

**CORPORATE INDIA  
RISK INDEX**  
2021

Intelligence partner

FROST & SULLIVAN



**Sector: IT-ITES**

# 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 2<sup>nd</sup> 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.

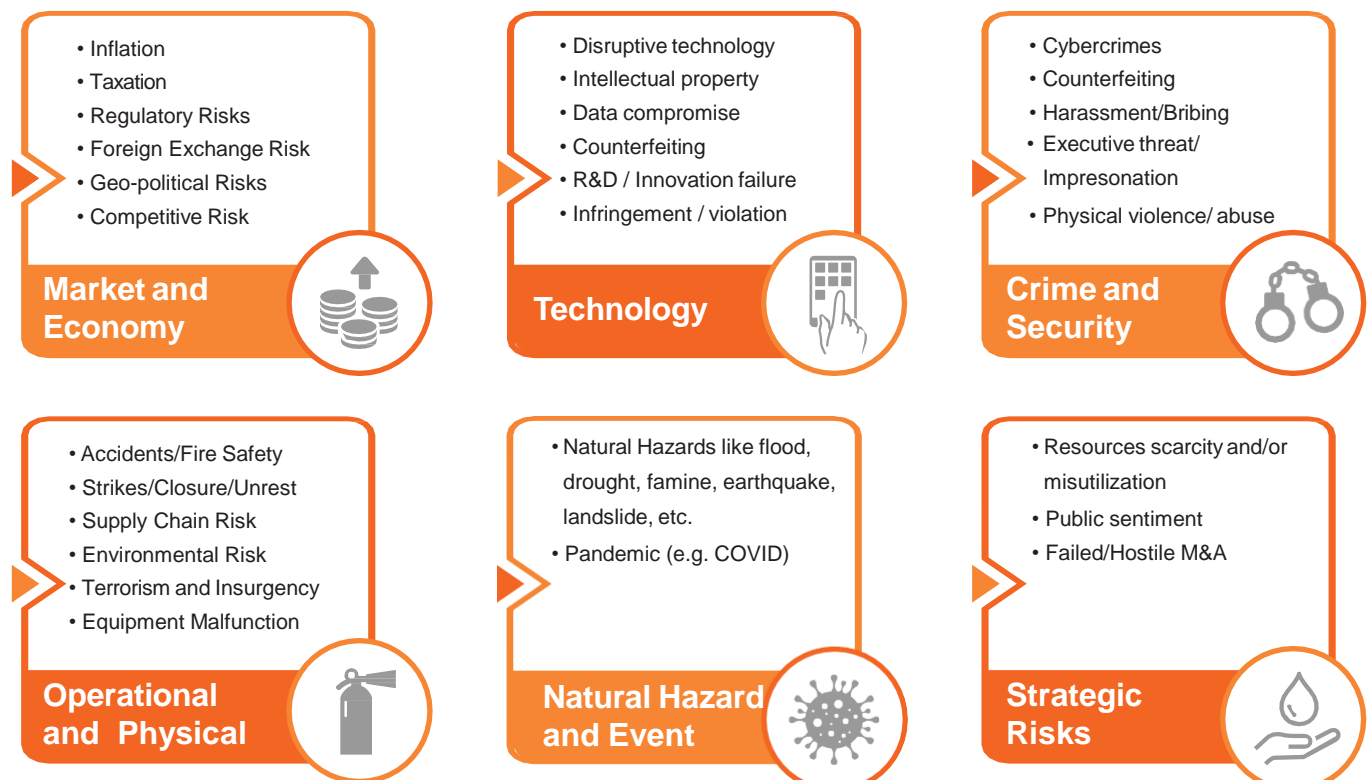
## Comprehensive Sector Coverage

- 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 & Comm Tech\*
- 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:

