

# OUR PRINCIPAL RISKS

Safaricom remains committed to robust risk management as an integral part of strong governance and good management.

We classify our risks into the following categories:

- Strategic/external
- Operational
- Compliance
- Technology
- Financial

## Our risk appetite statement

Safaricom faces a broad range of risks while carrying out its business operations. We recognise that risk is an integral part of creating and preserving value and have therefore developed detailed processes to ensure all major risks are proactively managed.

We recognise that it is not possible to eliminate some of the risks inherent in our operations and acceptance of some risk is often necessary to foster innovation and business continuity. However, we will ensure that our customers get quality and reliable products and services by employing best practices across all touchpoints. We hold our management team, employees and business partners to the highest standards of integrity and will constantly ensure principles of good corporate governance are upheld.

Our risk philosophy is aligned to best risk management practices and is aimed at attainment of our purpose and vision by effectively balancing risk and reward.

## Identifying our principal risks

Our risk identification and mitigation processes have been designed to be responsive to the ever-changing environment that we operate in.

We identify the key risks through our Enterprise Risk Management Framework, which provides the Executive Committee and Board with a robust assessment of the principal risks facing the Company. An embedded enterprise risk management process supports the identification of these principal risks. The risk appetite for each principal risk is reviewed and approved by the Board to enable informed risk-based decision-making.

## The risk environment

In 2020, the risk of a global pandemic became a reality. As governments, businesses and societies survey the damage inflicted over the last year, strengthening strategic foresight is now more important than ever.

With the world more attuned to risk, we see an opportunity to leverage attention and find more effective ways to identify and communicate risk to decision-makers.

The immediate human and economic costs of COVID-19 are severe and threaten to scale back years of progress on reducing poverty and inequality and to further weaken social cohesion and global cooperation. Job losses, a widening digital divide, disrupted social interactions, and abrupt shifts in markets could lead to dire consequences and lost opportunities for large parts of the global population.

To manage the uncertainties, our business keeps reinventing its processes and systems in order to ensure that we are adaptable to the ever-changing environment.

As a business, we continue to proactively monitor the economic environment and implement measures to cushion the business and our customers by offering an enhanced value proposition to our customers and having in place contingencies in our business plans.



Up



Down



No change

## RISK 1

### Regulatory

Rating: **High**

#### Strategic risk category:

- Strategic/external
- Operational
- Compliance
- Technology
- Financial

#### Context

We operate in a complex and heavily regulated environment exposing us to significant financial implications, reputational damage and/or licence suspension in the event of a breach.

The nature of products and services that we provide requires that we comply with a wide range of rules and laws from our regulators: Communications Authority of Kenya, Competition Authority of Kenya and Central Bank of Kenya.

#### Opportunity

Enhanced collaboration with our regulators to ease some regulatory pressures while ensuring that satisfactory measures are taken to safeguard our customers and other stakeholders' interests.

#### Mitigation

- We continue to build and maintain proactive and constructive relationships with the regulators and government, informed by a shared understanding of the need for inclusive economic development
- Participating in industry forums and other policy forums as well as contributing to discussions on emerging legislation and regulations as we prepare to comply with the same
- Our products and services are carefully and continuously monitored to ensure they do not contravene any regulations
- Strengthened focus placed on ensuring robust governance processes and strong management of regulatory compliance in place

## RISK 2

### Slowed economic growth

Rating: **High**

#### Strategic risk category:

- Strategic/external
- Operational
- Compliance
- Technology
- Financial

#### Context

The negative impact of COVID-19, inflationary pressures and the subdued agricultural production continued to characterise our economic environment.

As a result of the pandemic, the economy continued to experience slowed business activities, increased levels of unemployment and inflation that resulted in reduced consumer purchasing power.

#### Opportunity

The push for business reinvention to combat the challenging economic environment has resulted in positive innovations that not only cushion against the economic shocks but also create products that meet our customers' needs, enhance service offerings to our customers and new market ventures.

#### Mitigation

- We continue to proactively monitor these factors, implement measures to mitigate the effects and cushion the business from adverse effects
- Enhanced value propositions to cater for reduced purchasing power and providing the customer with the ability to only spend what they have
- We include contingencies in our business plans to provide for the negative operational impacts that could arise from lower economic growth and changes in interest, inflation and exchange rate

## RISK 3

### Market disruption

Rating: **High**

#### Strategic risk category:

- Strategic/external
- Operational
- Compliance
- Technology
- Financial

#### Context

Competition in the telecommunication industry is on the rise in terms of product and service offerings.

Dynamic market needs, ever-changing consumer trends, entrance of new players in the market coupled with the speed of new disruptive technologies have also intensified the competition with our customer value proposition being the competitive edge.

We face increased competition from a variety of new technology platforms, which aim to build alternative communication that could potentially affect our customer relationships.

#### Opportunity

The competitive and disruptive environment has yielded innovations that are setting us apart, allowed us to be agile and to drive partnerships while providing our customers with a world-class experience.

#### Mitigation

- Developing insights using big data into our customers' needs, wants and behaviours and providing propositions to lead in chosen segments
- Offering quality services and leveraging on strategic partnerships within different sectors to ensure we provide our customers with relevant products and services
- Embedding a purpose-led culture that drives innovation and partnership
- We continue to be innovative and adopt an agile operating model to be able to respond rapidly to our customers' ever-changing needs
- 4G acceleration to provide our customers with quality service

## RISK 4

### Cyberattacks and data privacy

Rating: **High**

#### Strategic risk category:

- Strategic/external
- Operational
- Compliance
- Technology
- Financial

#### Context

An external cyberattack, insider threat or supplier breach (malicious or accidental) could cause service interruption or the loss of confidential data.

