ICICI Lombard
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CORPORATE INDIA RISK INDEX

2022

Intelligence partner FROST & SULLIVAN

SECTOR REPORT 2022

BFSI SECTOR


RISK

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Preface

Corporate India Risk Index is primarily an academic exercise to understand the level of risk that companies are facing and also assist in developing a successful risk aversion plan, CIRI is a first-of-its-kind risk measurement tool to gauge the level of a company's risk exposure and preparedness.

This Corporate risk comprises of various aspects of the business–spanning customer, competition, regulatory environment, business operations, technology finances, environmental factors etc. The impact of unprecedented events is significantly higher now.

This Index is a comprehensive framework that draws upon global risk management best practices and comprises of 32 risk elements across 6 broad dimensions. The Risk Index is based on the principles of Lean and Six Sigma that qualify business processes by measuring effectiveness and efficiency.

ICICI Lombard's Corporate India Risk Index provides a crucial tool for assessing and addressing risks, fostering resilience and adaptability in the ever-evolving global landscape. In the current climate of increasing macroeconomic uncertainties, it is essential for corporates to prioritize robust risk management. We believe that a proactive approach to risk management not only fortifies individual businesses but also contributes significantly to India's overall economic growth and stability.

Executive Summary

CIRI is a first-of-its-kind risk measurement tool to gauge the level of a company's risk exposure and preparedness. A higher score signifies more effective risk management, enabling companies to adopt appropriate risk management practices for the risks they are exposed to.

ICICI Lombard 3rd edition of Corporate India Risk Index showed a slight improvement despite the global headwinds related to inflation, geo-political tensions, and slowed global economic activities. However, in India the economic activities kept up the pace and registered a 'Corporate India Risk Index 2022' score of 63, which is up from 62 in 2021, representing "optimized risk handling" with a scope of further improvement. These findings are a part of the third edition of ICICI Lombard's Corporate India Risk Index (CIRI). The company has released the study in continued collaboration with Frost and Sullivan, a leading global management consulting firm.

Key Stats

Optimized Risk Index Score was aided by improvement in risk management, though the risk exposure increased due to multiple global factors.

Key Factors Comparison	2022	2021
Corporate India Risk Index	63	62
Corporate India Risk Management	66	65
Corporate India Risk Exposure	64	62

The finding of 2022 edition of risk index show that Telecom & Communication, Pharmaceuticals and Automotive and Ancillary are among the five sectors which show cased 'Superior Risk Index' showcasing better risk handling/management related to Operational and Market and Economy related risks. Chemicals & Petrochemical and Metals & Mining were at the border of 'Optimized Risk' Handling / management, being adversely impacted due to global factors like inflation, elevated crude oil prices, Russia-Ukraine border tensions, slowed global economic activities etc., however some risk was mitigated for the Chemical & Petrochemical sector by purchasing cheaper crude from Russia thus helping to reduce risk significantly.

The maximum improvement in risk index score was witnessed in Infra & Realty sector and Aerospace & Defense sector which secured a score of 59 & 62 up from 46 & 52 in 2021 respectively. The sectors bounced back due to the increase of demand and multiple government initiatives to boost the sectors by new strategic initiatives and business models. However, sectors like Chemical & Petrochemicals and Agriculture had a maximum downgrade in the index score due to high inflation and geopolitical tumult.

Introduction

ICICI Lombard Corporate India Risk Index is a one of its kind, unified, credible, standardized corporate Risk Index that spans over the country level, the industry level, and the company level. The index has a comprehensive sector coverage.

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

The impact is identified across key business risk (internal and external) under the following 'Strategic Risk Areas', The ICICI Lombard Corporate India Risk Index Framework comprises of 32 risk elements across 6 broad dimensions.

Market and Economic Risk

Corporate Risks arising due to market and economy related factors, such as internal or external political uncertainty, global slowdown, taxation-regulatory changes etc. Market and economy related risks are also identified as 'Systematic Risks', we have further classified the risks into below mentioned categories.

- **Inflation:** Inflation is the general increase in prices within the economy. The rising prices for businesses could result in bigger production spending and a fall in profitability. The companies should be attentive, acute, and responsive to changes in inflation to efficiently manage the prices of final products.
- **Taxation:** In a large democracy like India, complexity of multiple taxes (multiple taxes like GST, custom duties, central excise duty, etc.) is a major concern. The changing legislations, increased scrutiny by tax authorities and increasing public attention are together resulting in tax risks for organizations. There is, thus an increasing urgency for firms to manage their tax affairs efficiently to minimize tax risks.

- **Regulatory Risks:** Regulatory risk is the risk of changes in regulations and laws that might affect an industry or businesses. The regulatory changes can pertain to tariffs and trade policies, business laws pertaining to employment, minimum wage laws, financial regulation, Foreign Direct Investment etc.
- **Foreign Exchange Risk:** The exchange rate plays an important role for firms who export goods and import raw materials. The fluctuations in foreign exchange will have great impacts on the prices of traded goods. For example, if the currency depreciates (devaluation), the exporting firms will benefit. However, the firms importing raw materials will face higher costs on imports. The firms need to hedge their exposure to foreign exchange risks to insulate themselves from the impact from forex changes.
- **Geo-political Tension:** Geopolitical risk means the political and economic risks that are a potential threat to the financial and operational stability of companies.
- **Competitive risk:** Competitive risk is the risk associated with the fact that there are multiple companies competing in the market, each seeking to obtain the highest position and consumer ratings, to gain maximum benefits for themselves. The companies devise different strategies to garner a higher market share and acquire customers from competitors. Any failure in managing the competitive stand could lead to losses in business, thereby making marketing and competition a major risk in market.

Technology Risk

Technology risks are also identified as information technology related risks which may arise due to failure of any installed hardware or software system, spam, viruses or any malicious attack. Also delay/over/under adoption of trending disruptive technologies can lead to technology related risks. We have classified the risks in below mentioned categories.

- **Innovation Risk / Obsolete Technology**: Innovation is the key to success in all the industries. Risk of redundancy and losing out to competition on account of poor R&D is a major concern.
- **Intellectual Property risk:** Dependence on trade secrets and unpatented proprietary know-how.
- **Disruptive Technologies:** These will fundamentally alter the financial prospects of the industry.

Data Compromise: Hardware failure refers to malfunctions within the electronic circuits or electromechanical components (disks, tapes) of a computer system; Software failure refers to an operating system crash. Such failures lead to stoppage of entire computer or operating systems creating substantial losses to business.

Operational and Physical Risk

Risk of losses caused due to faulty or failed processes, systems or human resource related inefficiencies are classified as operational and physical risks. We have classified Operational & Physical risks in below mentioned categories.

- **Critical Infrastructure Failure / Machine Breakdown:** Industries with a heavy dependence on machinery consider any rise in machinery breakdowns a hindrance to their businesses operations. An untimely equipment breakdown can bring businesses to a standstill or be the root cause for fires and explosions. Mostly, human errors and deferred maintenances are the major reasons for such breakdowns. The companies should actively invest in timely maintenance of all machineries.

- **Business Continuity / Sustainability:** Non adoption of Business Continuity/ Sustainability Plans and Lack of Internal Control tools would result in: Failure of businesses, Brand Equity / Loss of reputation, Financial Loss, Business model Failure, Ineffective engagement/communication with stakeholders, Losses in productivity, Lack of opportunity monitoring.