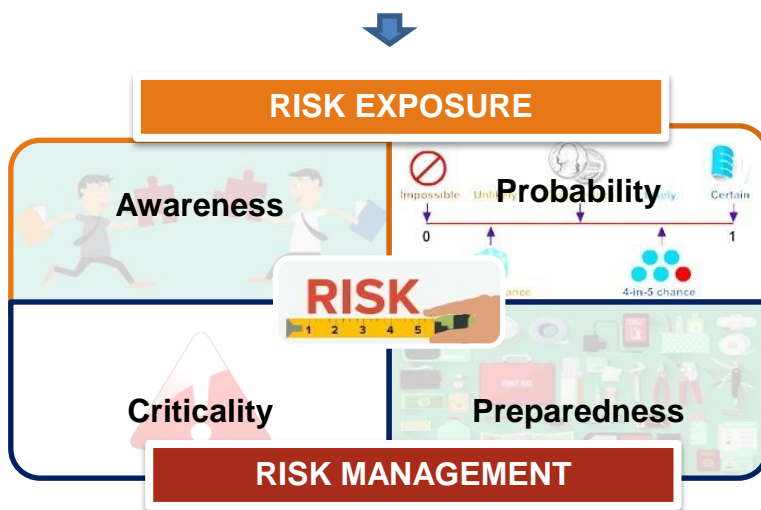




# ICICI Lombard Corporate India Risk Index – Approach



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.

$$\text{Risk Exposure (RE)} = f(\text{Awareness, Probability})$$

$$\text{Risk Management (RM)} = f(\text{Criticality, Preparedness})$$

$$\text{COMPANY RISK INDEX} = f(\text{Risk Management, Risk Exposure})$$

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
<b>Category</b>	<b>Very Low Risk Exposure</b>	<b>Low Risk Exposure</b>	<b>Moderate Risk Exposure</b>	<b>High Risk Exposure</b>	<b>Very High Risk Exposure</b>
	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.

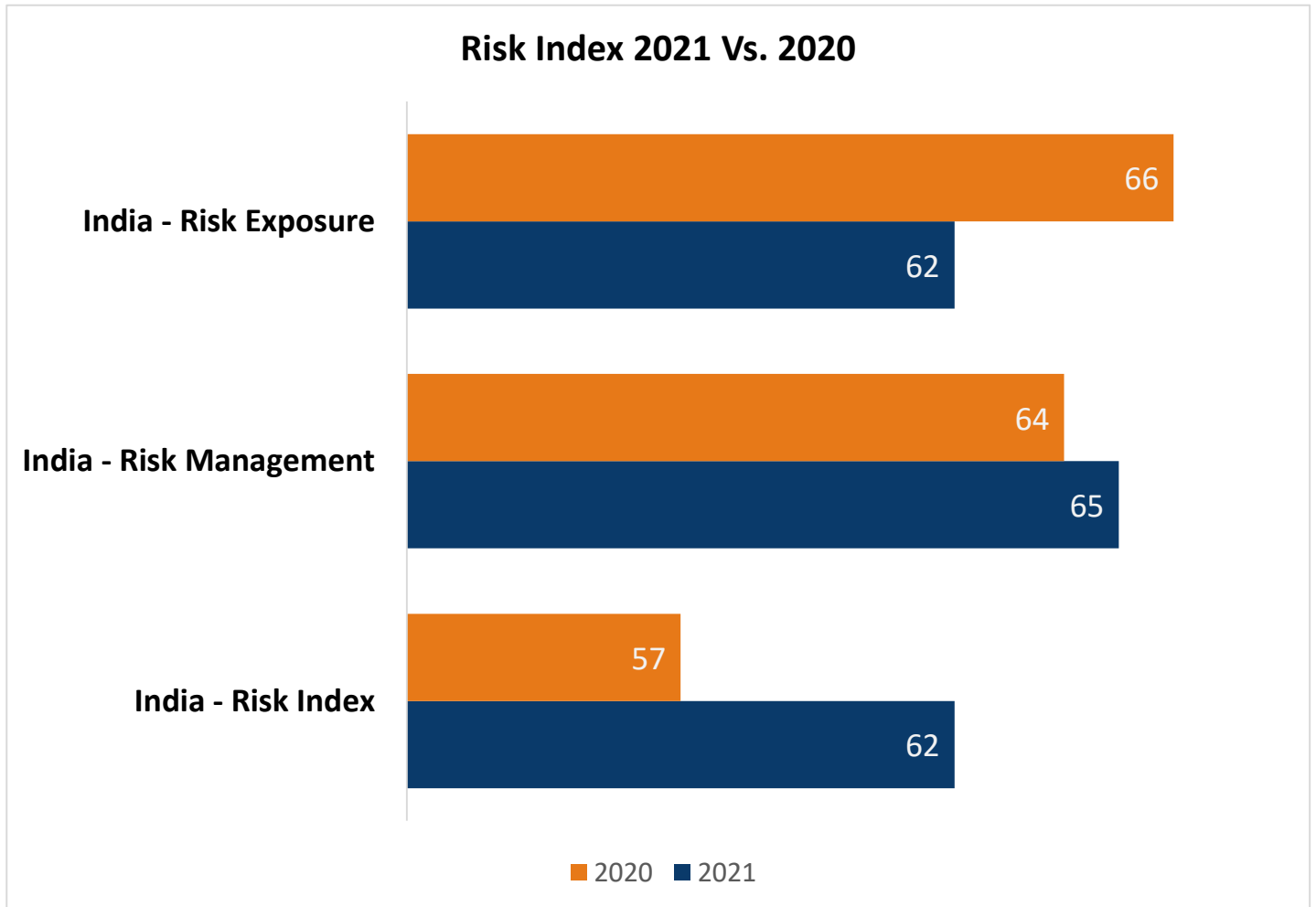
## ICICI Lombard Corporate Risk Management – Scale

