Corporate India Risk Report

ICICI Lombard Corporate India Risk Index

Introduction

- ICICI Lombard Corporate India Risk Index is a one of its kind, unified, credible, standardised corporate Risk Index that spans over the country level, the industry level and the company level
- This is the 2nd Iteration of the Corporate India Risk Index which was started in 2021. This index maps the risks to a company on the basis of awareness, preparedness, probability and criticality.
- The Corporate India Risk Index for 2021 is based on published business performance reports, assessments, insights & collaborative inputs from key executives/ officials of 220 companies in India across 20 key sectors. It will help the companies understand the level of risk exposure and current level of risk management.

Comprehensive Sector Coverage

- Aerospace & Defense
- Agriculture & Food Processing*
- Automotive & Ancillary
- BFSI
- Biotech & Life sciences*
- Chemicals & Petrochemicals
- Education Skill Development*
- Energy
- FMCG
- Healthcare Delivery
- Infra & Realty
- IT/ITES
- Manufacturing
- Media & Gaming*
- Metals & Mining
- New Age & Startup
- Pharmaceuticals
- Telecom & Communication*
- Tourism & Hospitality
- Transportation & Logistics

** New Sectors for ICICI Lombard Corporate India Risk Index 2021*

Risk Framework

The ICICI Lombard Corporate India Risk Index Framework comprises of 32 risk elements across 6 broad dimensions:

Market and Economy
- Inflation
- Taxation
- Regulatory Risks
- Foreign Exchange Risk
- Geo-political Risks
- Competitive Risk

Technology
- Disruptive technology
- Intellectual property
- Data compromise
- Counterfeiting
- R&D / Innovation failure
- Infringement / violation

Crime and Security
- Cybercrimes
- Counterfeiting
- Harassment/Bribing
- Executive threat/ Impersonation
- Physical violence/ abuse

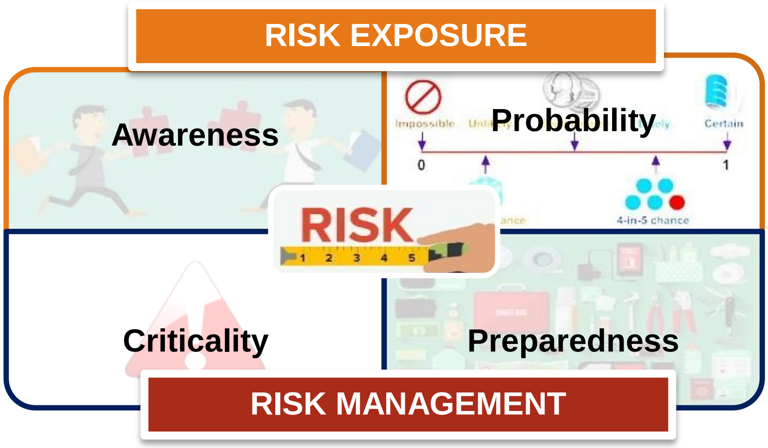
Operational and Physical
- Accidents/Fire Safety
- Strikes/Closure/Unrest
- Supply Chain Risk
- Environmental Risk
- Terrorism and Insurgency
- Equipment Malfunction

Natural Hazard and Event
- Natural Hazards like flood, drought, famine, earthquake, landslide, etc.
- Pandemic (e.g. COVID)

Strategic Risks
- Resources scarcity and/or misutilization
- Public sentiment
- Failed/Hostile M&A

ICICI Lombard Corporate India Risk Index – Approach

The Risk Framework comprises of 32 risk elements across 6 broad dimensions



The Risk Exposure and Risk Management is measured across 4 parameters.

The Corporate Risk Index for 2021 is based on published business performance reports, assessments, insights & collaborative inputs from key executives/ officials of 220 companies in India across 20 key sectors.

