



Intelligence partner **FROST & SULLIVAN**

Sector: IT-ITES

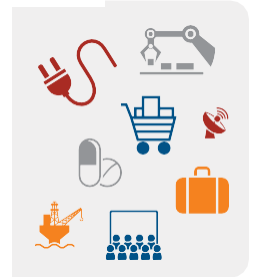


ICICI Lombard Corporate India Risk Index - Introduction

- ICICI Lombard Corporate India Risk Index is the first ever unified, credible, standardised corporate Risk Index that spans over the country level, the industry level and the company level
- This index maps the risk to a company on the basis of awareness, preparedness, probability and criticality across 15 sectors in India
- It will help the companies understand the level of risk that their business is facing and assist them in developing a successful risk aversion plan

ICICI Lombard Corporate India Risk Index - Sector List

- | | | |
|-----------------------------|---------------------------|------------------------------|
| • IT/ITeS | • Automotive & ancillary | • Metals & Mining |
| • BFSI | • Hospitality/Tourism | • Transportation & Logistics |
| • Healthcare | • Manufacturing | • Media & Telecommunications |
| • Pharmaceuticals & Biotech | • FMCG/Retail | • Chemicals & Petrochemicals |
| • Energy | • Infrastructure & Realty | • E-commerce/New-age |



ICICI Lombard Corporate India Risk Index - Risk Framework

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


- Inflation
- Taxation
- Regulatory Risks
- Foreign Exchange Risk
- Geo-political Risks
- Competitive Risk

