to continue to operate in a normal manner at locations where they are based. In realisation of these potential threats to business, it has become necessary for corporates and other organisations to design and implement contingency plans to enable them deal with those unforeseen developments as and when they occur, with a view to ensuring that they are able to resume their operations in a cost-efficient manner within the shortest possible time. 80% of respondents from this year's 2020 Risk Survey classified business continuity risk as having a major or extreme impact on their businesses.

A broad classification into physical damage and non-physical damage business interruptions grants an understanding of the complexity and size of the risks. While physical damage-based interruptions are relatively straightforward and directly related to physical damage of facilities employed in production, non-physical damage interruptions usually refer to industries reliant on technology or third party relationships for delivering services. The latter type of disruption could result from pandemics, electricity blackouts, government action, labour action and IT related factors, such as internet access disruptions, data breaches, cyberattacks, and software errors.

Although business interruption was ranked at number 9 in the 2020 Risk Survey, we believe that organisations should treat this as a priority considering that the threat has evolved rapidly over the past years, with COVID-19 pandemic being the latest as at March 2020. Business contunity risk can impact the profitability and cashflow for an organisation due to an immediate decline of revenue, and ultimately the going concern of a business if not adequately managed.

Other emerging incidents include cyber-attacks, trade wars, internal data breaches and unplanned telecommunications outages, amongst others . These disruptions may not cause any physical damage, but they can result in similar, if not greater, financial losses. The likelihood of each of these incidences disrupting the normal operations of the business, need to be regularly assessed and prepared for; as each incidence has the ability to impact industries and business types differently.

Actions

We recommend companies consider the following:

1. Perform periodic Risk Assessment (RA) and Business Impact Assessment (BIA) to understand the company's overall risk picture and figure out the probability of the risk events and the amount of potential losses.

2. Develop and implement an enterprise risk management framework, business continuity management strategy, crisis management and relevant recovery plans.

   From an operating model point of view, this may require companies to develop and activate enabling policies, processes and systems that will adequately support remote working and mission-critical activities.

   From a business model perspective, this may require companies to restructure existing credit terms, review their supply chain to ensure alternatives for single points of failure, re-engineer their sales and promotional initiatives to generate revenue and stimulate cash flow, encourage innovative service delivery.

3. Build capacity in business continuity management and periodically exercise the recovery plans

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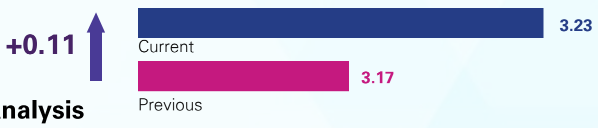
4.1.10 Governance risk

Overview

This risk examines the ineffective frameworks, processes or practices by which the organisation is controlled and directed.

In today's business world, sound corporate governance system has become a strong determinant of companies' economic fortune, operational sustainability and longevity. It also sets the tone for the relationship between the board of directors, management, employees and other stakeholders including the regulators. Furthermore, it provides a framework in promoting the triple objective of transparency, fairness and accountability leading to profit maximisation, promoting investors' confidence and ultimately creating jobs.

Risk Score in Survey



Analysis

Participants in the 2020 Risk Survey see governance as the number 10 risk facing organisations today. This may have resulted from the emergence of the Nigerian Code of Corporate Governance (NCCG) in 2019 which requires Nigerian companies to comply with a number of corporate governance principles and disclose how they have complied.

Following further analysis of the results, it is not surprising that the risk is absent from the top ten risks of listed companies and appears as number 10 for nonlistedcompanies. This may have resulted from the fact that listed companies have been subjected to certain governance requirements, prior to the advent of the NCCG. When we break it down by geographically, Nigerian companies with international operations rank the risk as number 8 while multinational companies rank the risk as number 6. This is hardly surprising because companies with multinational operations will need to have a more independent board and governance process.

Globally corporate governance has acquired a crucial role in determining the prospects for successful capital raise especially listed entities and in the pricing of shares of companies. This stems from the fact that companies with high standard of corporate governance tend to be better managed and are more attractive to investors than those with struggling corporate governance that are material to the stakeholders. Ensure all disclosures, communication and reporting are accurate, easily understood, clear and unambiguous to stakeholders especially equity owners and also by an independent auditor.

Actions

Therefore, we recommend companies consider the following:

1. Developing and implementing a comprehensive corproate governance framework that defines board structure and operations i.e. the way and manner with which the board organises itself to enable it fulfill its mandate. This comprises developing the board and board committee charters, setting up the right size and type of board committees, appointing independent directors, defining oversight roles & responsibilities and developing governance policies that are consistent with leading practices. This governance policies include those that will help guide directors' appointment, evaluation, remuneration, management succession planning, amongst others.

2. Developing and implementing an adequate framework to govern business ethics and engender transparency. This includes processes to effectively manage conflict of interest, related party transactions, whistle blowing code of conduct and disclosures.

3. Establishing a business assurance framework that helps to provide assurance to the board and management on the adequacy and operating effectiveness of controls put in place to mitigate the organisation's risks. This includes establishing processes around internal audit, risk management, testing controls over financial reporting, sustainability assurance, etc.

4. Developing a comprehensive delegation of authority framework that adequately delineates financial and non-matters matters reserved for the board, board committees and those dedicated management, to avoid any ambiguity in the way and manner and organisation is run. It also helps to promote a sustainable way for management to operate an entity with sufficient recourse to the Board where required in line with the peculiarities of the organisation.

5. Conducting an annual performance evaluation of the board, board committees and individual directors, for the collective effectiveness. Similarly, a corporate governance review review should be done to compare the organisation's actual governance practices against leading practices to identify and implement opportunities for improvement.

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4.2 Dimensions of the Top Risk

From an Industry perspective, we present the analysed responses from the 5 industry groups that were surveyed. This is to enable us determine whether the industries rank risks differently. There is some consistency, however, as two risks in KPMG's top 10 list are cited across all industries – foreign exchange volatility and regulatory.
We have provided below an overview of the differences in the perspectives of the executives across the industry lines.