- **Supply chain risk:** Raw Material unavailability and Heavy Dependence on Global Supply Chains / Supplier concentration risk. Unavailability of raw materials owing to disruption in the supply chain or heavy dependency on one source (company/country) which is unable to supply owing to some geo-political tensions, fires, or any other incidents. Transportation is one of the key activities for companies making it an important risk to mitigate. The loss of goods in transit and spillage is one of the major concerns as it accounts for a sizeable loss of revenue to companies.

- **Commodity Price Risk -** Volatility in prices of raw materials: The fluctuations in raw material prices creating a margin pressure / top-line pressure in the scenario of rising input costs.

- **Portfolio Risk:** Loss of key customers, Customer concentration - Key customers accounting for a larger share of revenue, Over-dependence on suppliers, Business Model Risk: Transformative changes in business model, Tail Risks: Ability to overcome or manage extreme worst-case scenarios.

- **Environmental Hazard Risk:** Any environmental hazard having the potential to affect the surrounding environment.

- **Workplace Accident:** Fire and Explosion Hazards, Containment Incidents, Workplace Injuries

- **Human Resource:** Key person risk: This risk occurs when a business or business unit becomes heavily reliant on a key individual. Talent acquisition and retention - The companies require a highly skilled labor force for R&D as well as continuous production. Accessing skilled resources and expertise on an on-going basis is one of the major challenges; moreover, retention of trained staff is imperative. Labor shortages, Union Strikes & Industrial Actions, Employee health, safety, and security (SHE/Sustainability risk).

- **Financial Risk:** Financial Reporting Risk: Material misstatement of Financial Statements, whether due to fraud or error. Interest rates and equity prices: Interest rate risk arising out of working capital borrowings at variable rates. Equity price fluctuations affect the Company's income or the value of its holdings of financial instruments. Liquidity Risk (Credit Risk / Receivables).
- **Breaches of law (local/ international):** Voluntary/ involuntary breaches of law can lead to costly lawsuits.

Crime & Security Risk

Cybersecurity risks relate to the loss of confidentiality, integrity, or availability of information, data, or information (or control) systems and reflect the potential adverse impacts to organizational operations. These attacks can cause major financial losses, reputational harm, and a loss of client trust. Regarding cybersecurity, the BFSI industry in India has several difficulties, including difficult-to-secure legacy systems, a shortage of qualified cybersecurity personnel, and the requirement for ongoing system and network monitoring. There is a significant investment in cybersecurity tools like network monitoring, endpoint security, access control, and threat intelligence. Many organizations are also implementing cutting-edge technology like artificial intelligence and machine learning to strengthen their security posture. Around 7.4% of the attacks in the Asian region were targeted at India in 2022.

We have classified Crime & Security risks in below mentioned categories.

- **Cyber Crimes:** Data Theft, Spam, scams and phishing, Hacking, Malwares and Viruses, Piracy, Fraud, Corruption, Malicious attacks
- **Counterfeiting:** Counterfeiting of goods/services leads to loss of revenues, profits and ultimately affects the brand equity
- Threat to Women Security
- **Terrorism:** Un-lawful use of violence and intimidation, especially against civilians, in the pursuit of political aims.

Natural Hazard Risk

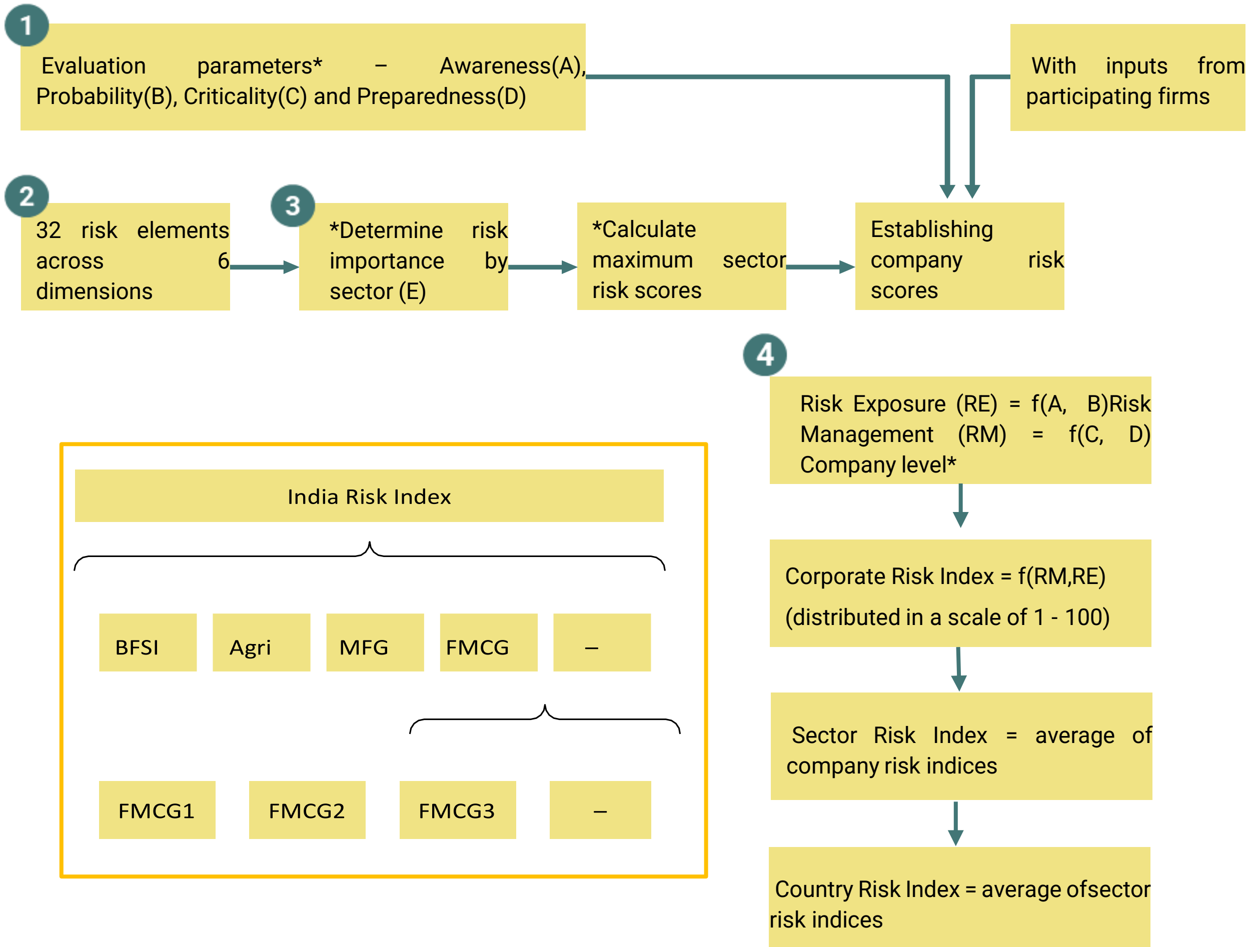
A natural hazard is the threat of an event that will likely have a negative impact. A natural disaster is the negative impact following an actual occurrence of natural hazard if it significantly harms a community. Due to India's geographical structure, it is one of the most disaster-prone countries in the world. Natural hazards like floods, earthquakes, landslides, and cyclones are common risks faced by India. The situation has worsened due to rise in GHG emissions, loss of biodiversity, deforestation, and degradation of environment. From Surat Gas leak to landslides in the north and cyclones in Bay of Bengal, the year 2022 was no exception. Such natural disasters hamper the day-to-day operations of corporates, and it is important for them to understand that such risks cannot go unheeded. Over the years, Indian corporates have learnt to mitigate such risks by diversifying their supply chains, having multiple logistics partners, diversified geographical presence and multiple vendors.