Risk Exposure (RE) = *f*(Awareness, Probability)

Risk Management (RM) = *f*(Criticality, Preparedness)

COMPANY RISK INDEX = *f*(Risk Management, Risk Exposure)

Sector Risk Index = average of company risk indices

Country Risk Index = average of sector risk indices

ICICI Lombard Corporate India Risk Exposure – Scale

Score	< 40	40 - 50	50 – 60	60 - 80	> 80
Category	**Very Low Risk Exposure**	**Low Risk Exposure**	**Moderate Risk Exposure**	**High Risk Exposure**	**Very High Risk Exposure**
	Has minimal exposure to overall risks and thus probability of a risk incident is very less.	Has low exposure to overall risks and its risk exposure is within acceptable tolerable limits.	The corporate is able to balance the impact of moderate exposure to overall risks up to a certain extent.	The risk exposure and its impact is very high in the industry in which the corporate operates.	Unable to foresee risk incidents, the probability of these incidents and quantified business loss may be extremely high.

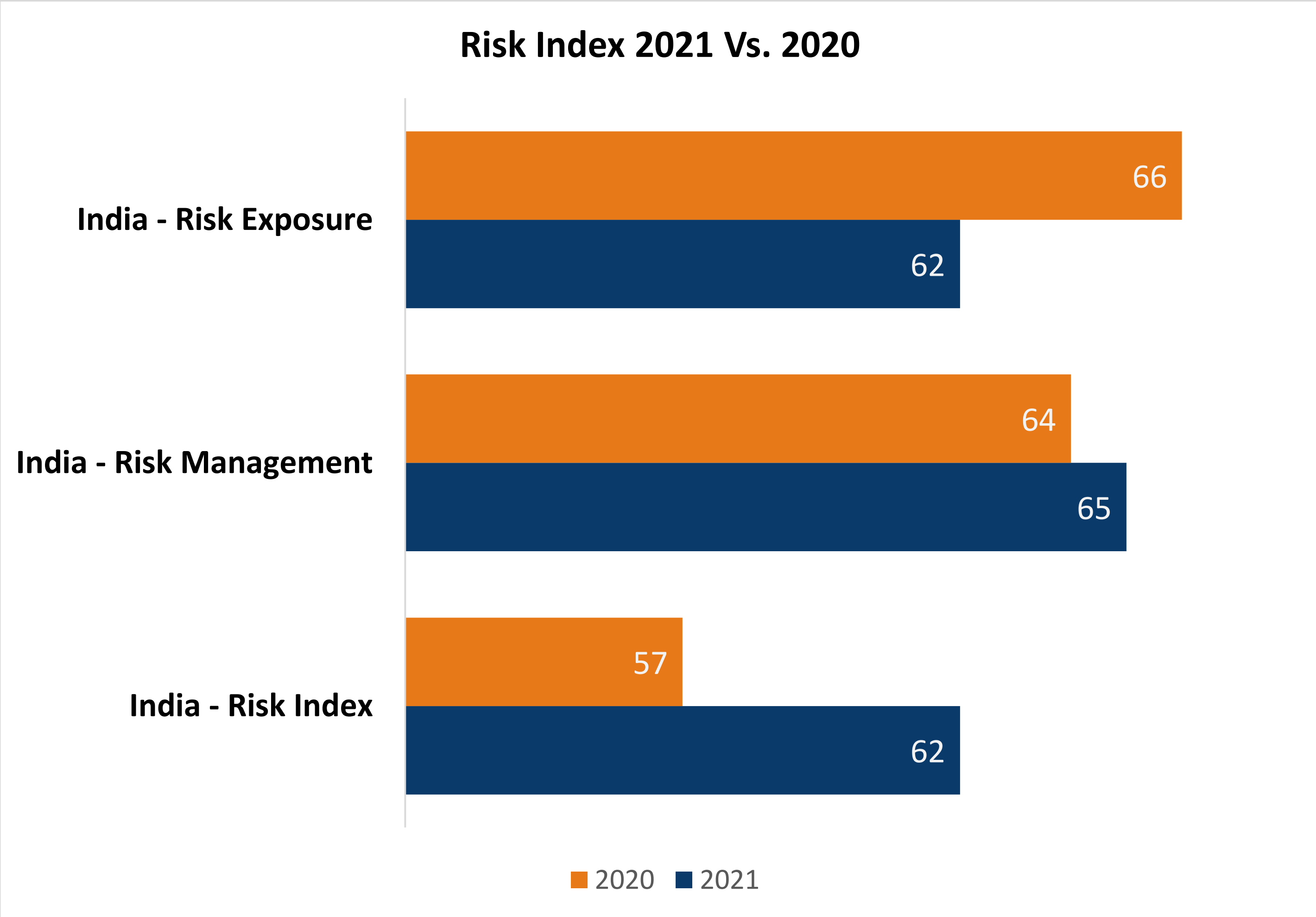
ICICI Lombard Corporate Risk Management – Scale