Market and Economy



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

Technology



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

Crime and Security




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

Operational and Physical




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

Natural Hazard and Event



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

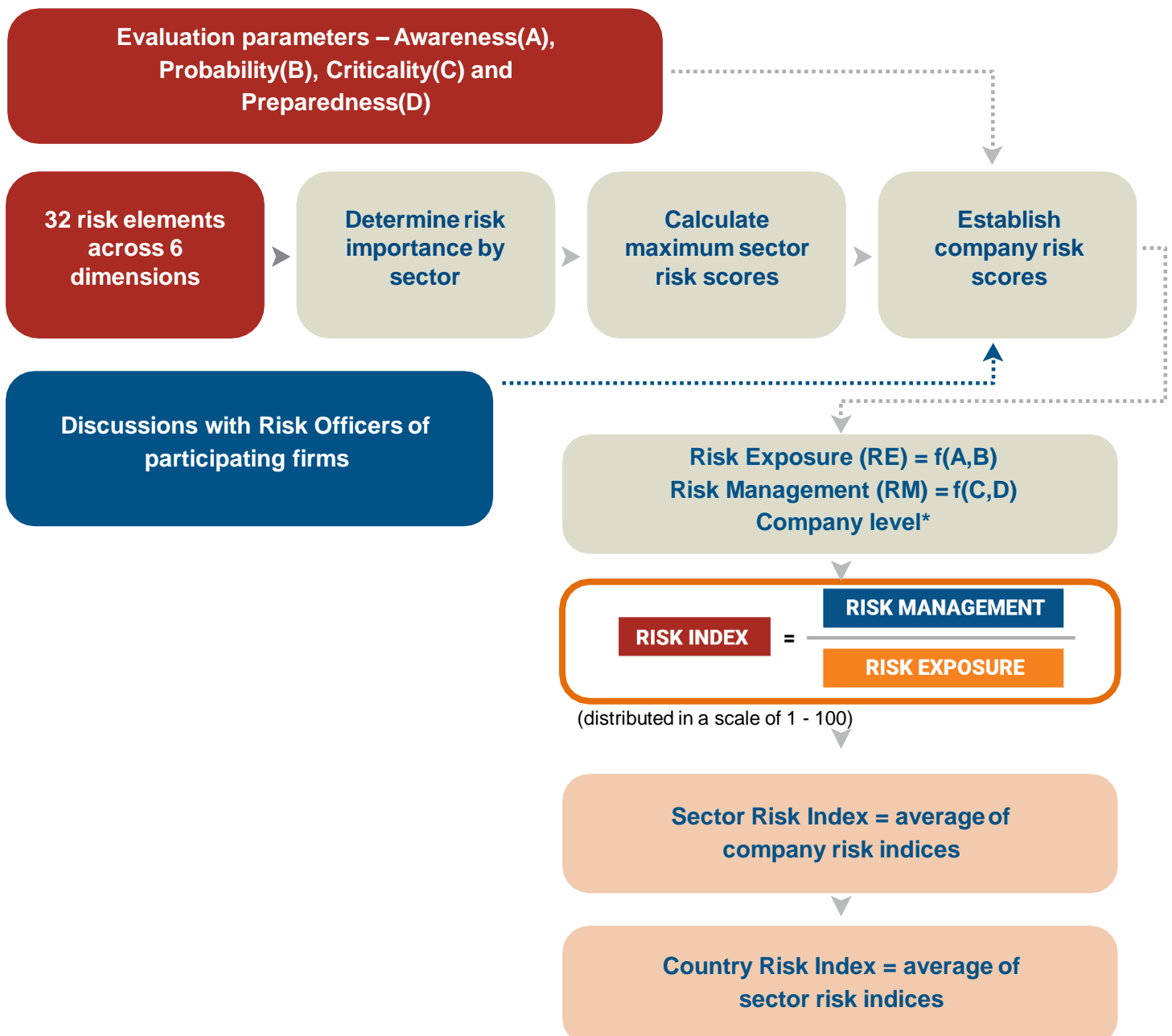
Emerging



ICICI Lombard Corporate India Risk Index - Methodology

- **ICICI Lombard Corporate Risk Index** is based on the principles of Lean and Six Sigma that qualify business processes by measuring Effectiveness and Efficiency
- **Corporate Risk Index score** measures the risk mitigation practices undertaken by a company relative to its Risk Exposure
- **The Corporate Risk Index for 2020** is based on published business performance reports, assessments, and insightful discussions with key executives of **150 companies in India across the key 15 sectors**

ICICI Lombard Corporate India Risk Index - Approach



ICICI Lombard Corporate Risk Index – Formulation

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

Measured across 4 parameters spanning exposure and management



$$\text{RISK INDEX} = \frac{\text{RISK MANAGEMENT}}{\text{RISK EXPOSURE}}$$

ICICI Lombard Corporate Risk Index – Scale

Score	< 30	30 - 50	50 – 60	60 - 80	> 80
	Ineffective	Sub-optimal	Optimal	Superior	Over-prepared
Category	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

Corporate India Risk Profile

Risk Exposure Score: 66

Risk Management Score: 64

Risk Index 57

Corporate India's Risk Exposure and Risk Management scores are 66 and 64 respectively; this indicates the country's marginally inferior risk management abilities and mitigation strategies for risk aversion.

The Corporate India Risk Index for Market & Economic Risk is low owing to a high exposure to geopolitical tensions and competition faced from MNCs. Technological Risk is also a matter of concern as India predominantly uses outdated technologies which are less effective and reduce productivity and thereby profitability. Another area of concern is Crime and Security Risk due to the existence of corruption in the system along with poor government regulations.

Various sectors namely Automotive, Manufacturing, Metals & Mining, Healthcare, IT-ITES, BFSI, and Media & Telecommunication have risk indices above the country's risk index.

Sectors with risk indices lower than India's risk index are Chemicals, Hospitality, Pharmaceuticals, New Age, Energy, Realty & Infra., FMCG, and Logistics.