- **Pandemic and other global epidemic diseases:** Risk to business owing to disruptions caused by COVID-19 pandemic and similar another global epidemic.

Strategic risk

- Strategic risk is the risk that failed business decisions may pose to a company. Strategic risk is often a major factor in determining a company's worth, particularly observable if the company experiences a sharp decline in a short period of time. Several factors, such as unethical or unlawful activities, poor customer service, product recalls, data breaches, or unfavorable media coverage, can lead to strategic risk. An organization's reputation can be severely harmed by a single negative incident, such as a high-profile data breach or fraud scandal, resulting in a loss of clients, income, and market share.
- **Resource scarcity / Misutilization / Overall Utilization:** Difficulties in acquisition of land, water, fuel, or other resources for operations of business.
- **Public Sentiment:** Current events playing out in the public scene can change the public sentiment.
- **Delay in execution of projects:** Delays in execution of projects can surge in the capex.
- **Increased number of recalls and quality audits:** Impacts both the brand equity and increased operational expenses.
- **Failed / Hostile Mergers & Acquisitions:** High dependence on inorganic growth.

Bottom-Up Risk Assessment Approach



1. **Evaluation Parameters*:** The index maps the risks faced by any enterprise basis of Awareness, Probability, Criticality and Preparedness against the defined Risk elements. The evaluation Parametersare defined as: Awareness - Level of awareness of potential risk affecting the firm. - Likelihood of riskto affect the business goals of the firm adversely. Criticality - Level of impact of the identified risk on the success of business goals. Preparedness - Risk handling practices/ mechanisms already in place tohandle the risk.

2. **Determining Risk Importance*:** Importance/Impact of individual risk element is established against individual sector based on the published corporate risk reports, in depth sector understanding by F&Steam and SMEs.

3. **Calculating Maximum Sector Risk Score**: Weighted Sum of all risk elements based on their importanceto the respective sector.

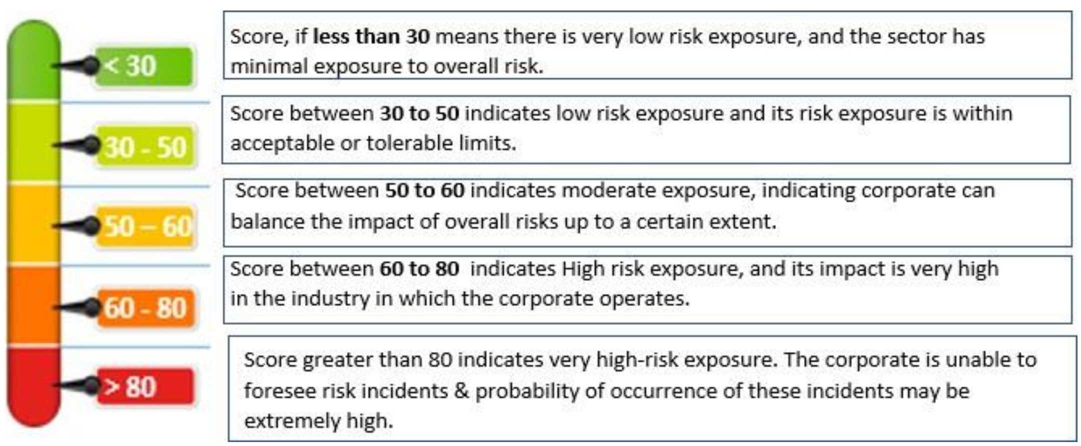
4. **Company Level*:** All the Risk Index scores for companies in a sector are averaged to represent the sector; and sectors average to India. Risk Exposure is defined as the function of corporate's Risk Awareness and Probability of risk occurrence. Risk Management is defined as the function of an enterprise risk preparedness and criticality risk impact assessment.

Defining the Risk Scale

We have selected 20 sectors to understand the current stand of our country today in terms of risk. Risk for various sectors is measured on the risk exposure scale and risk management scale.

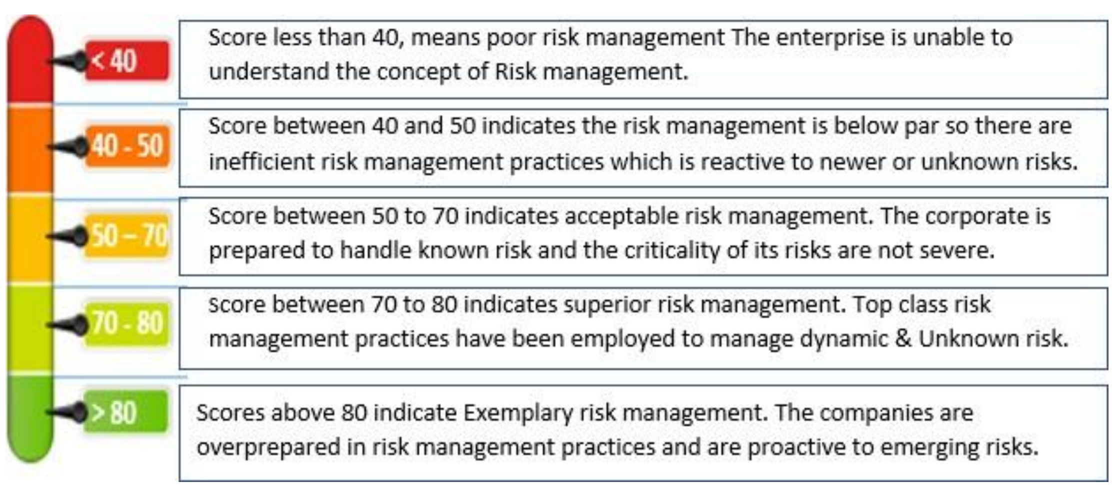
A. ICICI Lombard Corporate Risk Exposure – Scale

Risk Exposure: The impact of any internal, external or strategic occurrence on the financial performance of an organization is defined as the corporate risk exposure. Risk has traditionally been seen as something to be avoided – with the belief that if behavior is risky, it's not something a business should pursue. But the very nature of business is to take risks to attain growth. Risk can be a creator of value and can play a unique role in driving business performance. Let's look at the risk exposure scale.



B. ICICI Lombard Corporate Risk Management – Scale

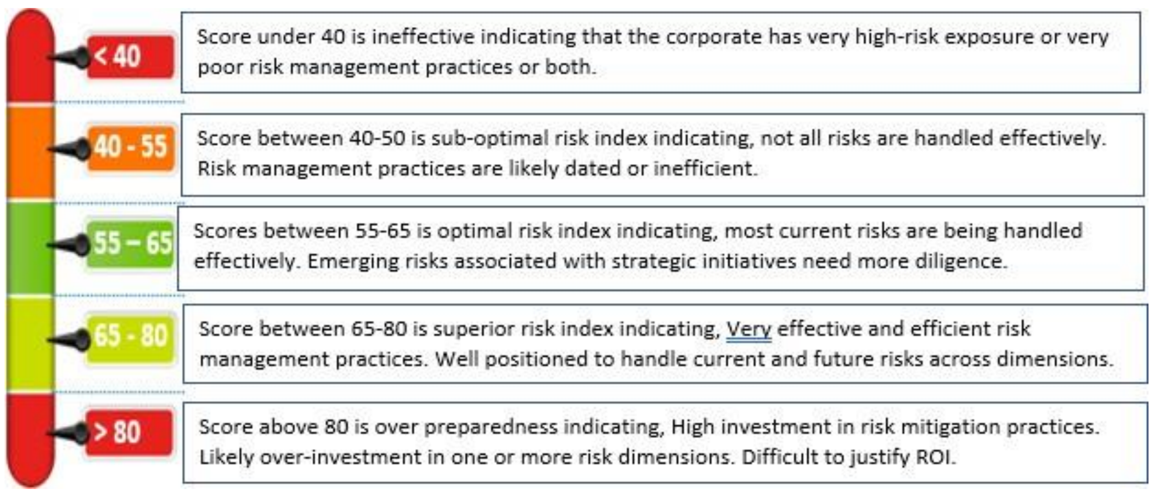
Risk Management: Identification, Evaluation and Prioritization of corporate risks followed by well-coordinated steps to minimize the occurrence of uncertainties in the foreseeable future is defined as the Corporate Risk Management. The risk management scale works in the opposite to that of the risk exposure scale. Let's look at the risk management scale.