Score	< 40	40 - 50	50 – 70	70 - 80	> 80
<b>Category</b>	<b>Poor Risk Management</b>	<b>Below Par Risk Management</b>	<b>Acceptable Risk Management</b>	<b>Superior Risk Management</b>	<b>Exemplary Risk Management</b>
	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
<b>Category</b>	<b>Ineffective</b>	<b>Sub-optimal</b>	<b>Optimal</b>	<b>Superior</b>	<b>Over-prepared</b>
	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

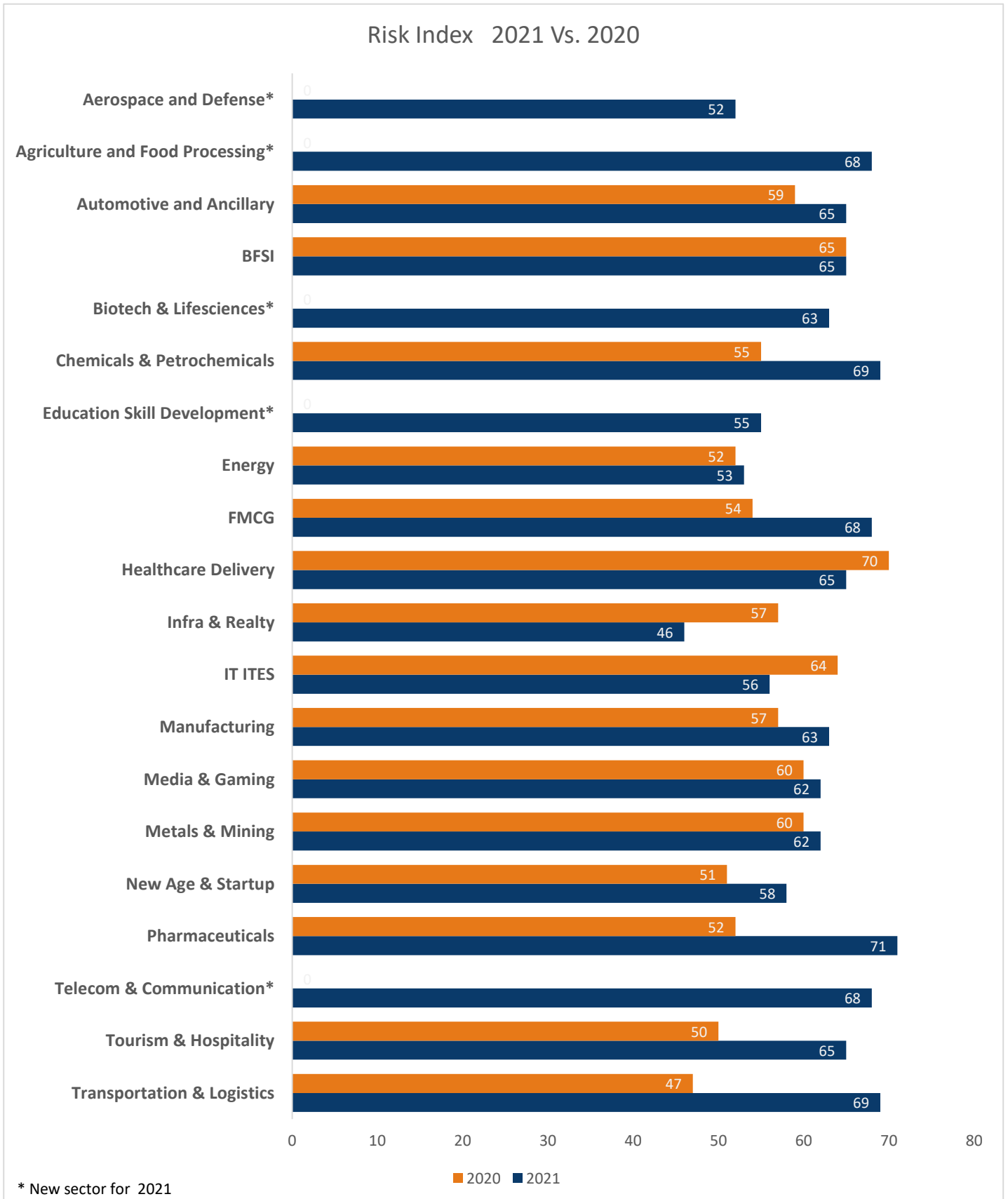
## ICICI Lombard Corporate India Risk Index