Score	< 40	40 - 50	50 – 70	70 - 80	> 80
Category	**Poor Risk Management**	**Below Par Risk Management**	**Acceptable Risk Management**	**Superior Risk Management**	**Exemplary Risk Management**
	Unable to understand the concept of Risk management and reactive to overall risks that affect it.	Use of inefficient or legacy risk management practices which is reactive to newer or unknown risks.	The corporate is prepared to handle known risks and the criticality of its risks are not severe.	Top class risk management practices with its ability to manage dynamic risks as well as unknown risks.	Over prepared in Risk management practices, proactive to emerging risks with high investment in risk mitigation practices

ICICI Lombard Corporate Risk Index – Scale

Score	< 40	40 - 55	55 – 65	65 - 75	> 75
Category	**Ineffective**	**Sub-optimal**	**Optimal**	**Superior**	**Over-prepared**
	The corporate has very high exposure or very poor risk management practices or both	Not all risks are handled effectively. Risk management practices are likely dated or inefficient.	Most current risks are being handled effectively. Emerging risks associated with strategic initiatives need more diligence.	Very effective and efficient risk management practices. Well positioned to handle current and future risks across dimensions.	High investment in risk mitigation practices. Likely over-investment in one or more risk dimensions. Difficult to justify ROI

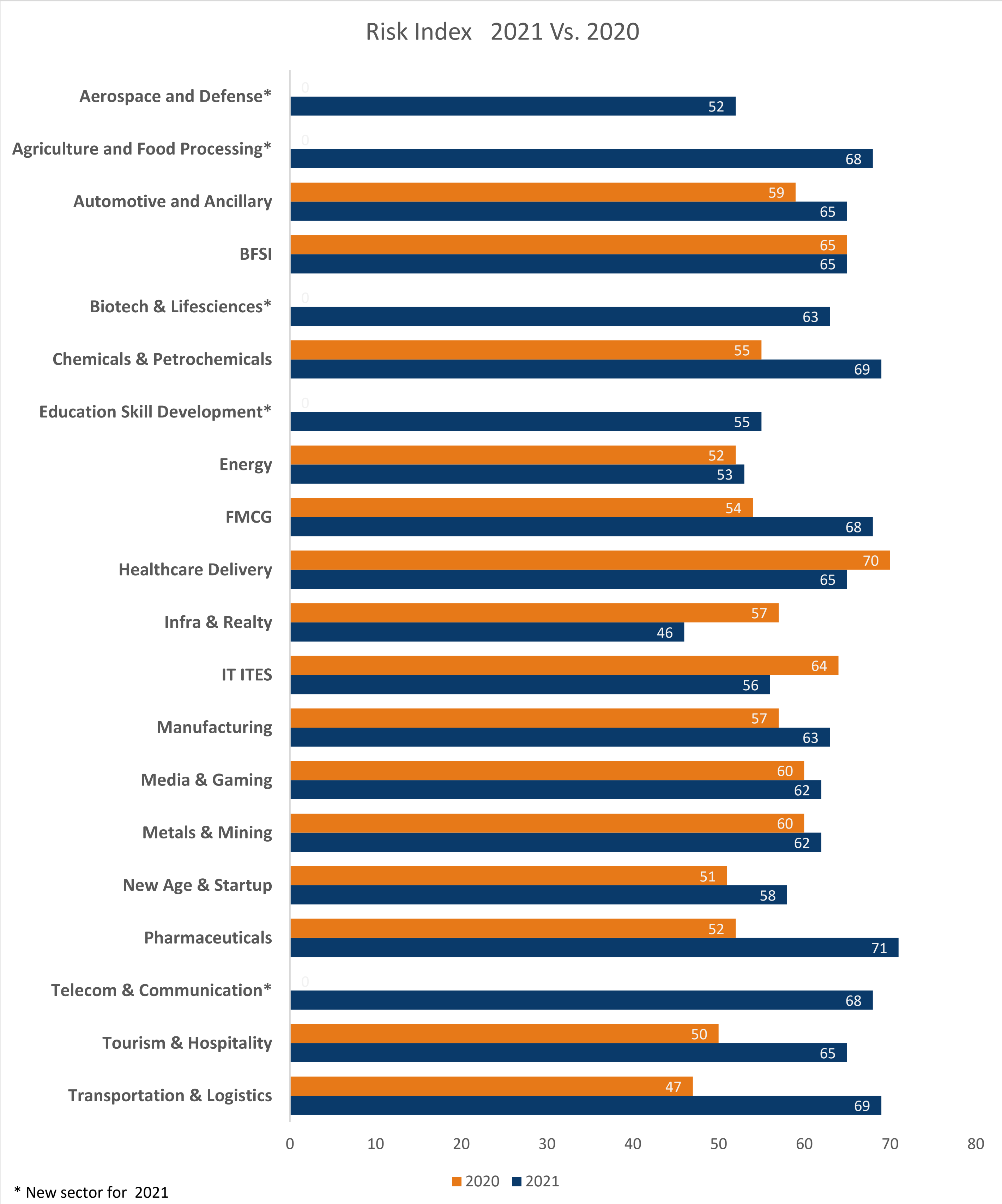
ICICI Lombard Corporate India Risk Index



India Risk Index(Optimal Risk Handling)

- As the pandemic and pandemic related constraints eased up, Sectors showed varied recovery as risk related to **Resource Scarcity**, **Delay in Execution of projects** due to pandemic and **Financial Risks** due to **tax relaxation** pacified
- The overall Risk Index for India improved from **57** to **62** in 2020-2021 , however sectors like **Infra & Realty, Metals & Mining** and **New Age & Startup** the risk Index decreased which was primarily due to the increased **Strategic Related Risks, Crime & Security Risks, Financial Risks, Inflation** and **Technology Risks**
- Sectors like **Transportation & Logistics, BFSI, Chemicals & Petrochemicals and Tourism & Hospitality** showcased significant improvement in the Risk Index, because the risk exposure lessened across all the risk dimensions.
- It was also observed that the Risk Exposure came down for the **Large Businesses(67 vs. 64) , Medium Businesses(65 vs. 61)** and **Small businesses (64 vs. 63)** for 2020 vs. 2021.
- With the reduced impact of the pandemic and innovative initiatives by business leaders over the supply-chain, sectors like **Manufacturing, Automotive, FMCG and Chemicals & Petrochemicals** improved on the **Risk Index**.