C. ICICI Lombard Corporate Risk Index – Scale

Risk Index: Risk Index is a measurement tool to gauge the level of Risk Exposure against Risk Preparedness. The score intends to give companies/Sector/Country access to an extensive and quantifiable metrics of risk management.

Let's look at the risk Index scale.



India - Emerging Superpower with Optimized Corporate Risk Handling

Manufacturing sector contribution to India's GDP in 2022 stands at 17% and is expected to grow to 25% by 2025, the expected growth is attributed to various favorable schemes initiated by Government of India like 'Make in India', 'Digital India', Improved Road Infrastructure, implementation of modern technologies of manufacturing resulting in optimized and effective production, Also the pandemic has made business realize that they cannot just rely on a single manufacturing hub; hence notion of "China+1" is making the world realize the significance of India. China is in a trade war with the USA, which is positively shaping the role India will play in the global arena.

The below chart showcases the gradual increase in India's manufacturing exports.

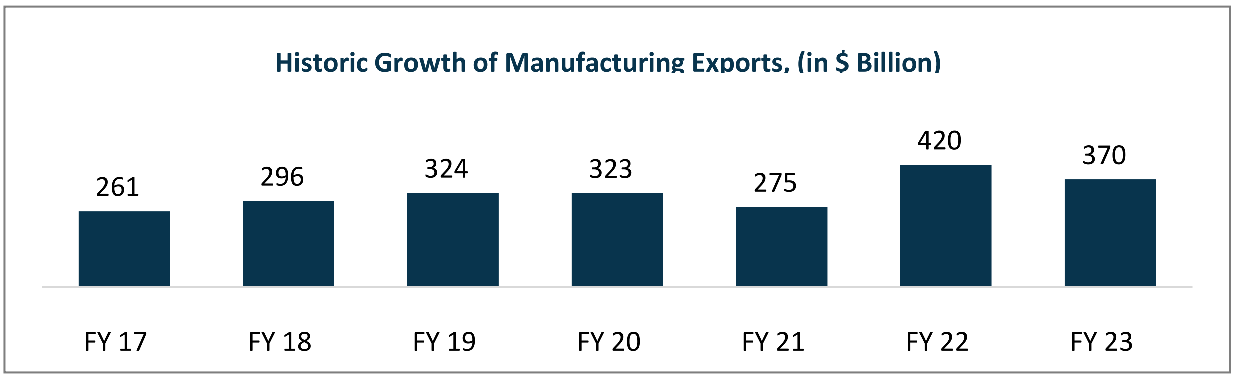


Figure 1: India's Growth of manufacturing exports. (Source: Redseer)

Indian manufacturing sector is also focusing on electronics manufacturing like mobile phones, industrial electronics consumer electronics, etc. due to government initiatives the production has doubled since 2015.

Aerospace and defense sector in India have evolved significantly, Govt. of India have identified A&D as area of focus due to the belligerent neighborhood, steps like Make in India(Atmanirbhar Bharat) is helping the overall defense sector, however India still remains the largest importer of arms and ammunition, favorable policies and ease in regulations is helping the drone industry in India and many new start-ups and big players are entering in this space.

Urbanization is another phenomenon evolving in India and it is estimated that by 2030 more than 400 million people will be living in cities, due to this megatrend huge push towards realty and infra sector is observed which is also the growth of ancillary industries like metals, cement, water availability, sanitation, mobility etc., the government along with the private sector is working on multiple initiatives to manage the huge inflow.

India has observed a steady adoption towards EVs in recent years, though India adoption still remains very low in comparison to Europe, Canada, China, however all big auto players are coming with new lines of EVs, and significant strategic investment have been made. The adoption is primarily due to lower running costs, lower maintenance, zero tailpipe emissions, tax and financial benefits by the government, convenience of charging.

BFSI sector in India is showcasing a significant robustness in the time of global crisis, there is a growing demand for financial services as there is a gradual rise in income across income brackets, with a rapid increase in mobile penetration and internet availability more than 2100 fintech companies have emerged in India, the traditional banks are also adopting the digital technologies at a required pace, investment on making the systems secured from cyber threats is utmost priority. Policy support by the government in the union budget 2021-22 is taking up shape and is helping the BFSI sector in 2022 and coming years, like government approval of 100% FDI for insurance intermediaries have increased the FDI limit to 74% from 49%.

Healthcare sector is also continuously growing healthcare has become the one of the India's largest employers, employing around 4.7 million people, though in 2021-22 India only spends 2.1% of its GDP in healthcare, in the union budget 2022-23, US$ 11.28 billion was allocated to the Ministry of Health and Family Welfare (MoHFW). there is still huge room for improvement in the overall healthcare system in India. Efforts towards having well trained medical professionals in India is top priority. There were exemplary development in the vaccine manufacturing by India, Bharat Biotech Covaxin and Oxford AstraZeneca's Covishield manufactured by SII, helped India get a protection shield against Covid. There is a plan by the government of India to infuse US $ 6 billion to boost the healthcare infrastructure in India.

The IT/ITes sector is a key engine for fueling India's economic growth and contributing to 7.5% of India's GDP in 2021-22, the Big four IT firms in India have recruited over 1 million employees, As the world is moving towards era of digital economy Indian IT-sector will be contributing significantly towards this journey, the rollout of 5G communication technologies and adoption of new age technologies across industries; like AI, Robotics, Internet of Things will further increase the size of Indian IT sector.

Indian enterprises are also concerned about the risks emerging out of the growing economy and the globalization India is heading towards, its observed that Indian enterprises are taking significant steps towards risk management and keeping budget allocated to implement best in class risk mitigation practices.

India Showcasing an Optimized Risk Handling

Figure 2: Corporate India Risk Index 2022

Corporate Risk Index Score of 63 implies that Indian enterprises are handling the risk in an optimal way but still there is scope of improvement to get into superior risk handling territory, Indian enterprises have a well-defined risk management practice in place for inherent risks, however risk management can be improved further as a potential buffer against potential risk events arising from market & economy, operational and technology related Risk events, openness towards adoption of technology and having a well-defined risk management team was observed across enterprises in India.

Sectorial categorization across above stated five categories, it was found that risk management is getting a paramount importance in the growth strategy of every organization and all the organization fell either into 'Superior Risk Management' or 'Optimal Risk Management' category.