Snapshot of the Top 10 risks by Industry

S/N	Consumer Industrial Markets Industry	Energy Industry	Financial Services Indusrty	Infrastructure, Government & Healthcare	Technology, Media & Telecommunications
1	Fiscal & monetary policy	Commodity price volatility (Crude oil)	Regulatory	Foreign exchange volatility	Customer attrition
2	Foreign exchange volatility	Security	Technology infrastructure	Political	Cyber-security
3	Political	Health, safety & environmental management	Cyber-security	Regulatory	Foreign exchange volatility
4	Customer attrition	Regulatory	Fiscal & monetary policy	Security	Asset misappropriation and fraud
5	Regulatory	Fiscal & monetary policy	Political	Disruptive business model	Shortage of skilled workers and talents
6	Sourcing & Procurement	Business Interruption	Foreign Exchange volatility	Commodity price Volatility (Crude oil)	Regulatory
7	Cyber-security	Political	Customer attrition	Health, safety & environmental management	Third-Party alliance or partnership
8	Asset misappropriation and fraud	Tax exposure	Asset misappropriation and fraud	Governance	Competition
9	Talent shortage/ attrition	Money laundering, bribery & corruption	Talent shortage/ attrition	Business continuity	Technology infrastructure
10	Security	Foreign exchange volatility	Disruptive business model	Brand and reputation	Business continuity

4.2.1 Consumer and Industrial Markets Industry

Fiscal & monetary policy risk in addition to foreign exchange volatility tie for the top risks in this industry, both with an independent score of 3.79.
While foreign exchange risk has reduced considerably over the last two years reflecting improvement in the ease of access to foreign exchange by manufacturers, the fiscal and monetary policy risk on the other hand has increased. Furthermore, political risk featured in the top 5 risks for the industry, displacing supply chain disruptions from the last survey. This may not be unconnected to 2019 being an election year for Nigeria.

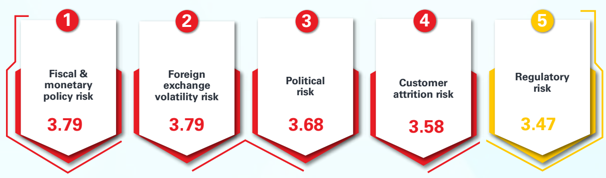


Table 1: Top 5 risks in the consumer and industrial markets industry

4.2.2 Energy and Natural Resources Industry

The volatility of crude oil price which determines revenues, featured as the top risk for this sector with a score of 4.06 which translates as a high risk. In addition, security risk which stems from unrest in the oil producing regions occupies the second spot as a high-risk factor for the industry. It is notable that the risk score for security sustained a minimal change from the last survey indicating little to no change to this factor of insecurity as it affects the industry.

Health, Safety and Environmental Management which is to a large extent integral to the practices of players in the industry occupied the third spot with a score of 3.75 while Regulatory risk and fiscal/monetary policy risk occupied the fourth and fifth spots.

1	2	3	4	5
Commodity price volatility (crude oil) risk	Security risk	Health, safety & environmental management risk	Regulatory risk	Fiscal & monetary policy risk
4.06	3.88	3.75	3.69	3.63

Table 2: Top 5 risks in the energy and natural resources industry

4.2.3 Financial Services Industry

At the top of the spectrum for the financial services industry was regulatory complexity and uncertainty with a score of 3.7 which is as a result of the government's drive to boost revenues, align finance laws to global best practices, and institute pro-business incentives in the 2019 Finance Act, but more importantly the significant measures of monetary/banking system regulations introduced in the recent past by the Central Bank of Nigeria, which is the principal regulator of banks.

Furthermore, the growth of the industry and the inevitable adoption of technology to scale operations has exposed it to major risks making executives concerned about technology infrastructure and cyber-security which rank second and third respectively for the industry.

Finally, political risk occupied the fifth spot with a score of 3.44 which implies a medium impact perception by executives. Being an election year, it was a commonality in the top ten risks for 4 out of the 5 industries assessed in this survey.

1	2	3	4	5
Regulatory risk	Technology infrastructure risk	Cyber-security risk	Fiscal & monetary policy risk	Political risk
3.70	3.65	3.54	3.52	3.44

Table 3: Top 5 risks in the financial services industry

4.2.4 Infrastructure, Government and Healthcare Industries

The slots for the top 5 risks in this sector was occupied by five risk areas that were all perceived to have a high impact. The top spot was occupied by foreign exchange volatility and political risks, both with a score of 3.83 respectively primarily stemming from the import-based expenditure of the sector and the uncertainty associated with an election year.
The third, fourth and fifth spots which include regulatory, security and disruptive business model were equally ranked as high risks by executives.

1	2	3	4	5
Foreign exchange volatility risk	Political risk	Regulatory risk	Security risk	Disruptive business model risk
3.83	3.83	3.67	3.67	3.67

Table 4: Top 5 risks in the infrastructure, government and healthcare industries

4.2.5 Technology, Media and Telecommunications Industries

Customer attrition is the top risk for the industry group, with a risk score of 4.54 representing a high risk for the industry. This is attributable to the availability of alternatives to services provided by the industry and low switching cost. This is closely followed by cyber-security which is inevitably a high-risk factor due to the dependence of the industry on information technology thereby creating exposure to increasingly sophisticated cyber-attacks.

Notable amongst the top risk factors is the industry's exposure to foreign exchange volatility due to the fact that equipment, infrastructure and, occasionally, talent is sourced internationally. Finally, the shortage of skill required for the industry is perceived as a risk factor as the sector increasingly requires specialised skillset.

1	2	3	4	5
Customer attrition risk	Cyber-security risk	Foreign exchange volatility risk	Asset misappropriation and fraud risk	Talent shortage/ attrition risk
4.54	4.31	4.08	3.92	3.92

Table 5: Top 5 risks in the technology, media and telecommunications industries

5.0

Way Forward

5.1 Risk Drivers

In this section, we asked respondents to select amongst some risk factors, the drivers that may have given rise to risks that they face. The factors presented to the respondents include the following:

- Technological changes
- Changes in consumer preference/demand or lifestyle
- Pressure from regulators, regulatory compliance requirements
- Greater complexity of the value chain (customers, vendors, JV partners)
- Recent reputational events such as product failure, fraud, governance failure, etc.
- Corporate restructuring, M&A activity
- Business transformation and expansion initiatives (off-shoring, outsourcing, etc.)
- Uncertainty caused by recession, financial crisis etc.
- Demands from investors for greater disclosures and accountability
- Unstable geo-political environment
- Business model disruption
- Competition
- Emigration of human resources