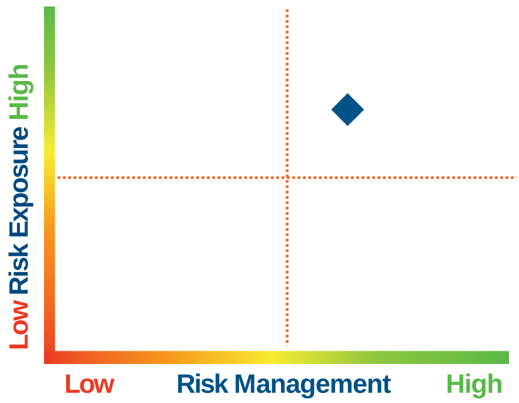
ICICI Lombard Corporate India Risk Index – Sector Comparison



Observations:
Automotive & Ancillary, FMCG, Manufacturing and Pharmaceuticals sector have been managing their Risk in a defined, methodical and strategic manner, with continuous monitoring and containment of Risks. Transportation & Logistics, Metals & Mining, Healthcare Delivery and Biotech & Life Sciences sectors need to improve their Risk management capabilities in order to have an overall acceptable Risk measure.

Risk Dimension Analysis: Market and Economy

Risk Exposure Score: 64
Risk Management Score: 67



Government fiscal package to revive the economy ravaged by second pandemic wave

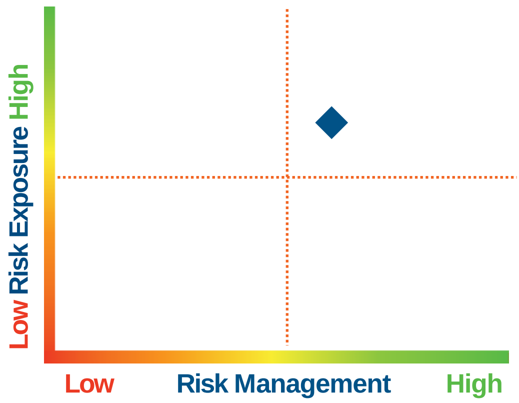
- The multi –trillion fiscal push by the government to revive the underserved sectors of the economy and boosting the private investment to better the infrastructure and augmenting the human resources.
- With Sectors opening to FDI, helping to raise asset class, technology transfer to India, however the FDI inflow is pretty skewed with top 5 states making 80+ percent of the overall share
- With eased laws , PLI schemes and governments supportive policies help in boosting domestic production and also inviting foreign companies to invest in India

Recommendation:

Companies should be agile and adaptive to comply with federal, state and local regulatory bodies, steps to garner the first mover advantage in the fast paced competitive environment is much needed to succeed .

Risk Dimension Analysis: Technology

Risk Exposure Score: 62
Risk Management Score: 65



Technology adoption transforming the business models

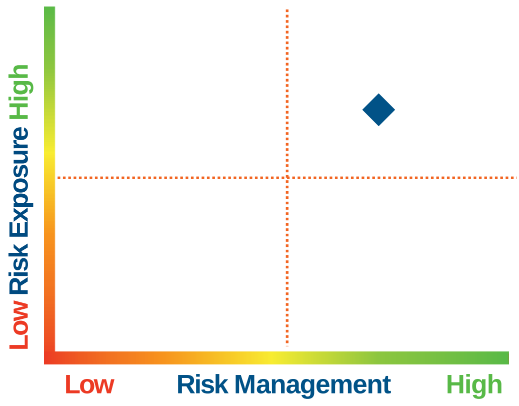
- India being the largest and fastest growing market for digital consumers, to cater to this change companies irrespective of size are adopting to disruptive technologies
- With India targeting $1 trillion digital economy, any delays/ failure in identifying, prioritizing and adopting the use cases to compete with disruptive business models could mean death knell for companies
- Indian enterprises have under-explored opportunities on digital transformation, optimized investment in R&D and strategic partnerships can help achieve the desired results

Recommendation:

Companies irrespective of their size should invest in next gen technologies to reshape their existing business models. This technology transformation should be centrally driven by the leadership, with fast decision making to propel this change.