Cyberthreats could lead to major customer, financial, reputational and regulatory impacts including potential costs associated with fraud and/or extortion.

Implementation of the General Data Protection Regulations in 2018 as well as the enactment of the Kenya Data Protection Act, 2019 continue to raise the bar on data protection.

There are strong obligations placed on data controllers and processors, requiring them to abide by principles of meaningful user consent, collection limitation, purpose limitation, data minimisation and data security.

#### Opportunity

Protecting our customers' personal data is crucial to being a trusted provider and supporting our enterprise customers by providing managed security services to safeguard their business operations.

#### Mitigation

- Robust cybersecurity controls are complemented by the 24/7 Cyber Defence Centre to ensure we safeguard the services that we offer
- Our networks and infrastructure are built with security in mind, with layers of security control applied to all applications and infrastructure
- Our ISO 27001 Information Security Certification is an independent confirmation to our customers that we have implemented appropriate processes and controls relating to products and services to protect the privacy of their information
- A data Protection Impact Assessment across our operations is done in compliance with the Data Protection Act
- A dedicated team is in place to handle customer privacy concerns
- Ongoing proactive monitoring of access to customer data with real-time logging and monitoring to identify, prevent and respond to attempted data breaches

## RISK 5

### Service disruption

Rating: **High**

#### Strategic risk category:

- Strategic/external
- **Operational**
- Compliance
- Technology
- Financial

#### Context

Our customer value proposition is based on the reliable availability of our high-quality network.

A major failure in critical network or information technology assets, for example, through natural disasters, insufficient preventative maintenance or malicious attack would have a profound impact on our customers.

#### Opportunity

Extensive investment in a robust network architecture driven by customer need to ensure we meet customer expectations all the time. In addition, we have strong technology redundancies to minimise technology failures.

#### Mitigation

- Invest in maintaining and upgrading our network on an ongoing basis, with comprehensive business continuity and disaster recovery plans in place
- Investments to ensure adequate redundancy capabilities and elimination of any single point of failure

## RISK 6

### Fraud (internal and external)

Rating: **High**

#### Strategic risk category:

- Strategic/external
- **Operational**
- Compliance
- Technology
- Financial

#### Context

M-PESA fraud affecting our customers and exposure to internal unethical activities by our staff, affecting customers and the Company.

#### Opportunity

Providing safe platforms for our retail and enterprise customers to transact on is crucial to being a trusted and reliable service provider.

#### Mitigation

- Automation of enhanced fraud prevention and detection controls that have resulted in reduced instances of fraud by 50%
- Continuous customer education and awareness through various platforms as well as continuous collaboration and engagement with financial institutions on fraud reduction/prevention initiatives
- Sustained anti-social engineering campaigns to our customers across all channels (radio, newspaper, SMS and digital channels)
- Implementation of SMS confirmation check before a new line is registered to curb identity theft

## RISK 7

### Money laundering and terrorist financing

Rating: **High**

#### Strategic risk category:

- Strategic/external
- **Operational**
- Compliance
- Technology
- Financial

#### Context

The use of the M-PESA platform and our dealer channel to launder money and finance terror.

#### Opportunity

It is our social responsibility to ensure that the products and platforms we offer are not misused and involved in conducting illegal activities. We provide policies, procedures and tools that ensure screening of activities conducted on our platforms as a safety measure.

#### Mitigation

- Continuous screening of M-PESA accounts and all transactions against international watch lists and a local list, including close collaboration with the Financial Reporting Centre for suspicious transaction reports
- All our customers are verified against the government's population database (IPRS). We also carry out due diligence for our IMT partners and we have now embraced use of the Safaricom app for new registrations

## RISK 8

### Insecurity and terrorism

Rating: **High**

#### Strategic risk category:

- Strategic/external
- **Operational**
- Compliance
- Technology
- Financial

#### Context

Increased general insecurity due to COVID-19 and slowed economic growth, and continued terror threats on our assets are leading to service disruptions and increased cost of operations.

#### Opportunity

Our existing community interactions have embedded our brand, creating a sense of ownership and protection. Our collaborations with government and other agencies to combat crime and insecurity enable us to take part in creating a better environment for all.

#### Mitigation

- Continuous intelligence gathering and taking relevant actions
- Continuous collaboration with Ministry of Interior and Kenya Defence Forces for security operations support

## RISK 9

### Partnership management and third party

Rating: **High**

**Strategic risk category:**

- Strategic/external
- Operational
- Compliance
- Technology
- Financial

#### Context

Exposure to third-party risks (financial, reputation, health and safety, and compliance) as a result of engaging in strategic partnerships to drive and meet our goals.

#### Opportunity

The growing supplier base through innovations is creating an array of alternatives within our market space, safeguarding our supplier resiliency model.

#### Mitigation

- Enforcement of contractual agreements to ensure all SLAs are met and any gaps handled appropriately
- An overarching partnership management framework has been developed and is to be adopted across the organisation
- Refined partnership model to ensure all partners are aware of their responsibilities and adhere to these, which is a reflection of the agreed commercial terms
- We operate our supply chain with resiliency in design by having dual supply partners and robust spares-stockholding capacity

## RISK 10

### Litigation

Rating: **High**

**Strategic risk category:**

- Strategic/external
- Operational
- Compliance
- Technology
- Financial

#### Context

Litigation risk from normal business operations, rising IP litigation cases and increased class action suits.

#### Opportunity

Continuous customer education through our customer handles and touchpoints.

#### Mitigation

- Ensuring compliance with regulations
- Ensuring our services have proper terms and conditions
- We have a fully-fledged in-house legal team and support from external counsel