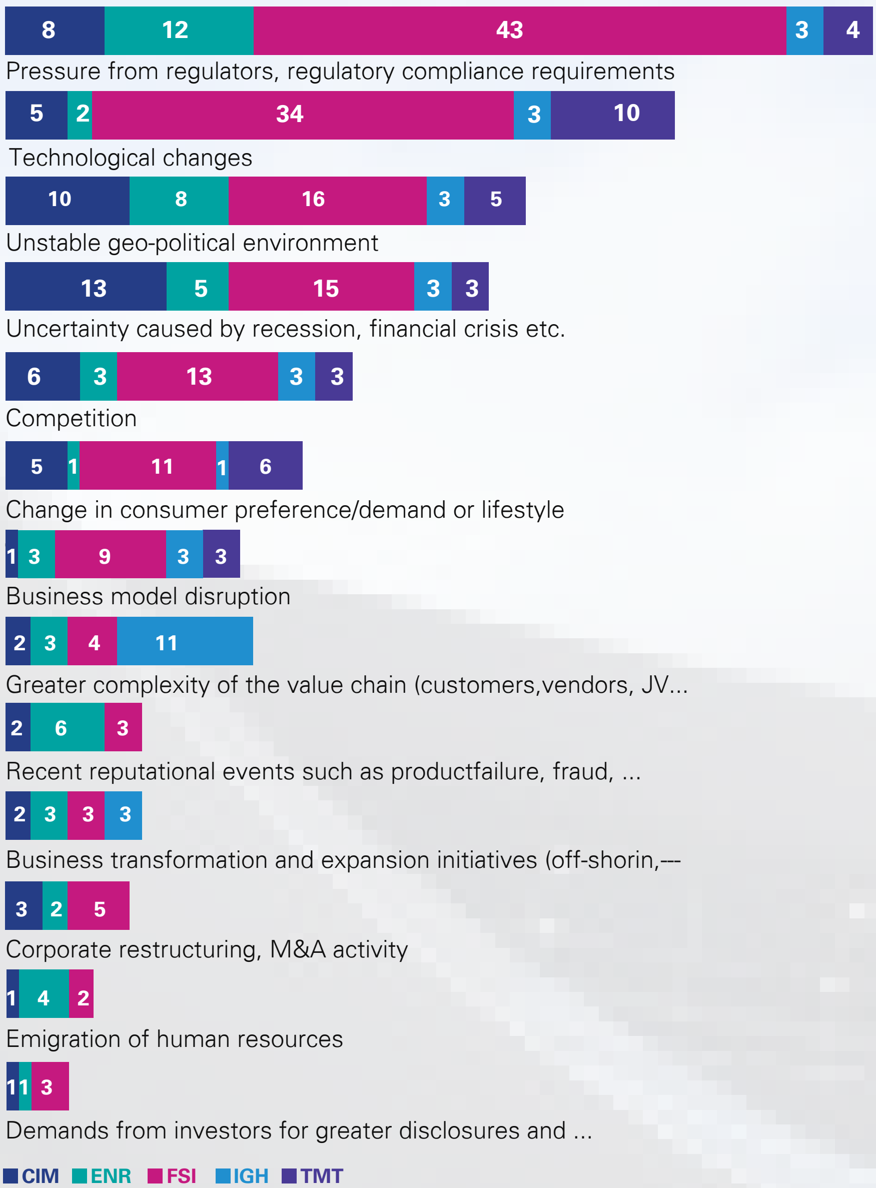
We have examined the responses received from our respondents both form an Industry and designation perspective and the following are our findings:

a. Industry Perspective

The top three (3) factors from an industry perspective that accounted for the key drivers of risk are the following and these drivers resonate with the risks that emerged top ten (10) from the risk survey:

1. Pressure from regulators and regulatory compliance requirements
2. Technological changes
3. Unstable geo-political environment

Risk Drivers: Industry Perspectives



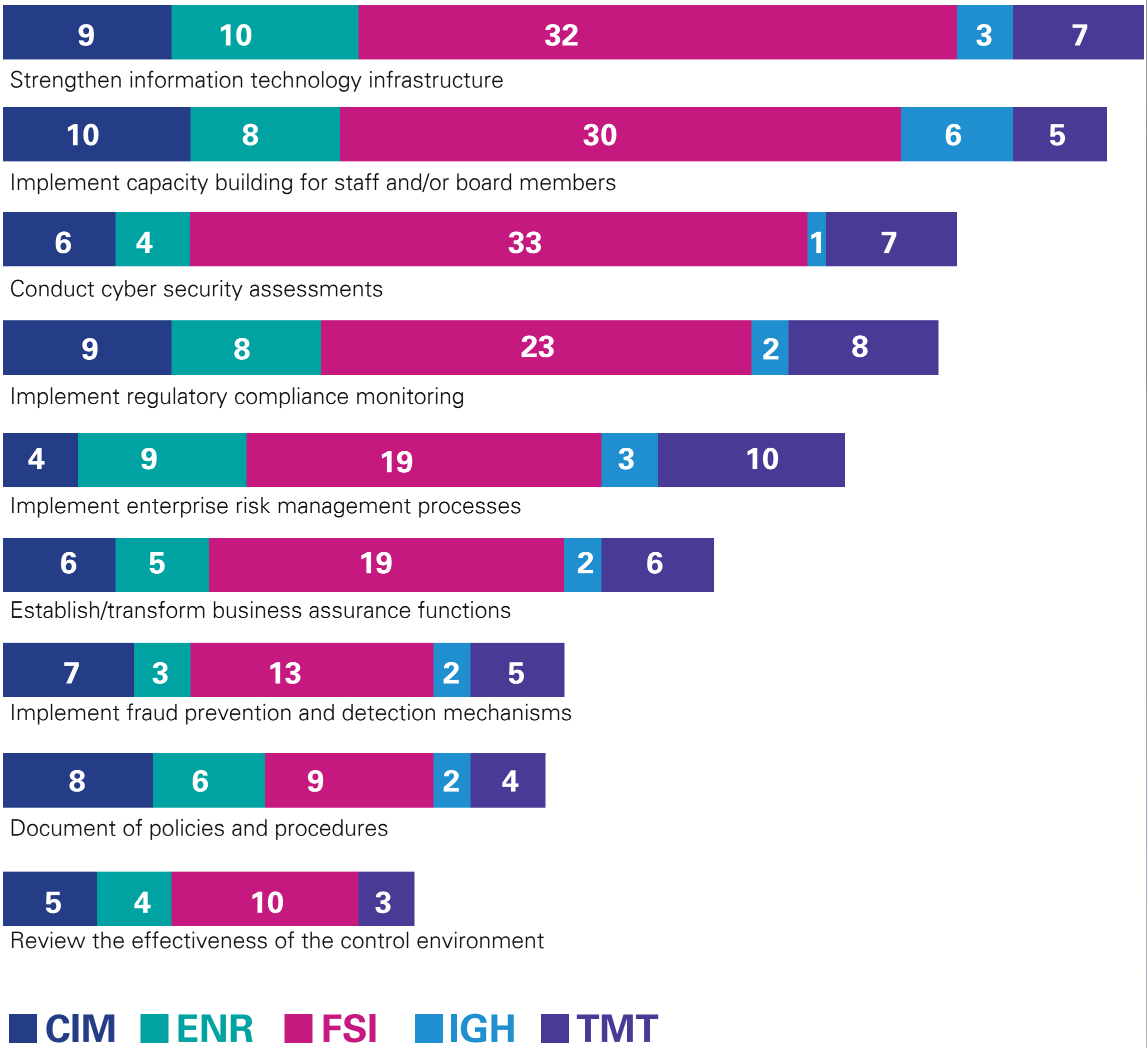
5.2 Strategic Actions for Risk Management