Risk Dimension Analysis: Operational and Physical

Risk Exposure Score: 62
Risk Management Score: 65



Minimizing Operational Risks with proper identification and well defined processes

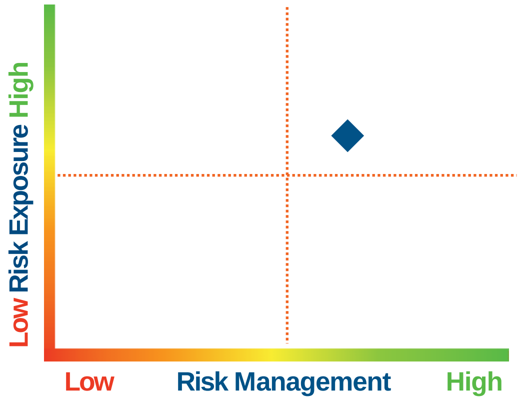
- Post COVID, Indian enterprises are taking strategic steps to identify, assess and mitigate supply chain risks arising from raw material shortage, disruptions in supply chain or heavy dependence on single source.
- With increased global investors looking to invest with ESG compliance companies, companies are now increasingly focusing on achieving the stated ESG global benchmarks.
- Direct and indirect financial support received from state and local governments, helped companies to lessen post COVID business impact.

Recommendation:

With increasing numbers of millennial and Gen Z joining the workforce, companies should foster a harmonious work environment, focusing on creative freedom and offering competitive compensation & benefits.

Risk Dimension Analysis: Crime and Security

Risk Exposure Score: 59
Risk Management Score: 62



Increased risk of Cyber attacks across the world

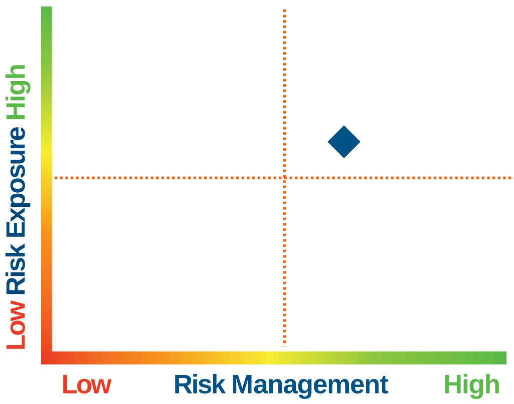
- Post pandemic, companies accelerated their digital shift which makes them more vulnerable to cyber attacks. 35% of Cyber attacks have been previously unknown malware or hacking methods.
- To counter cyber security threats and data compromises, companies are improving their IT Infrastructure and significant spending on cyber security has been observed.
- Although there are still loopholes in existing corporate laws, government and regulatory agencies have played an important role in improving corporate governance and reducing crimes against women in recent years.

Recommendation:

Periodic workforce training and comprehensive cyber security audit should be performed on a regular basis by companies to mitigate IT risks. Even if organizations downsize or restructure, internal controls must remain strong and intact with focus on corporate governance & ethics.

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure Score: 60
Risk Management Score: 63



Differential impact of natural hazards across sectors

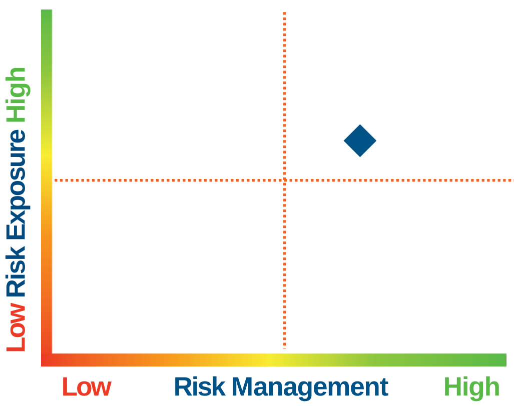
- Post pandemic companies are increasingly performing annual Business Impact Analysis and a Risk Stress Test to anticipate and assess the impact in the event of any unexpected natural disaster.
- Companies are now having a backup plan, to quickly get back to business and are increasingly taking advantage of being a first mover by integrating digital and non digital business.
- Small and Medium companies are assessing financial bootstrapping or alternate lending to ensure business continuity when cash flows are affected during a pandemic or severe natural hazard.