From a risk exposure front the intensity of impact due to market and economy related risks increased due to the heightened inflation, global recession, and geopolitical tensions though from a regulation point the sector specific policies by the government helped the industries. Some of the inherent risks exposure due to the operational aspect did not see a significant change as compared to previous year, however companies are adopting diversification, technologically enabling the supply chain, and creating better hedging against financial related risks, whose results will be seen in coming years.

Below is a broader categorization of sectors in terms of risk index:

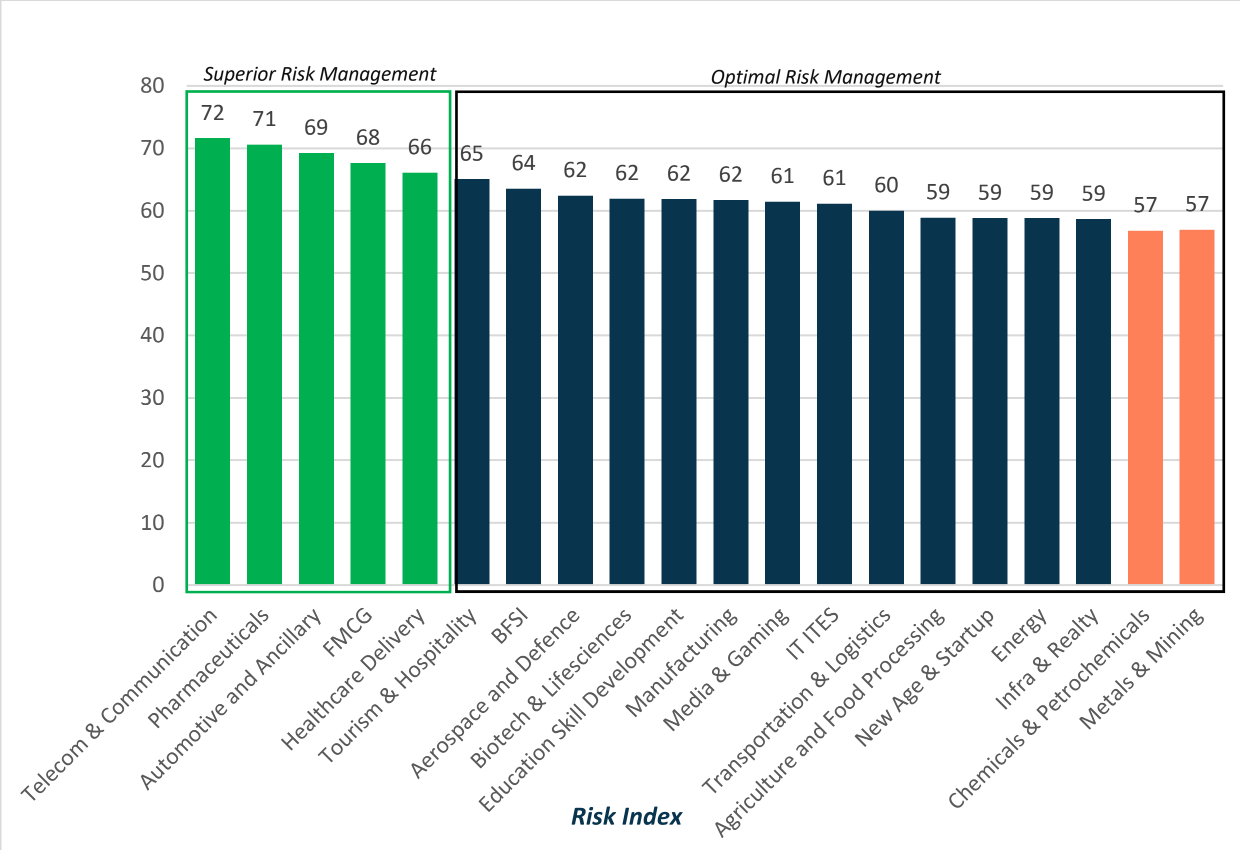


Figure 3: Corporate India Risk Index 2022 Sector Score

Superior Risk Index

Superior risk handling was found in five industrial sectors: Telecom & Communication, Pharmaceuticals, Automotive & Ancillary, FMCG, Healthcare Delivery.

Optimal Risk Index

Optimal risk handling was found in 15 industrial sectors: Tourism & Hospitality, BFSI, Aerospace & Defence, Biotech & Lifesciences, Education Skill Development, Manufacturing, Media and Gaming, IT & ITES, Transportation & Logistics, Agriculture and Food Processing, New Age & Startup, Energy, Infrastructure & Realty, Chemicals & Petrochemicals, Metals & Mining.

BFSI Insights 2022

The Indian Banking, Financial Services, and Insurance industry is becoming a five trillion-dollar company. In 2022, the BFSI's share has increased An essential component of the Indian economy, the BFSI (Banking, Financial Services, and Insurance) industry contributes significantly to growth and development. With new technology, altered regulations, and shifting consumer tastes, India's BFSI industry has seen tremendous transitions. The banking, insurance, mutual funds, and other financial services subsectors make up the Indian BFSI sector. Regulating organizations, including the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), and the Insurance Regulatory and Development Authority, have strict regulations and oversight over the industry (IRDAI).

The public and private sector banks both play a critical role in delivering financial services to the people, making the banking industry the foundation of India's financial system. With fresh goods and innovations introduced, the insurance industry has also experienced a tremendous expansion in recent years. With a large growth in assets under management, the mutual fund sector has also grown in popularity among investors in India. To enhance customer experience and boost operational efficiency, the BFSI industry in India has been at the forefront of implementing new technologies like mobile banking, digital payments, and artificial intelligence. The expansion of the BFSI industry in India has been further accelerated by the government's initiatives to promote financial inclusion and the creation of fintech start-ups.

The Indian Banking, Financial Services, and Insurance industry is becoming a five trillion-dollar company. In 2022, the BFSI's share has increased to 12% of the GDP and has a market capitalization of 90 lakh crores. There have been significant developments in the BFSI sector related to technology. With the help of telematics, data is analysed to evaluate consumer behaviour. With the help of AI, work in the insurance industry has been easier. IRDAI's introduction of the 'Use & File' reform in 2022 has helped customization and meet industry demands.

Also, the year 2022 has witnessed more and more people joining the digital distribution route. The year 2022–2023 also saw significant advancements in other facets of banking, such as asset quality and capital sufficiency. The scheduled commercial banks' gross non-performing assets (NPAs) decreased overall to 5.0%, and the CRAR for the banking sector remained robust at 16%.

Inflation rates were high, around 6.8%, and the chances of recession will be seen in 2023. In the first half, inflation rates were controlled by RBI, but later on, the rates were hiked, which affected the Indian banking sector badly. Public banks' credit-to-deposit ratio has increased compared to last year and stood at around 66-67%, which shows that the Indian banking sector may be more conservative in its lending practices and may have more liquidity available to cover unexpected withdrawals or other financial obligations. Government initiatives such as PM-JAY, PMFBY, PMJJBY, PMSBY etc., are increasing insurance penetration. The India Post Payments Bank (IPPB), a "Digital-First Bank" operating under the Ministry of Communication, Government of India, has significantly advanced towards attaining its financial inclusion objectives through digital banking.

The IPPB stated in January of this year that it had reached the five-crore customer milestone three years after operations began, making it one of the nation's fastest-growing digital payments banks.