In light of the recent happenings in Q1 2020, all organisations are encouraged to develop and implement a robust enterprise risk management framework that also covers business continuity and disaster recovery planning. Where this has already been developed, organisations should seek periodic independent assurance on its effectiveness. All organisations are also encouraged to refer to our weekly business impact series on COVID-19 for more information on topical issues arising from the pandemic and suggestions on how to manage them.

During the survey prior to COVID-19, we found out from participants some of the key actions that they would embrace in managing risk within their organisations. Below were the top 5 initiatives that executives noted that they would require in manageing their risks:

1. Strengthen information technology infrastructure or governance
2. Implement capacity building for staff and/or board members in areas relating to governance, risk, regulatory compliance, finance or accounting
3. Conduct cyber-security assessments and implementing the relevant remediation steps
4. Implement regulatory compliance monitoring and management processes for existing and emerging regulations such as Nigerian Code of Corporate Governance, IFRS 9, etc.
5. Implement enterprise risk management processes.

Below are the details:

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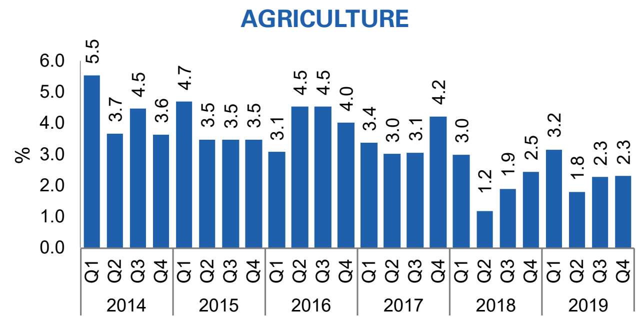
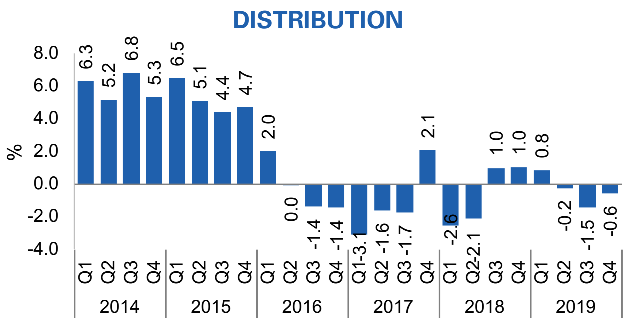
APPENDIX ONE

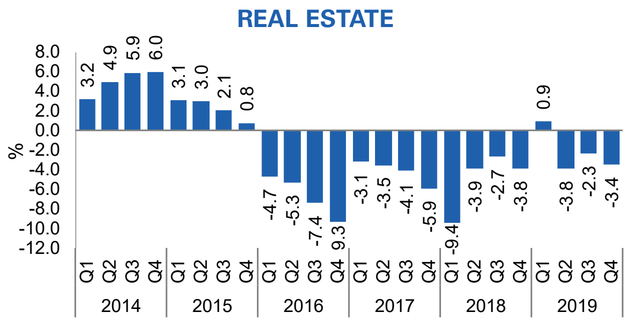
GDP Growth per Sector

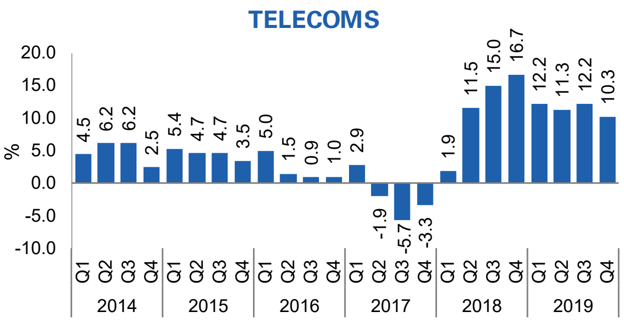
Embedded in disaggregated data on GDP is a clear indication of the fragility of the recovery.As of Q3, 27% of the economy was contracting (vs 30% in Q2), 47% was growing below 3%, which is a population-based minimum threshold for fast growth (vs 42% in Q2). Only 25% of the economy was growing at rates above 3%.

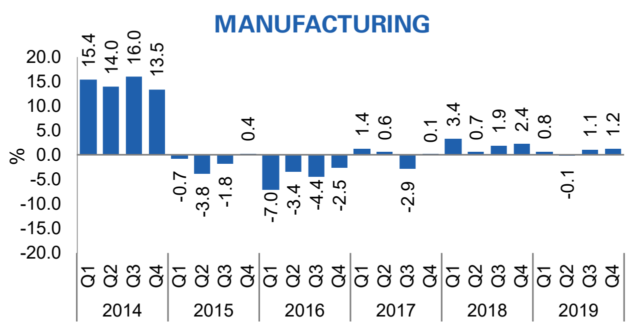
Of the economy's big 6 sectors (which account for 76% of GDP), two – Real Estate and Distribution – are still contracting. Agriculture and Manufacturing are growing slowly. The Oil & Gas sector returned robust growth rates in Q2 and Q3. The Telecoms sector, growing at double-digit rates, is the rare point of light among the major sectors and the principal sectoral contributor to growth.