Corporate India Risk Index at Glance

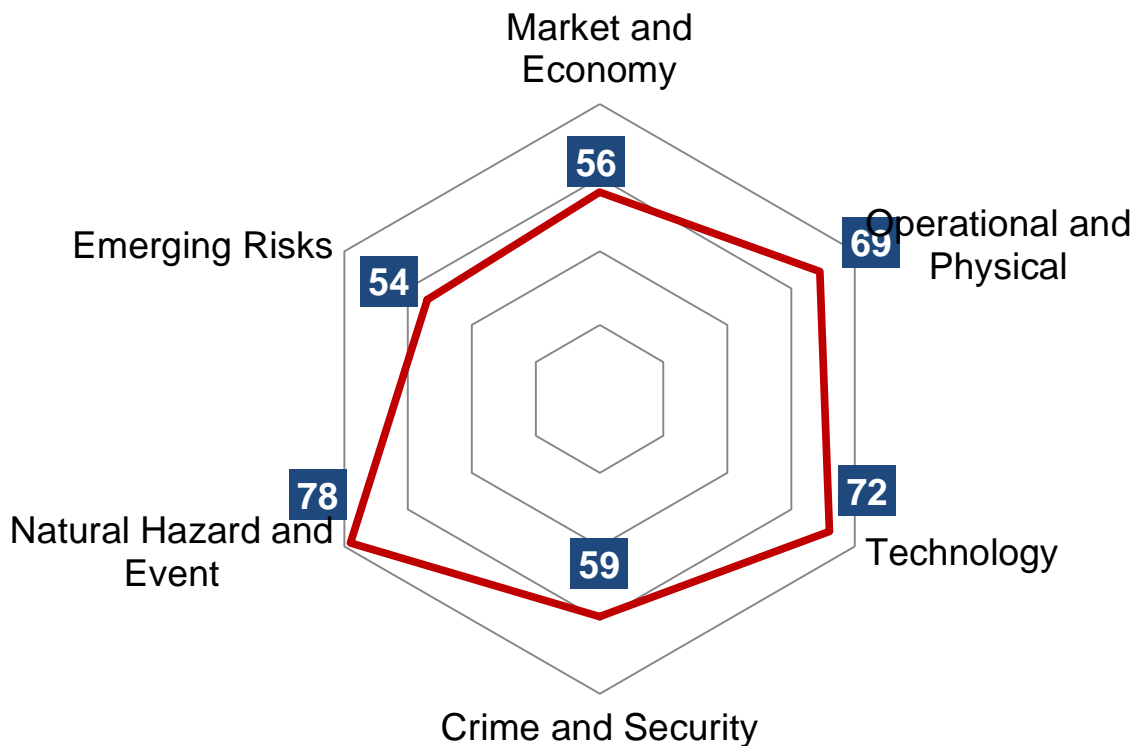
Sectors	Risk Exposure	Risk Management	Risk Index
Automotive	72	72	59
Chemicals	68	66	55
Pharma	69	65	52
New-Age	65	61	51
Energy	69	66	52
Manufacturing	65	64	57
Metals and Mining	54	54	60
Realty and Infra	63	62	57
Hospitality	68	64	50
FMCG	72	69	54
Logistics	71	65	47
Healthcare	55	59	70
IT-ITES	57	58	64
BFSI	73	76	65
Media-Telecommunication	64	64	60
Overall Score	66	64	57

IT-ITES Sector Risk Profile

Risk Exposure Score: 57
Risk Management Score: 58

Risk Index
64

Sector Risk Index - Six Risk Dimensions



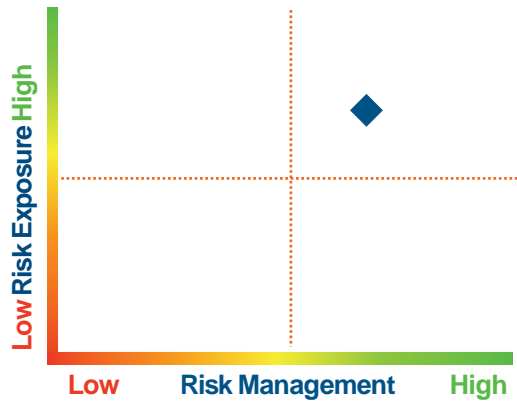
The Indian IT-ITES sector’s Risk Exposure score is 56.5 mainly due to its high exposure to risks emanating from disruptive business models and the number of competitors in the space, both big behemoths and small niche-players.