### 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 202-2021 , 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



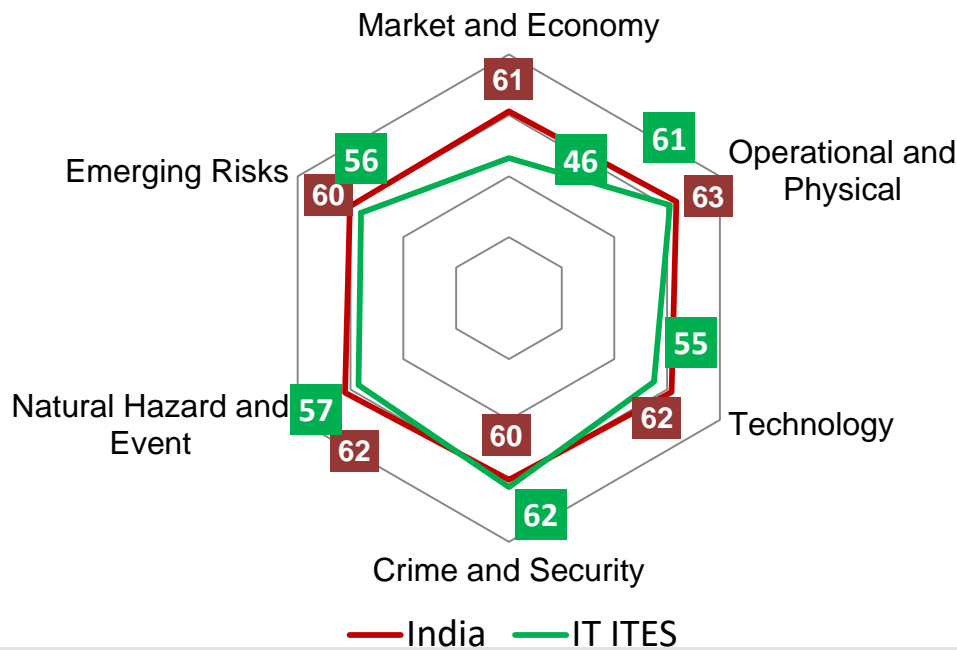
### Observations:

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.

## India Risk Profile Vs. Sector Risk Profile

Risk Profile	2021 Risk Exposure	2021 Risk Management	2021 Risk Index	2020 Risk Index
India Risk	62	65	62	57
IT-ITES Risk Profile	62	63	56	64

### India Risk Index Vs. IT/ITES Sector Risk Index



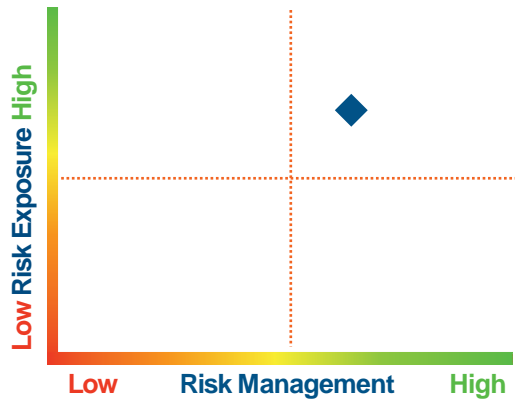
**The IT/ITES Sector has obtained a Risk Index Score of 56, while India's Risk Index Score is 62,**