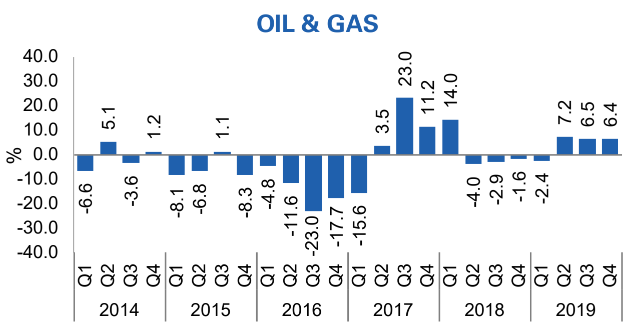












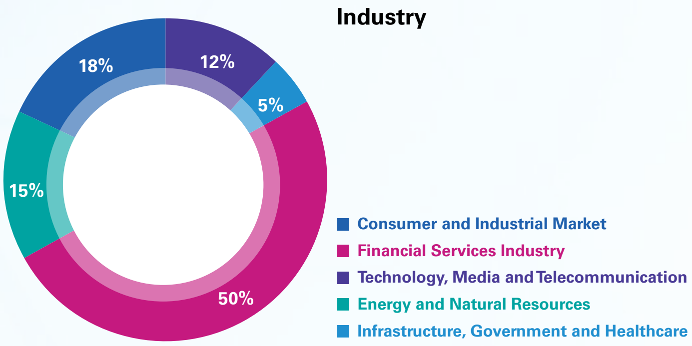
APPENDIX TWO

Profile of Respondents

The respondents comprised a mix of 108 business executives. The respondents' profile has been analysed across the following dimensions:

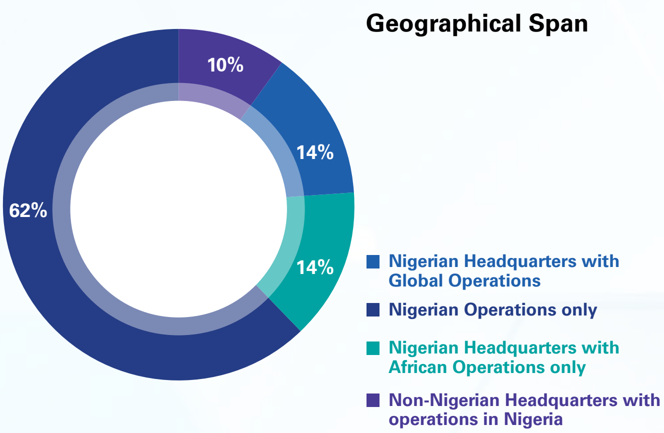
A. Survey Respondents by Industry

50% of the respondent work in the financial services industry, 18% in the consumer and industrial market, 15% in energy and natural resources, 12% in technology, media & telecommunications, and 5% in infrastructure, government & healthcare.



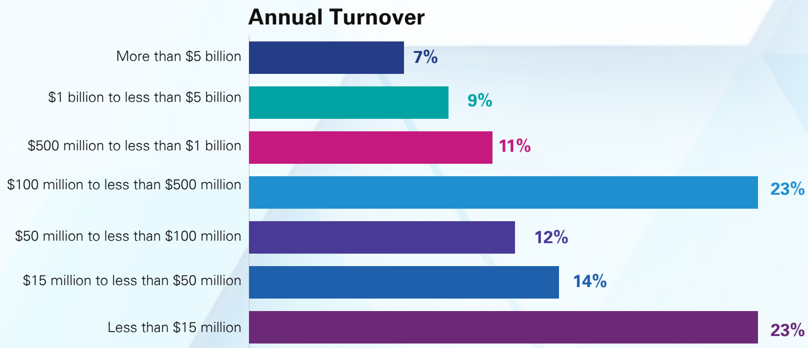
B. Survey Respondents by Geographical Span

About 90% are Nigerian businesses (62% with exclusive Nigerian operations and 14% apiece with continental and global operations respectively) while 10% are multinational companies (foreign-owned).



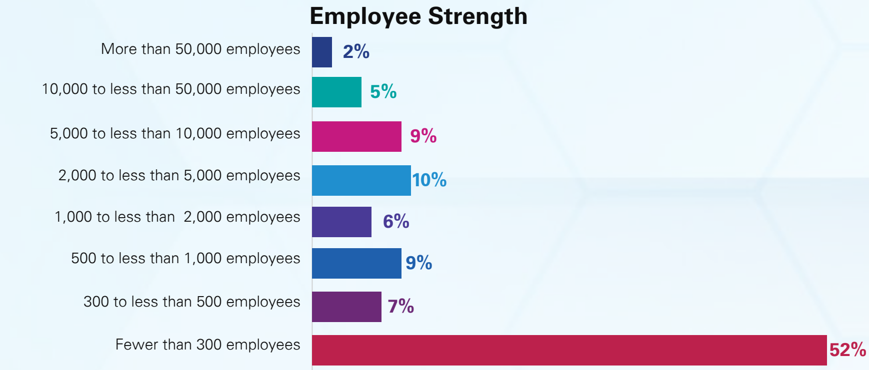
C. Survey Respondents by Annual Turnover

A significant portion (50%) of respondents are in organisations whose turnover exceeds $100 million annually.



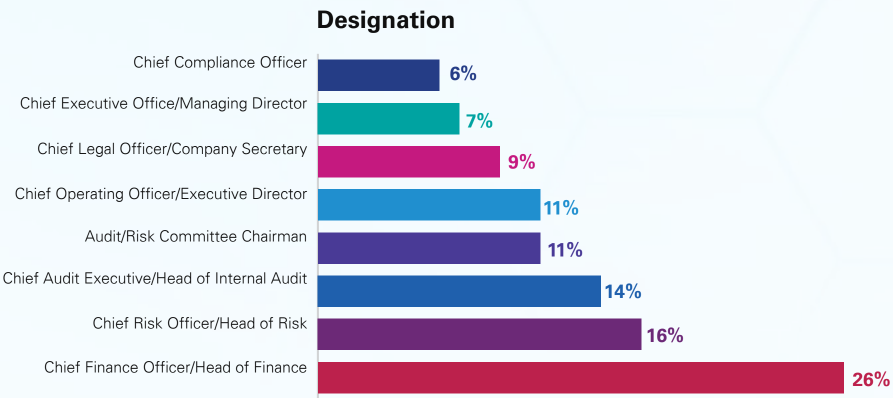
D. Survey Respondents by Number of Employees

About 31% of the respondents are in organisations that have over 1,000 employees



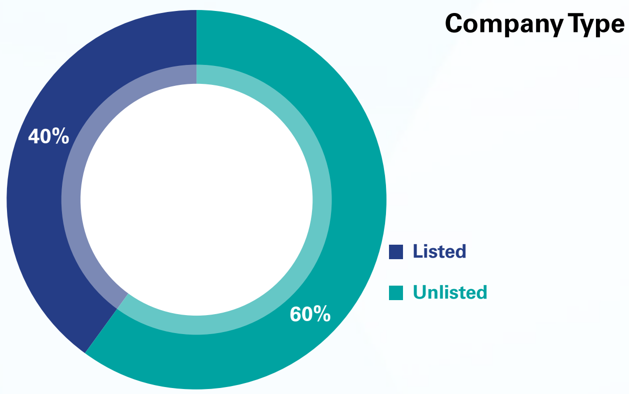
E. Survey Respondents by Designation

26% of the respondents are Chief Finance Officers in their organisations, followed by 16% who are Chief Risk Officers and 14% who are Chief Audit Executives/Head of Internal Audit. 11% are Audit/Risk Committee Chairmen, 11% are Chief Operating Officers, 9% are Chief Legal Officers/Company Secretaries, 7% are Chief Executive Officers/Managing Directors, and 6% are Chief Compliance Officers.