Even though the bank's book looks good with fewer bad loans, the reality is that they wrote off a majority of the bad loans, but eventually, they remain in the system. The banking sector faced another big scam of around 23,000 crores, affecting the banking sector. Physical risks are also a significant concern for the BFSI sector, as climate change, natural disasters, and pandemics pose substantial threats. Rising sea levels and extreme weather events could result in billions of dollars in damage to coastal infrastructure and cause business operations to halt.

There has been an increase in the number of phishing attacks in India, at 7.4% targeting banks. 20% were targeted at digital banking, 18% at malware-based incidents, and 50% were data breaches.

India still has the highest Fintech adoption rate globally at 87%. The year 2022 was a mix, including both ups and downs. India recorded the highest GDP at 6.9% in the first half of 2022.

According to the Union Budget 2022-23, the government has set a divestiture target of Rs 65,000 crore for the fiscal year 2022–2023—a decrease from the revised estimate of Rs 78,000 crore for FY22. The ECLGS scheme's guarantee cover will increase by Rs 50,000 crore to Rs 5 lakh crore, and it will be extended till March 2023. The Insolvency and Bankruptcy Code (IBC) has been changed in order to facilitate smooth cross-border bankruptcy and expedite dispute settlement. Post office accounts will be included in the basic banking system. In order to make digital banking accessible to every individual, 75 digital banking units will be established across 75 districts. The Reserve Bank of India will introduce a blockchain-based digital rupee by 2023. The 2022 tax incentives for startups, including FinTechs, were extended by one more year until March 2023 and given tax refunds for three straight years.

Growth in Tier II and III cities is fueled by rising income levels, growing risk appetite, and urbanization. The industry will change in the following years due to improved distribution capacities. BFSI sector development will be impacted by variables such as rising income levels, more sophisticated clients, and a gradual drop in personal income tax rates.

The challenges faced in the year 2022 were as follows:

- Inflation was very high during the year.
- There was also a wave of shock when a famous banker was arrested for fraud. Reserve bank cancelled the licences of 12 cooperative banks due to weak performance, which affected the depositors in that area.
- The financial markets were particularly erratic during the Russia-Ukraine Conflict. The rupee lost value as well. The BSE Sensex dropped more than 1,250 points in early trade in February 2022, reaching a day's low of 56 394. At the same time, the rupee dropped 33 paise, or 0.44 per cent, to reach 74.84 to the dollar.
- There has been an increase in the number of phishing attacks in India targeting banks. The BFSI sector will witness more issues related to data breaches and the protection of customers' data.
- Increased regulatory oversight will necessitate ongoing monitoring and the adoption of risk-mitigation strategies based on a variety of control techniques, such as "Risk Based Audits" (RBA) as offered by: 1. In its RBA recommendations to banks, the Reserve Bank of India The Indian Insurance Regulatory Authority (IRDA) oversees the insurance sector. 2. SEBI, or the Securities Exchange Board of India, oversees the mutual fund sector.

BFSI Risk Index 2022 VS 2021

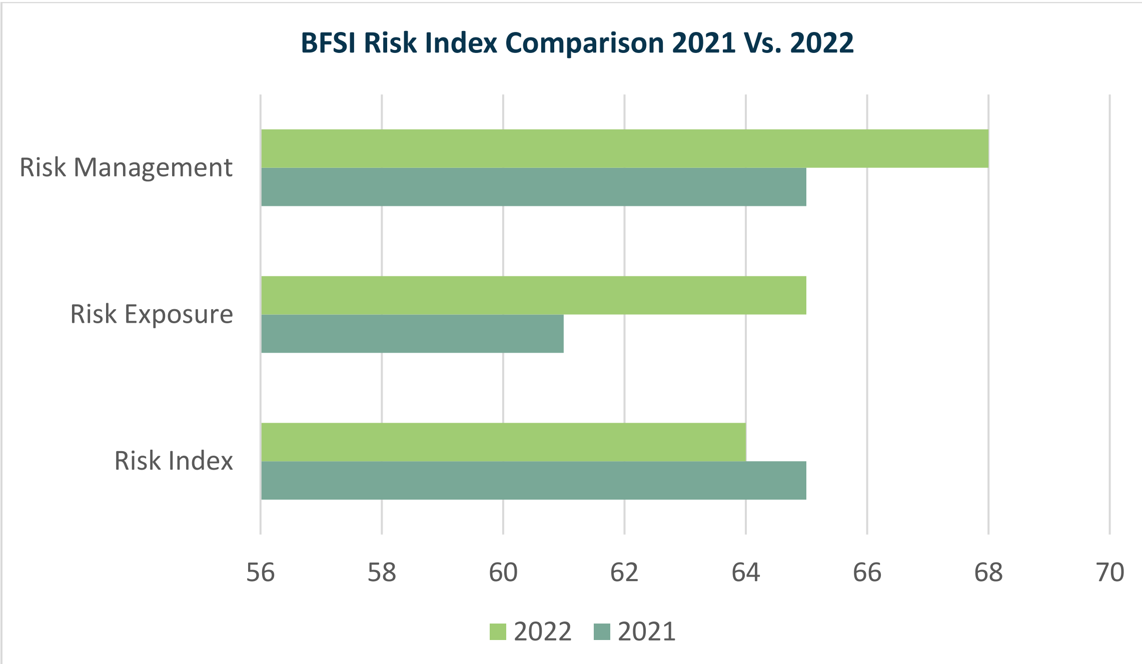


Figure 4: Comparative Analysis 2021 Vs. 2022

BFSI Risk Management 2022 Vs 2021

Risk Management Score improved to 68 in 2022. This is due to betterment in technology and digitalization, and risk management practices.

BFSI Risk Exposure 2022 Vs 2021

Risk Exposure significantly improved from 61 to 65 in 2022. This is due to the coming out of the Covid era disruption. Although the Russia-Ukraine war affected the BFSI sector, the sector managed well.

BFSI Risk Index 2022 Vs 2021

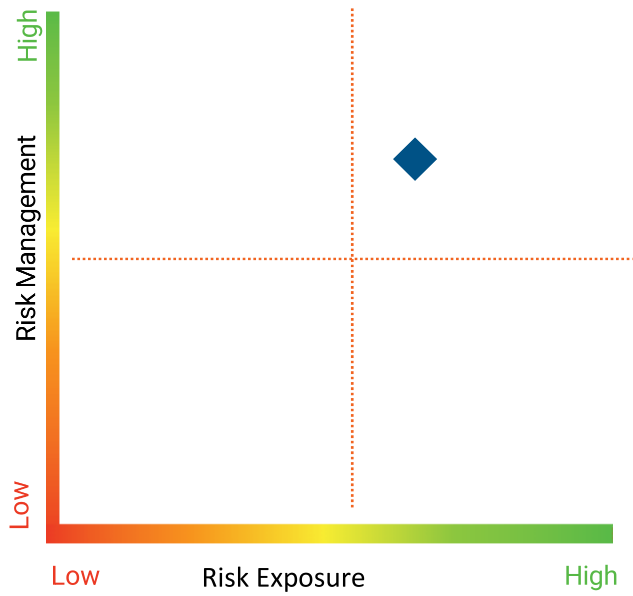
Although risk management and risk exposure index have improved, the risk index has slightly decreased from 65 to 64. This might be due to factors like a sudden increase in inflation, cybercrimes etc.

Key Highlights

Risk Dimension Analysis: Market and Economy

Risk Exposure Score: 63

Risk Management Score: 69



Inflation

- During 2022, India saw the highest inflation rates.
- Constant rate increases have increased the amount of EMIs that loan takers must pay, adding to the cost of living for individuals in an environment of rising inflation.
- Public banks' credit-to-deposit ratio has increased compared to last year.