Recommendation:

Companies should have a Business continuity plan in place, allocate sufficient funds to technology integration and remain insured to minimize damage from natural hazards. Companies should also be ready to adapt to newer modern business and operating models to survive in the long run.

Risk Dimension Analysis: Strategic Risk

Risk Exposure Score: 56
Risk Management Score: 58



Companies are now able to identify, quantify, and mitigate any risk that affects their business strategy, and objectives.

- Companies are redesigning and reassessing their business strategy and objectives based on rapidly changing consumer requirements and also identifying the risks that drive variability in performance.
- Companies are increasingly investing in improving their public image and also their participation and interaction on social media platforms across various geographies.
- Companies are tying up with strategic experts & partners , who have hands on experience in understanding and managing strategic risks

Recommendation:

Companies should define their business strategy and define core KPIs and KRIs to measure results and identify core risks. Also, On-board consulting firms would help identify company risk and de-risk by benchmarking with industry best practices.

CORPORATE INDIA RISK INDEX

2021

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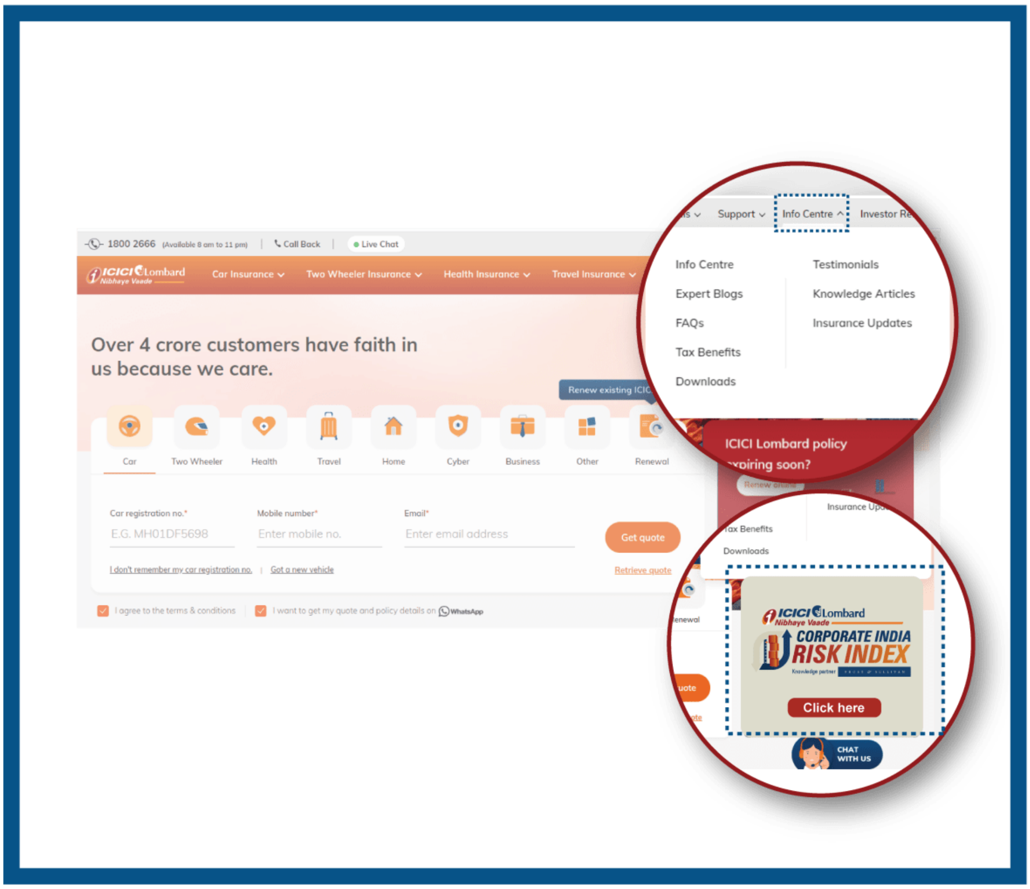

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