- The IT/ITES sector has tremendously grown over the last few years with support available in all dimensions :- in terms of number of companies that have sprung up and serviced locations over the globe.
- India being the poster child of Emerging Markets, with its GDP growth, demographic composition and a much more friendlier regulatory environment has been at forefront of IT/ITES sector as the sector's services touch different aspects of the global economy.
- The sector has been at the forefront of providing the manpower for building a self sufficient ecosystem. Recent regulations by the government will help the sector grow robustly
- Focus must be on expanding the quality of talent pool, build a culture, be agile enough to drive home the competitive advantage.
- The improvement areas for the companies should be on building a steady stream of products / services on new age platforms/technologies and forming strategic partnership with academia, startups and technology providers to foster innovative spirit

## Risk Dimension Analysis: Market and Economy

**Risk Exposure Score: 68**

**Risk Management Score: 66**



### Foreign Exchange Risk and Competitive Risk

- Market slowdown in regions of clients and prospective clients could dampen the financials
- The spending decisions of client and prospective clients depend on the fluctuations in both the economic and regulatory fronts
- Companies operates in an environment where there is intense rivalry for securing deals with clients which may result in cost pressures which ultimately affect the financial strength
- Companies in the sector operate in multiple regions, wherein the volatility of foreign exchange affects its financial profitability and result in collection losses



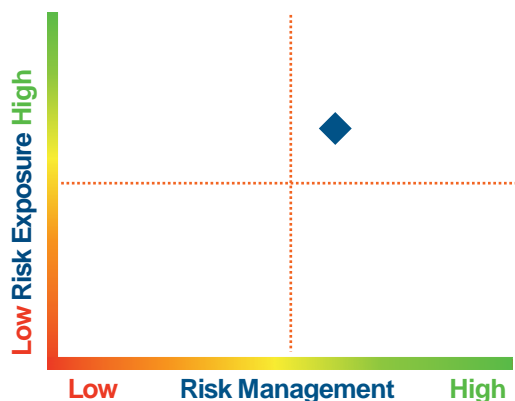
### Recommendation:

Investing in building long term strategic commitments with customers to insulate themselves from the highly competitive marketplace and cost pressures in the environment could be the top priority. Geographical diversification could mitigate political and regulatory risks

## Risk Dimension Analysis: Technology

**Risk Exposure Score: 69**

**Risk Management Score: 70**



### Innovation Risk

- Innovation culture and investment in R&D to deliver unique services key to future growth
- More companies have started to understand the importance of a strong digital ecosystem, expanding the usage of new technologies such as Artificial Intelligence, IoT, Machine Learning and Robotic Process Automation
- Companies in the sector rely on a combination of patent, trademark and contractual commitments to protect their proprietary information from infringements



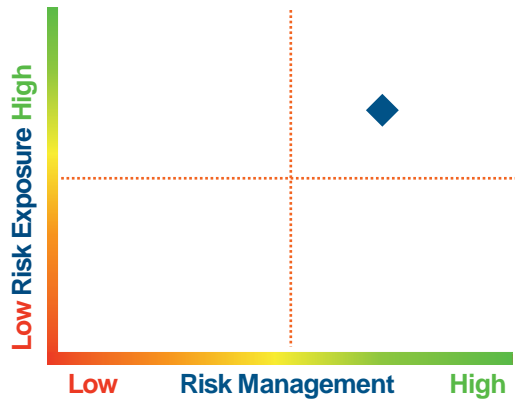
### Recommendation:

Companies could look at investing more in developing their expertise to cut down the go-live cycles. Customer insights utilizing big data and analytics must be used to identify patterns and tailor user journey



## Risk Dimension Analysis: Operational and Physical

**Risk Exposure Score: 60**  
**Risk Management Score: 63**



### Critical Infrastructure Failure

- Business continuity planning and the design of processes allowing for remote execution could become the norm
- Many companies in the sector derive a significant proportion of their revenues from a limited number of customers
- Most of these contracts are of short term in nature and with heavy competition in the industry, earnings levels may fluctuate from period to period

