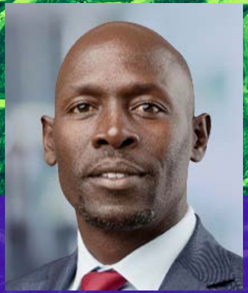

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Redefining resilience for East African insurers

Introduction

Enhanced governance, risk management, and compliance (GRC) is an advanced implementation of GRC that leverages innovative technologies to improve on conventional GRC approaches. It involves the integration of technology solutions such as advanced analytics and artificial intelligence (AI) to improve the agility, flexibility and responsiveness in identifying and managing emerging risks.

The insurance sector in East Africa comprises of large, medium and small organisations, with most of the insurance companies classified as small and medium enterprises (SMEs). According to a 2019 report by the International Finance Corporation on SME finance in Africa[1], SMEs often struggle to acquire adequate resources and expertise to implement GRC frameworks.

Conventional GRC systems are expensive to acquire with average costs ranging from USD 60 000 to USD 400 000, according to a Forrester Wave report[2]. Further, there are additional costs to be incurred relating to customisations, implementation, maintenance, training and software upgrades, amongst others. The high cost of acquiring and maintaining GRC systems has been a hinderance, especially for SME insurers.

With the prevailing economic environment and many competing priorities, the adoption of conventional GRC systems by SME insurers may not be feasible, primarily due to the cost burden. However, there is a market opportunity for more affordable and enhanced GRC solutions.

What is the fuss about enhanced GRC programs?

Enhanced GRC programs not only focus on avoiding future failures, they also seek to augment enterprise strategy, processes and culture in a way that supports proactive and co-ordinated risk management and promotes informed decision making. As organisations seek better decision making that will not only navigate disruptions but also anticipate and profit from them, enhanced GRC programs become more critical.

For insurers that have already implemented conventional GRC programs, there is a case for modernising their current suite of GRC platforms to forward-leaning programs, leveraging enhanced data analytics and AI. Enhanced GRC platforms provide the ability to obtain insights into emerging risks to provide organisations the ability to anticipate, navigate and leverage disruptions. As insurers pursue digital transformation journeys, it is key to have GRC platforms leverage the immense data collected by digitised processes to enhance risk management and decision-making.

1 International Finance Corporation. (2019). SME Finance in Africa 2019: Lessons Learned and Best Practices from IFC's Investments. [online] Washington, DC: International Finance Corporation.

2 Forrester Research. (2018). The Forrester Wave: Governance, Risk, And Compliance Platforms, Q1 2018. Forrester Research, Inc.

The case for building resilience

Enterprise resilience is becoming a key differentiator amongst organisations that proactively anticipate and shape their futures amid disruptions, versus those that simply react to change. Resilient enterprises do not only emerge from disruptions but also take advantage of the disruptions to discover new frontiers. For insurers in East Africa to develop resilient enterprises, there is a need to change the mindset from that of problem-solving to opportunity-seeking. GRC platforms provide a framework in which resilience can be built in an enterprise in a structured way as demonstrated below:

Aspect	Impact on resilience
Governance	Promotes strategic alignment, fosters a culture of resilience, prioritises risk preparedness and embeds resilient thinking.
Risk management	Offers a holistic view of risks by breaking down silos and fostering co-ordinated responses; and allows for the early detection of threats which enable proactive mitigation strategies.
Compliance	Agility in meeting regulatory requirements will become inherent within the process; minimises disruptions from non-compliance issues; guards against data breaches; and protects customer trust and corporate reputation.
Overall impact	Enables informed choices under uncertainty; enhanced leveraging of risk and compliance insights for strategic advantage; robust systems and processes underpinned by a strong foundation capable of withstanding disruptions; and strengthened stakeholder relationships.

Building enterprise resilience using enhanced GRC systems

With the uptake of digital transformation by organisations and increased adoption of technology by consumers, insurers are in an ever-better position to gain in-depth insights and identify vulnerabilities through deep analysis of data from various sources. Previously, this would infer immense investment into data analytics systems and hiring and continuous upskilling of data analytics experts. With the advent of advanced AI algorithms and machine learning, the cost of the implementation of data analytics capabilities can be significantly reduced.

In order to minimise costs around the implementation of data analytics, it is not sufficient to only collect data but also to ensure that data is collected in usable formats which can be guided by an enhanced GRC framework.

The insurance sector in East Africa is relatively developed in taking advantage of advanced data analytics for decision-making and product development purposes. However, there is a gap in the way analytics are utilised across the organisation. For instance, actuarial teams leverage deep analytics to develop products, risk management teams utilise advanced analytics to gain an understanding of risks, and internal audit departments utilise data analytics to test the efficiency and effectiveness of controls. However, the results of data analytics are not shared in a co-ordinated and structured manner. This results in a siloed approach in the way insurers utilise and analyse data data and the insights that it can bring. To build resilience, it is key for insurers to enable a co-ordinated and cross-functional approach in advanced data analytics for risk management and decision-making purposes across the business.