F. Survey by Ownership Structure

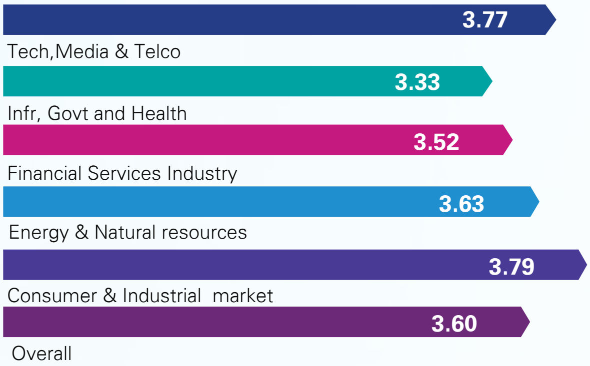
A considerable number of the respondents (60%) work in unlisted companies, while 40% work in listed entities



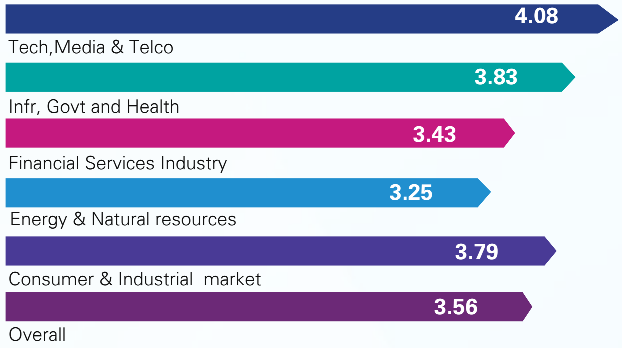
Industry insights

An overview of the top 10 business risks in 2020 – 2021 by Industry are as detailed below:

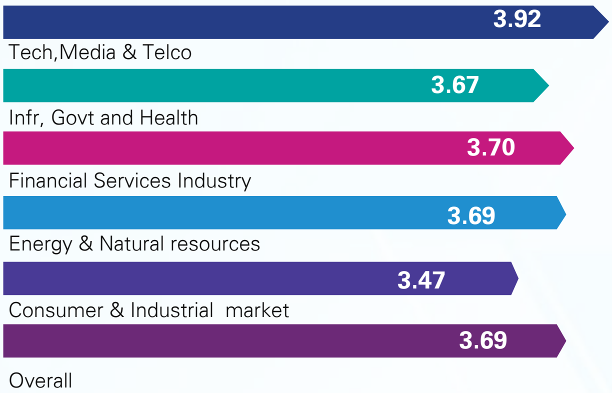
Fiscal and Monetary Policy



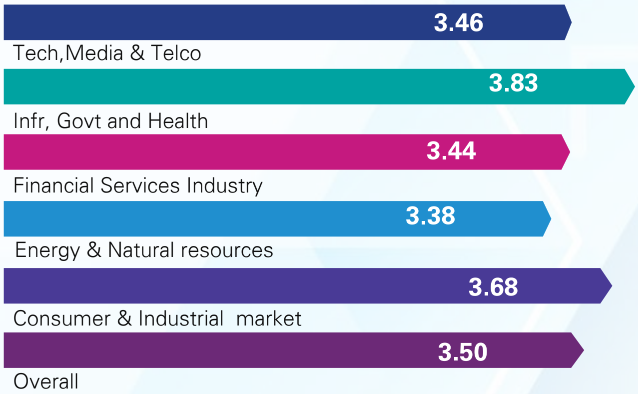
Foreign Exchange Volatility



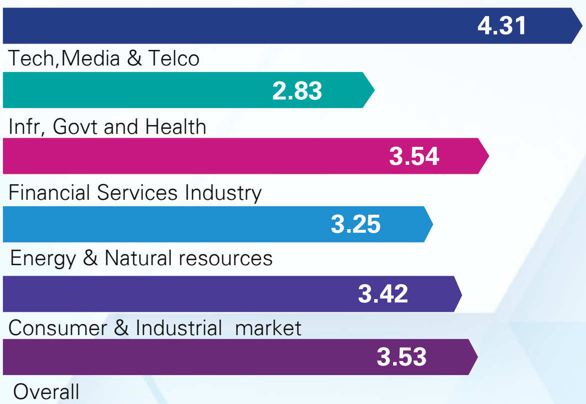
Regulatory



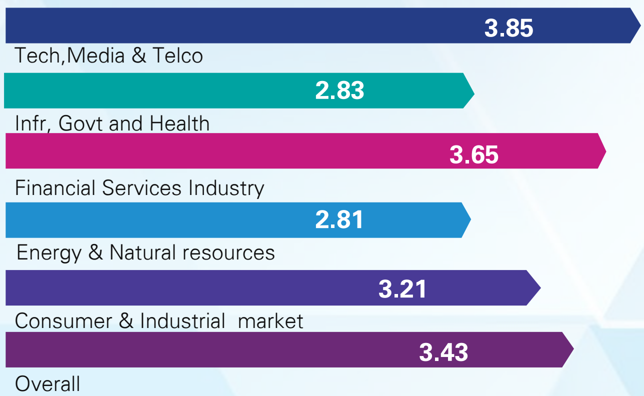
Political



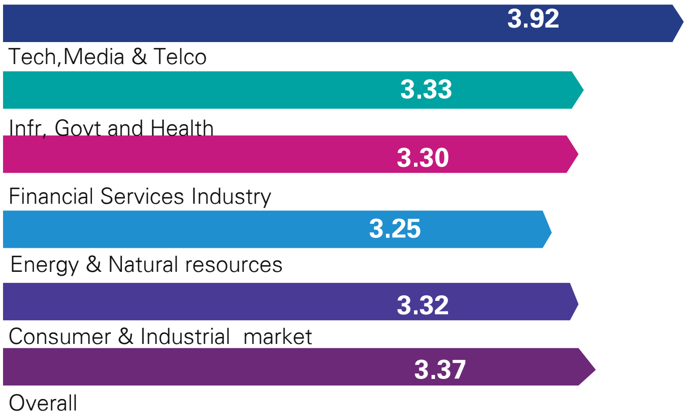
Cyber-Security



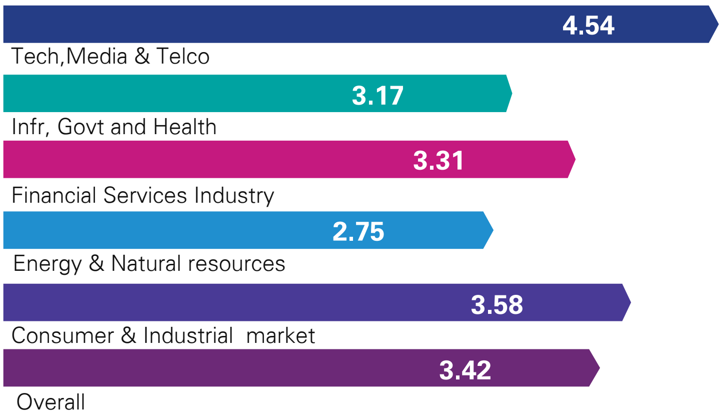
Technology Infrastructure



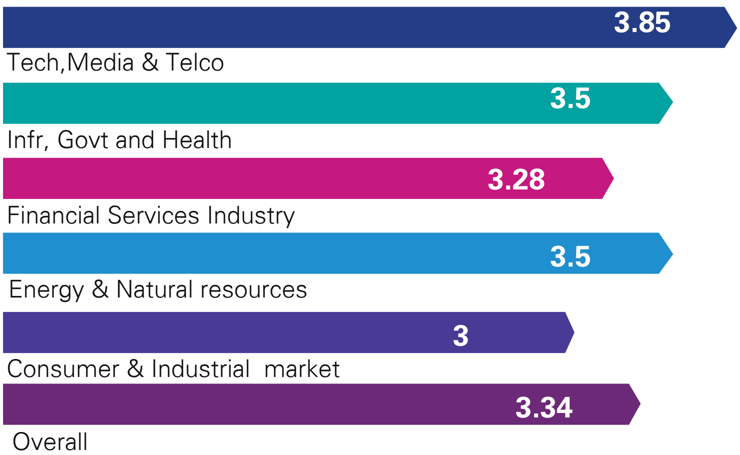
Talent Shortage/Attrition



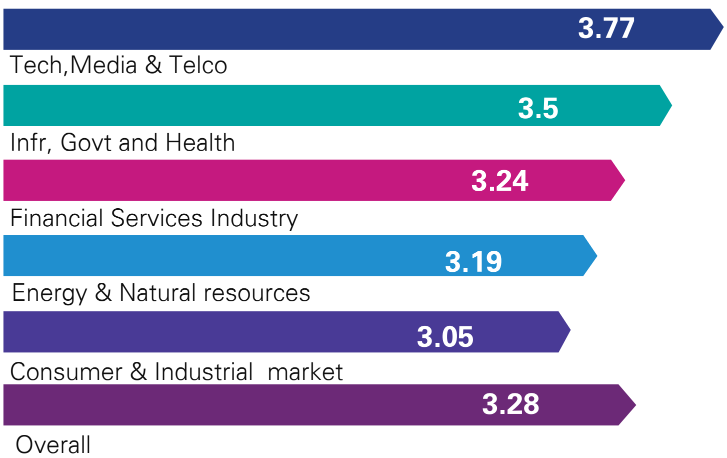
Customer Attrition



Business Continuity



Governance



APPENDIX TWO

1. Risk Card – Industry

a) Consumer & Industrial Markets

1 Fiscal & monetary policy risk 3.79	**2 Foreign exchange volatility risk 3.79**	**3 Political risk 3.68**	**4 Customer attrition risk 3.58**	**5 Regulatory risk 3.47**
Loss of business resulting from the implementation of unfavourable fiscal and monetary policies	Foreign exchange scarcity and fluctuations	Political uncertainties arising from actions of Governmental (local, state or federal)	Loss of key customers and patronage resulting from perceived or actual inability to meeting customers' expectations	Changes in regulatory or legislative policies or level of compliance that may threaten the company profitability or result in sanctions
6 Sourcing & procurement risk 3.47	**7 Cyber – security risk 3.42**	**8 Asset misappropriation and fraud risk 3.32**	**9 Talent shortage/ attrition risk 3.32**	**10 Security risk 3.21**
Ineffective procurement in sourcing goods and services resulting in low value for money or higher expense to income ratio	Unauthorised access gained to the Company systems and network devices, intentional manipulation of IT programs and data, usage of stolen digital intellectual property	Potential concealment or misappropriation of cash and other assets by management, employees or third parties against the company	Inadequate skills, knowledge and experience required to achieve its business objectives and/or sustain growth	Insecurity arising from acts of terrorism or insurgency, vandal-ism and kidnapping

b) Energy & Natural Resource

1 Commodity price volatility (crude oil) risk 4.06	**2 Security risk 3.88**	**3 HSE risk 3.75**	**4 Regulatory risk 3.69**	**5 Fiscal & monetary policy risk 3.63**
Volatility in the global price of crude oil and gas	Insecurity arising from acts of terrorism or insurgency, vandalism and kidnapping	Inadequate HSE practices which could damage lives, properties and surrounding environment	Changes in regulatory or legislative policies or level of compliance that may threaten the company profitability or result in sanctions	Loss of business resulting from the implementation of unfavourable fiscal and monetary policies
6 Business continuity risk 3.50	**7 Political risk 3.38**	**8 Tax exposure risk 3.32**	**9 Money laundering, bribery & corruption risk 3.31**	**10 Foreign exchange volatility risk 3.28**
Unavailability of an effective plan for ensuring business continuity and adequate management in the event of a crisis. This could be due to natural disasters	Political uncertainties arising from actions of Governmental (local, state or federal)	Inadequate tax strategy or remittances thereby resulting in higher tax liabilities	Reputational, regulatory or financial risk arising from the company being involved in/ used as a conduit for money laundering or corrupt activities	Foreign exchange scarcity and fluctuations