Regulatory Risks

- The ministry is reviewing the Insurance Act, of 1938, like lowering the minimum capital requirement of Rs 100 crore for setting up insurance businesses.
- Credit risks remain high due to high bad loans.

Geopolitical Risks

- In response to the conflict in Russia and Ukraine, stock markets fell, inflation reached record highs, the rupee fell against the US dollar, foreign currency reserves were depleted, and other factors. During the war, the nation's inflation spiked to 40-year highs, prompting the Fed to raise interest rates several times, but these actions were put on hold after the Covid epidemic.
- There are no Indian banks with branches in Russia and no Indian banks with representative offices. As a result, the only other way Indian banks may be exposed to the Russia-Ukraine conflict is by financing Indian exporters or importers with connections to both nations. The only Indian bank with a presence in Russia has a tiny balance sheet of $100 million and is a joint venture between the public sector State Bank of India (SBI) and Canara Bank. At slightly over $8 billion, trade between India and Russia is likewise minuscule.

Taxation

- As on April 1, any revenue derived from the transfer of crypto assets will be subject to a 30% tax.

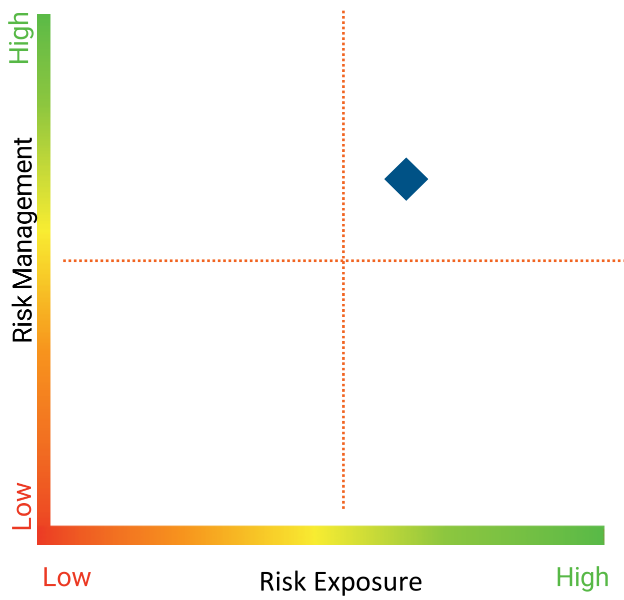
Regulatory Risks

- With Axis bank acquiring Citibank, the competitive risk has increased.
- HDFC Bank and HDFC Limited announced a transformative merger in April 2022.

Risk Dimension Analysis: Technology

Risk Exposure Score: 69

Risk Management Score: 68



Innovation Risk

- To enhance customer experience, much money was spent on cloud migration and digital-first initiatives in Retail banking and wealth management. Also, a debate is going on about using a cloud-native or cloud-agnostic approach.
- Technological transformation will continue to play an important role. The year 2022 has witnessed more and more people joining the digital distribution route.

Disruptive Technology

- The Reserve Bank of India thinks blockchain technology has great potential to upend the banking and financial industries.
- Axis Bank and ICICI, two significant participants in the Indian BFSI industry, have demonstrated a serious interest in experimenting with Blockchain technology.

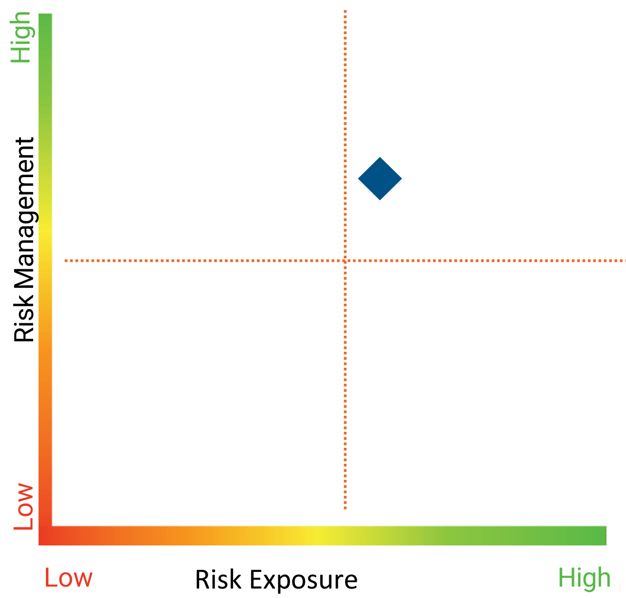
Intellectual property

- India is still listed as a priority in the USTR's Special 301 report for 2022.
- Three judges have just been appointed by the Delhi High Court to serve solely as the IPD, and the Court will announce its detailed guidelines for the IPD in February 2022. The Court also announced its procedures for handling patent lawsuits simultaneously. According to the April 2022 Parliamentary Committee Report, the Indian government should urge High Courts nationwide to create their IPDs.
- Important IP protection could have been undermined, and innovation could have been stifled by the Data Protection Bill, 2021, which was recommended by a Joint Parliamentary Committee on data protection in December 2021. This is especially true given India's outdated and inadequate trade secret protection laws. The bill was abandoned in August 2022, but a replacement is expected to be submitted as part of India's new data privacy law framework.

Risk Dimension Analysis: Operational and Physical

Risk Exposure Score: 59

Risk Management Score: 65



Infrastructure Failure

- The BFSI sector is especially vulnerable due to its high international connectivity and dependence on timely delivery.
- Market infrastructure providers are expected to provide more than low latency, competitive costs, and the best execution. They must offer a bundle of services across the trading life cycle to simplify workflows and give customers a competitive edge. This will require market infrastructure providers to create differentiated sources of value.

Environmental Risk

- Physical risks are also a major concern for the BFSI sector, as climate change, natural disasters, and pandemics pose significant threats.

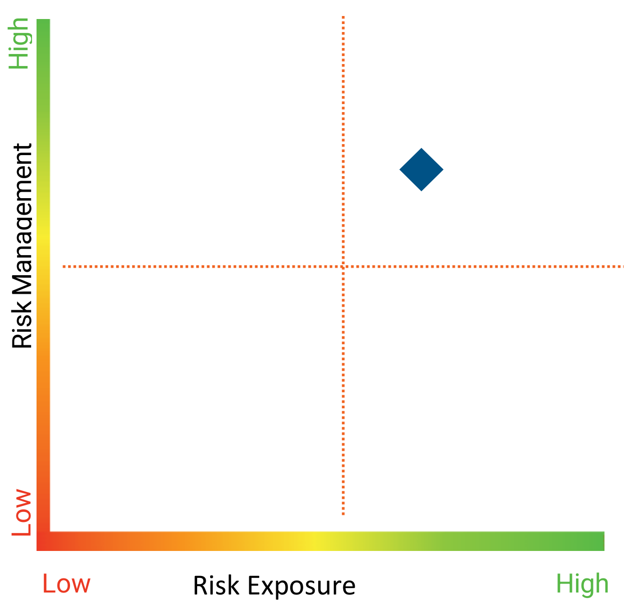
Financial Risk

- Investment banking will likely face unique challenges in 2023, including divergent interest rate trajectories and volatile asset markets. This unpredictability may create headwinds for prospective deal-making and underwriting, as well as stress capital and liquidity buffers. However, it may also create opportunities for Fixed Income, Currencies, Commodities (FICC) and equities divisions.
- Retail banking will face challenges shortly, with higher interest rates, inflation, and slower growth weighing on banks globally.
- Commercial banking is also set to face challenges, with higher rates, inflation, persistent supply chain shocks, and a potential recession creating a more stressful environment for corporates. While net interest income may improve for commercial banks, they must compete fiercely to win a more significant share of corporate clients' wallets by providing bespoke digital solutions, data-rich insights, and tailored advice.
- The wealth management industry is experiencing multiple forces transforming market dynamics, including generational wealth transfer and the democratization of advice. These changes are prompting a shift towards client-centricity, with customers seeking holistic advice rather than product-focused solutions. However, wealth managers must reshape their business models to adapt to these changes while remaining cost-efficient and scalable.