One of the ways of ensuring co-ordinated efforts in data analytics and other resilience initiatives is ensuring there is a robust resilience framework. KPMG's enterprise resilience framework demonstrated on the following page provides a best practice view around the structure that can be implemented to assist in anticipating and flexibly adapting operational strategies, whilst navigating the ever-changing risk landscape with foresight, predictive capabilities and informed decision-making.

Vision and mission

Objective	Agility	Efficiency	Sustainability	Innovation	Adaptability	
Enterprise resilience component	Strategic resilience	Operational resilience	Financial resilience	Organisational resilience	Technological resilience	Reputational resilience
Enterprise resilience workflow	**Strategic alignment** Define strategic objectives and corresponding key factors and activities to support strategic goals.	**Modelling** Identify key uncertainties/metrics. Develop quantitative modelling for predictive analysis and simulations.	**Reporting** Enterprise resilience dashboard as a centralised platform for strategic insights on resilience levels and capabilities.	**Resilience enhancement strategy** Identify strategic options to enhance resilience level and optimal strategy based on return on investment and confidence level.		
Backbone	Data-driven and AI-enabled approach					

Dealing with internal headwinds to enhance GRC solution implementation

It has been observed that GRC systems in the East African market face headwinds from internal stakeholders starting all the way at the top from leadership. Most frequently, GRC proponents cannot convincingly answer the question, “What is the return on investment for GRC?” Despite proponents experiencing difficulties of not having a functional GRC, the return on investment for a GRC system is often unclear and where presented, it is done so unconvincingly, leading to insufficient to no budget allocations.

As we earlier assessed, most insurers in East Africa are classified as SMEs, meaning that these insurers have limited financial muscle for expensive solutions. Due to the competing realities for finances, proponents of GRC would require a compelling case to obtain sufficient budget allocations.

Another headwind is what would be referred to as “once bitten, twice shy”. This arises where an insurer has previously tried to implement various technologies within the business, with little clarity around whether the objectives and business benefits were achieved. As a result, leadership will often be weary of implementing new technology solutions.

To deal with internal headwinds, it is critical to have a clear approach on the implementation of the GRC solution. In addition, the impact and return on investment should be convincingly communicated.

How to put together a compelling investment case for enhanced GRC solutions

Investment cases for enhanced GRC systems should consider both tangible and intangible benefits. One common challenge we have observed is the inability to quantify the benefits. For instance, one of the tangible benefits of implementing an enhanced GRC system would be the integration of processes and platforms. Often, this benefit would be left unquantified and thus hard for decision-makers to appreciate the impact of the GRC system. However, a compelling investment case would be to demonstrate the return on investment (ROI) of this benefit and how the actual results will be measured. In this case, an ROI statement along the lines of a reduction in manual labour efforts enabling personnel to engage in more strategic initiatives, would be beneficial.

Set out below are best practice steps to implement for creating a compelling GRC investment case:

- Estimate the costs and benefits of the GRC program. This requires cognisance of the organisation's current state, and the sector within which it operates, amongst other factors.
- Demonstrate a clear path to ROI, articulating how the anticipated results will be measured and over what time frame.
- Account for intangible benefits. In addition to having accounted for the tangible benefits when demonstrating the ROI of adopting a GRC platform, ensure that the intangible benefits are not left out. Intangible benefits are those that would be hard to quantify but would be observed from the implementation of the program. For instance, the program will promote efficiency in risk and control assessments. However, it would be beneficial to include the mechanisms that will be used to track efficiency gains.
- Critically define the business value of an enhanced GRC program. The ultimate answer to the investment case would be what business values.

There is no one-size fits all solution as each insurer is dealing with different peculiarities. However, the above guidance provides a structured way of putting together a GRC investment case.

Moving forward

The benefits of an enhanced GRC system implementation are clear. However, it is also clear that such a program might not be affordable for most insurers in the East Africa region. This calls for insurers to do the most with what is already available.

Advanced analytics will enable insurers to identify vulnerabilities by identifying trends and hidden patterns, simulate different risk scenarios and predict potential disruptions. The result of these analytics would enable insurers to be proactive in dealing with emerging risks, anticipate disruptions and take advantage of these disruptions to develop competitive advantages.

With the understanding that the insurance sector in East Africa is home to a vast array of skilled data analysts, insurers should explore ways of eliminating silos in data analytics. This case does not advocate for over utilisation of available resources but for the enterprise to identify key skills that could be collaboratively utilised in an effective manner.

Ultimately, implementation of an enhanced GRC program has significant business benefits as a robust solution for enhancing enterprise resilience.