c) Financial Services

1 Regulatory risk 3.70	**2 Technology infrastructure risk 3.65**	**3 Cyber – security risk 3.54**	**4 Fiscal & monetary policy risk 3.52**	**5 Political risk 3.44**
Changes in regulatory or legislative policies or level of compliance that may threaten the company profitability or result in sanctions	Inadequate information technology infrastructure and ERP system to effectively and efficiently support the current and future needs of the business	Unauthorised access gained to the Company systems and network devices, intentional manipulation of IT programs and data, usage of stolen digital intellectual property	Loss of business resulting from the implementation of unfavourable fiscal and monetary policies	Political uncertainties arising from actions of Governmental (local, state or federal)
6 Foreign exchange volatility risk 3.43	**7 Customer attrition risk 3.31**	**8 Asset misappropriation and fraud risk 3.30**	**9 Talent shortage/ attrition risk 3.30**	**10 Disruptive business model risk 3.28**
Foreign exchange scarcity and fluctuations	Loss of key customers and patronage resulting from perceived or actual inability to meeting customer expectations	Potential concealment or misappropriation of cash and other assets by management, employees or third parties against the company	Inadequate skills, knowledge and experience required to achieve its business objectives and/or sustain growth	Rapid change in technologies and innovations may negatively impact the company's competitive advantage and business model. For example, digitisation, fintech, blockchain, robotics, drones, etc.

d) Technology, Media and Telecommunications

1 Customer attrition risk 4.54	**2 Cyber – security risk 4.31**	**3 Foreign exchange volatility risk 4.08**	**4 Asset misappropriation and fraud risk 3.92**	**5 Talent shortage/ attrition risk 3.92**
Loss of key customers and patronage resulting from perceived or actual inability to meeting customer expectations	Unauthorised access gained to the Company systems and network devices, intentional manipulation of IT programs and data, usage of stolen digital intellectual property	Foreign exchange scarcity and fluctuations	Potential concealment or misappropriation of cash and other assets by management, employees or third parties against the company	Inadequate skills, knowledge and experience required to achieve its business objectives and/or sustain growth
6 Regulatory risk 3.92	**7 Third -party alliance or partnership risk 3.92**	**8 Competition risk 3.85**	**9 Technology infrastructure risk 3.85**	**10 Business continuity risk 3.85**
Changes in regulatory or legislative policies or level of compliance that may threaten the company profitability or result in sanctions	Inability to derive optimal value from third-parties (e.g. vendors, distributors, JV partners, licenses)	Uncertainties due to the activities of existing competitors or new entrants to the industry that establish or sustain their competitive advantage and threaten business survival	Inadequate information technology infrastructure and ERP system to effectively and efficiently support the current and future needs of the businesss	Unavailability of an effective plan for ensuring business continuity and adequate management in the event of a crisis. This could be due to natural disasters

e) Infrastructure, government and Healthcare

1 **Foreign exchange volatility risk** **3.83**	2 **Political risk** **3.83**	3 **Regulatory risk** **3.67**	4 **Security risk** **3.67**	5 **Disruptive business model risk** **3.67**
Foreign exchange scarcity and fluctuations	Political uncertainties arising from actions of Governmental (local, state or federal)	Changes in regulatory or legislative policies or level of compliance that may threaten the company profitability or result in sanctions	Insecurity arising from acts of terrorism or insurgency, vandalism and kidnapping	Rapid change in technologies and innovations may negatively impact the company's competitive advantage and business model. For example, digitisation, fintech, block-chain, robotics, drones, etc.
6 **Commodity price volatility (crude oil) risk** **3.50**	**7** **HSE risk** **3.50**	**8** **Governance risk** **3.50**	**9** **Business continuity risk** **3.50**	**10** **Brand and reputation risk** **3.50**
Volatility in the global price of crude oil and gas	Inadequate HSE practices which could damage lives, properties and surrounding environment	Ineffective frameworks, processes or practices by which the organisation is controlled and directed	Unavailability of an effective plan for ensuring business continuity and adequate management in the event of a crisis. This could be due to natural disasters	Activities leading to poor brand performance and marketing operations

II. Top 10 Risks by Geographical Span

S/N	Nigerian Companies with Multinational Operations	Nigerian Companies only	Multinational Companies in Nigeria
1	Cyber-security	Fiscal & Monetary Policy	Foreign Exchange Volatility
2	Technology Infrastructure	Capital Adequacy	Cyber-security
3	Customer Attrition	Liquidity	Regulatory
4	Data Mining & Analytics	Interest Rate	Money Laundering, Bribery & Corruption
5	Data Privacy	Commodity Price Volatility (Crude Oil)	Fiscal & Monetary Policy
6	Capital Adequacy	Commodity Price Volatility (Non-Crude Oil)	Governance
7	Talent Shortage/Attrition	Foreign Exchange Volatility	Customer Attrition
8	Governance	Tax Exposure	Talent Shortage/Attrition
9	Regulatory	Customer Attrition	Corporate Culture & Tone at the Top
10	Competition	Cyber-security	Business Continuity

III. Top 10 Risks by Responsibility

S/N	MD/CEO	Chief Finance Officer	Chief Risk Officer
1	Fiscal & Monetary Policy	Foreign Exchange Volatility	Cyber-security
2	Cyber-security	Regulatory	Regulatory
3	Asset Misappropriation and Fraud	Fiscal & Monetary Policy	Talent Shortage/Attrition
4	Talent Shortage/Attrition	Customer Attrition	Technology Infrastructure
5	Regulatory	Political	Regulatory
6	Brand and Reputation	Talent Shortage/Attrition	Fiscal & Monetary Policy
7	Political	Cyber-security	Third-Party Alliance or Partnership
8	Foreign Exchange Volatility	Security	Customer Attrition
9	Customer Attrition	Commodity Price Volatility (Crude Oil)	Competition
10	Competition	Governance	Data Mining & Analytics

IV. Top 10 Risks based on ownership structure

S/N	Listed	Non – Listed
1	Regulatory	Regulatory
2	Foreign Exchange Volatility	Fiscal & Monetary Policy
3	Cyber-security	Customer Attrition
4	Fiscal & Monetary Policy	Political
5	Political	Foreign Exchange volatility
6	Technology Infrastructure	Technology Infrastructure
7	Talent Shortage/Attrition	Cyber-security
8	Business Continuity	Talent Shortage/Attrition
9	Capital Adequacy	Business Continuity
10	Commodity price Volatility (Crude oil)	Governance

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