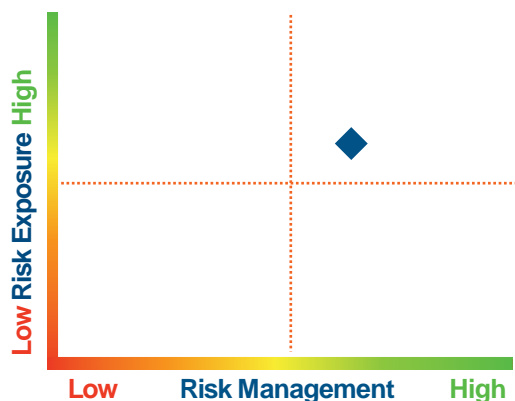


### Recommendation:

Companies could look at up-skilling employees by training them in new age technologies such as AI/ML, natural language processing as they could be the driving force in the future. Concerns about retention of high skill employees and high attrition rates ponder a relook in policies

## Risk Dimension Analysis: Crime and Security

**Risk Exposure Score: 56**  
**Risk Management Score: 58**



### Data privacy and security remain key focus areas

- Protection from security risks which are inherent to the business
- Exposure of data or records from malicious events such as hacking, ransom-ware, phishing could spell trouble for the companies in the form of litigations , financial losses , negative media attention and brand damages
- As digital revolution increases to take various forms, attacks and breaches of firewalls have increased over time
- Awareness about sexual harassment policies has improved and women-friendly policies have been initiated

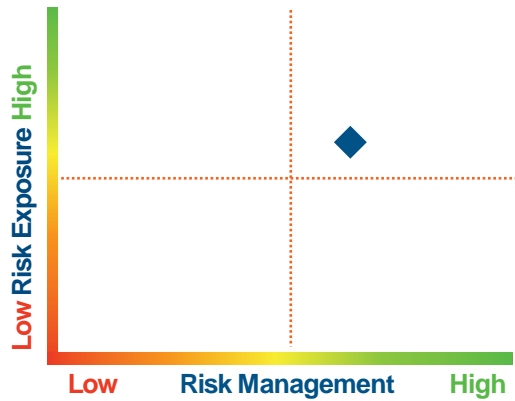


### Recommendation:

Companies could implement cyber Risk Management; that involves periodic testing and improvement of controls through simulation. Strengthening and reinforcing of firewalls and shoring up defenses to tackle this rapidly evolving information security challenges

## Risk Dimension Analysis: Natural Hazard and Event

**Risk Exposure Score: 62**  
**Risk Management Score: 64**



**Risk from pandemics and natural hazards on the lower side**

- Disruptions in power supply, IT infrastructure, or telecom lines from natural disasters may result in delay in provision of services to clients
- As a result, companies have taken steps to mitigate risks emanating from natural hazards in its policies
- More companies have started integrating sustainability practices as awareness about environment and ESG factors have increased

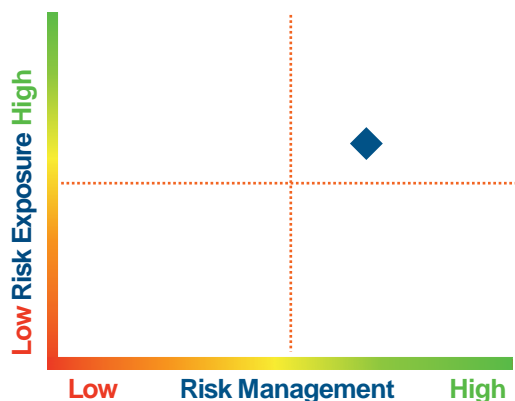


### Recommendation:

Companies could look at implementation of business interruption insurance to cover for claims or damages in event of such extreme outcomes

## Risk Dimension Analysis: Strategic Risk

**Risk Exposure Score: 56**  
**Risk Management Score: 58**



**Strategy related risks and acquisitions could be key**

- Companies are looking to expand their domain capabilities, project management expertise, acquire new technologies and operational areas
- Risk of 3rd party service providers going out of business / facing problems need to be taken into consideration
- Government initiatives to increase the broadband penetration to remote parts of India could be a game changer for the companies to provide tailored solutions



### Recommendation:

Companies could look at collaborating with consulting companies to deliver the roll-out of solutions to new industries and domains. Expansion into new geographies can also be handled with knowledge partners



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