The companies in this sector should focus on expanding the quality of talent pool, build a culture, be agile enough to drive home the competitive advantage.

Focus for 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: 62.3
Risk Management Score: 60.9



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

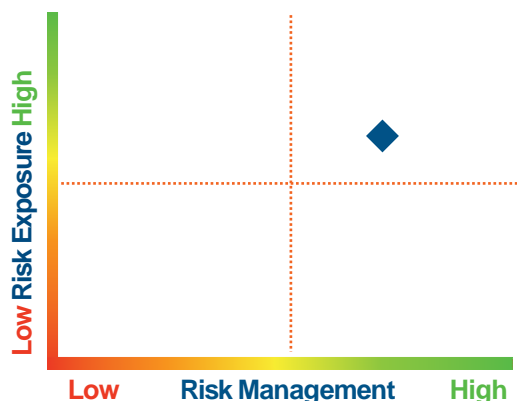


Recommendation:

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: 57.0
Risk Management Score: 61.0



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

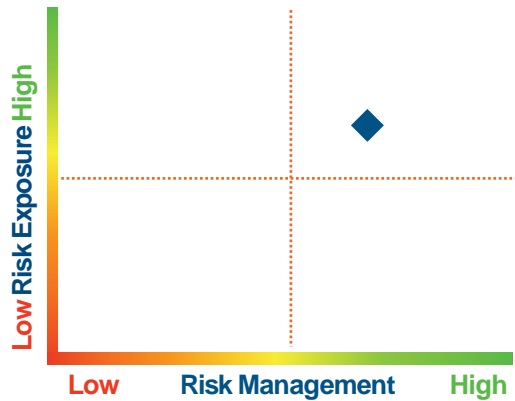


Recommendation:

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: 57.0
Risk Management Score: 60.0



Business continuity planning key

- 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

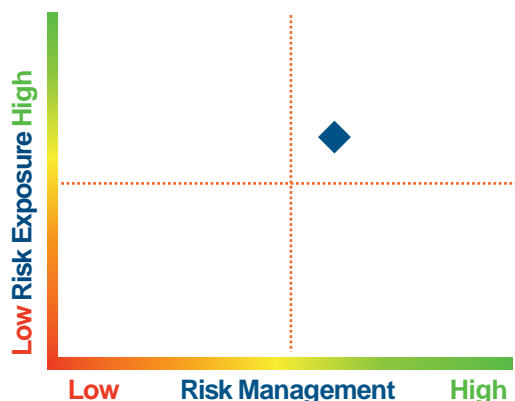


Recommendation:

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: 53.2
Risk Management Score: 52.9



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

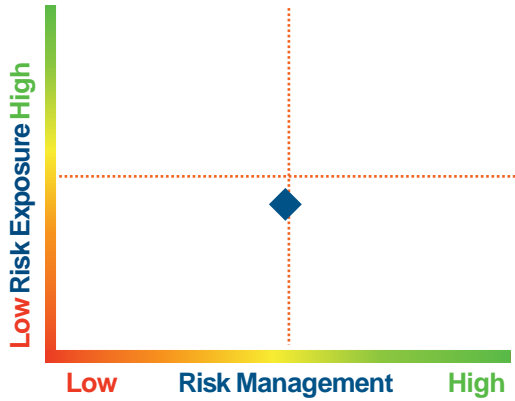


Recommendation:

Companies could implement cyber Risk Management programme; 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: 44.8
Risk Management Score: 49.5



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

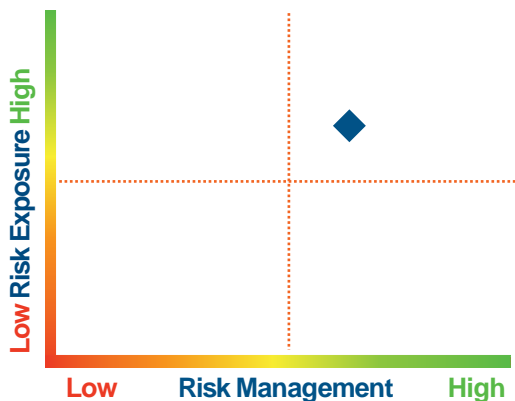


Recommendation:

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

Risk Dimension Analysis: Emerging Risk

Risk Exposure Score: 56.0
Risk Management Score: 54.1



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



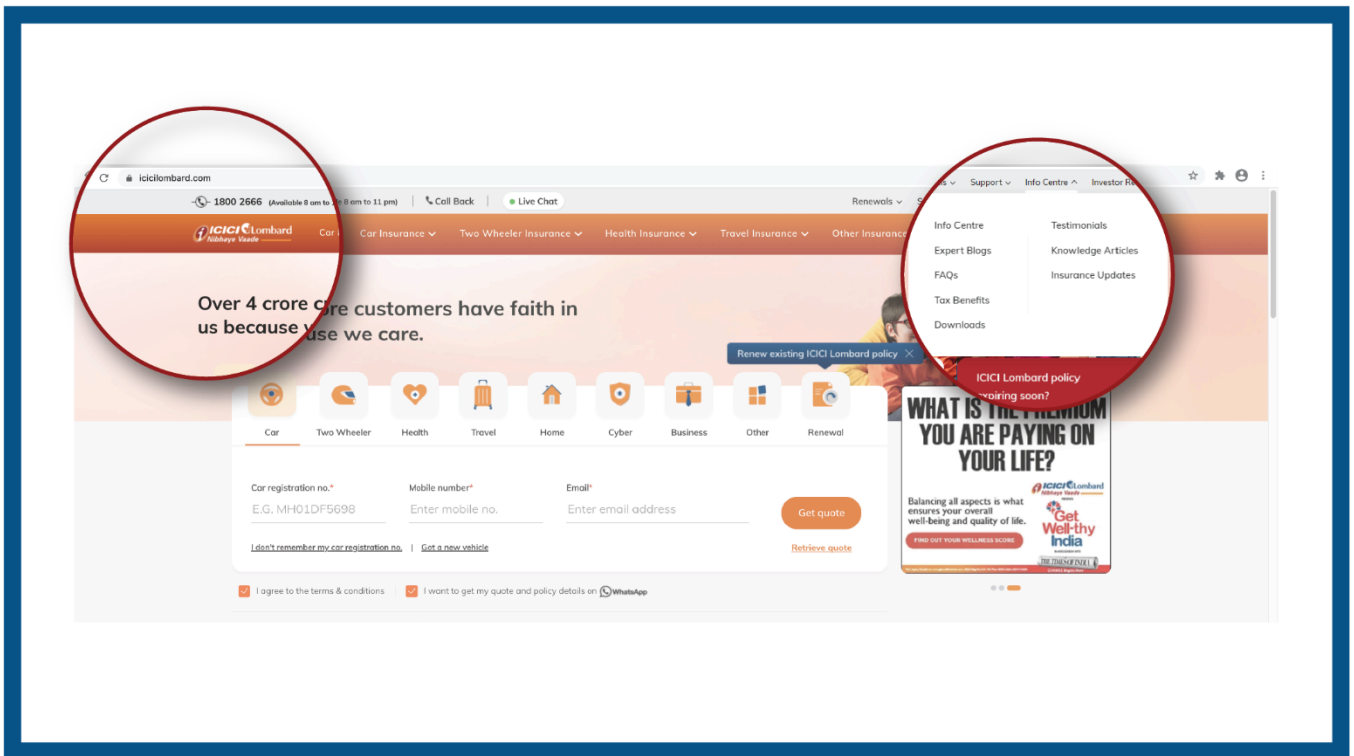
Recommendation:

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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Please send a mail to riskindex@icicilombard.com to know more about ICICI Lombard Corporate India Risk Index



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