Risk Dimension Analysis: Crime and Security

Risk Exposure Score: 69

Risk Management Score: 70



Cyber-crimes

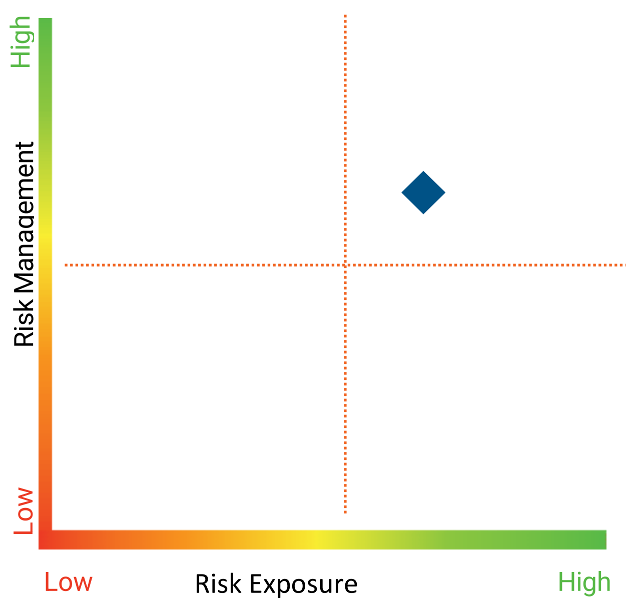
- The BFSI sector will witness more issues related to data breaches and the protection of customers' data.
- There has been an increase in the number of phishing attacks in India.
- These included targets at digital banking, malware-based incidents, and data breaches.
- The most popular technique is to send an SMS with a phishing link to entice potential customers to enter their personal information in exchange for reward points or reimbursements.

- The target group comprises millions of clients from seven well-known bank subscribers. Similar to this, the Threat Research & Information Analytics Division (TRIAD) of security company CloudSEK has identified distinct phishing techniques that hackers employ to attack the Indian banking sector.
- Customers must be more vigilant while sharing passwords or OTP and not clicking suspicious emails or messages.
- The Indian government notified the parliament in August 2022 that between June 2018 and March 2022, Indian banks reported 248 successful data breaches by hackers
- The RBI has instructed all banks to provide EMV chip-based cards in order to resist these complex cyber threats. Using three-step authentication (card authentication, cardholder verification, and transaction authorisation), EMV chip cards assist in protecting financial transactions.
- Government has spend 810 millions on Cybersecurity in BFSI sector in 2022.

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure Score: 67

Risk Management Score: 69



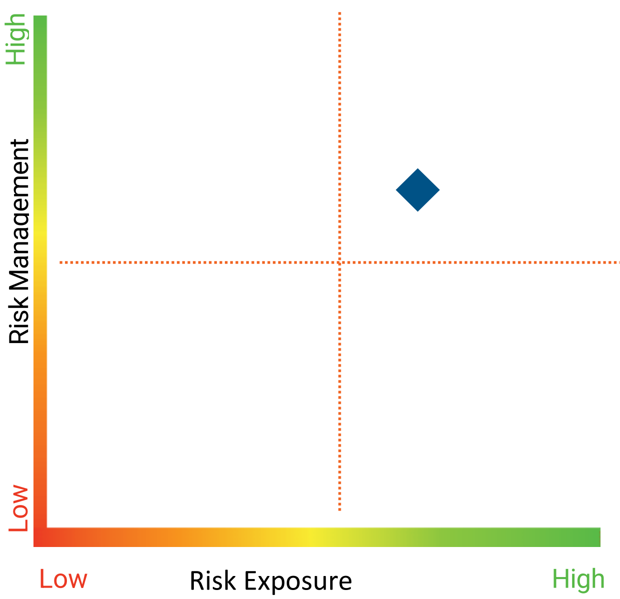
Natural Hazards

- Climate change, natural disasters, and pandemics pose significant threats.
- Rising sea levels and extreme weather events could result in billions of dollars in damage to coastal infrastructure and cause business operations to halt.
- Meanwhile, a pandemic could lead to trillions of dollars in economic losses.

Risk Dimension Analysis: Strategic Risk

Risk Exposure Score: 64

Risk Management Score: 66



Increased number of recalls

- There was strategic risk involved when Banking sector faced a setback due to the ABG shipyard scam, with SBI being a member of a group of 28 banks and financial institutions led by ICICI Bank with an exposure of $2,468.51 billion.

Other

- By the establishment of a new distribution exchange platform, the Bombay Stock Exchange (BSE) and Ebix Inc. will form a joint venture to develop a strong insurance distribution network in the nation.
- In FY22, 127 initial public offerings raised $14.55 billion dollars (IPOs). By FY22, there were 2,012 businesses listed on the NSE, up from 135 in 1995.
- UPI becomes operational in all UAE Neopay terminals in April 2022.
- A sizable market for rural finance may be reached by assuring timely loans, which are essential for the agricultural industry.
- Self Help Groups and NGOs are effective tools for reaching India's rural areas. In rural India, there may be sizable markets for weather, livestock, and agricultural insurance.

ICICI LOMBARD: Key Solution Offerings

Property

a. Businesses are always prone to risks and fire eruption and fire insurance provides a comprehensive protection against damages caused due to fire explosion and other risks. Besides fire related perils, it also protect damages caused due to any natural calamity, bursting of water tanks, theft etc. The built in covers include alterations or extensions, stocks on floater basis, temporary removal of stock, cover for specific contents, start-up expenses, professional fees, costs for removal of debris etc

b. Solutions

- **i. Property Loss Prevention exercise** - We have developed the methodology of Property Value Added Services for corporate customers which focuses on technical engagement with detail risk visit, followed by benchmarking of the risk (Industry Risk Profiling).
- **ii. Fire Hydrant IoT** - Fire hydrant online monitoring devices use IoT to monitor fire hydrants and assure their availability in emergencies. We've helped multiple corporate customers maintain and monitor this important fire safety component in real time.

Marine

a. We offer specially curated plans for covering the risk of theft, malicious damage, shortage, and non-delivery of goods, damages during loading and unloading, and mishandling of goods/cargo

b. Marine Cargo insurance primarily covers loss during transit caused due to fire, explosion, hijacks, accidents, collisions, and overturning

c. Solutions

- **i. GPS Device Tracking**: With the help of our advance GPS devices we can have bird eye view on the consignment and vehicle from anywhere in the world. OurSAAS allows us to track and get the visibility of the vehicle on the basis of our requirements which is fully customizable

Liability

a. Comprehensive general liability:

- **i.** This policy is important for every small and medium sized businesses to protect the insured entity against claims arising out of legal liability where they are heldresponsible for third party bodily injury or property damage due to insured's business, premises or products. It should be taken by every new business as it covers all risk a business may face.

b. Cyber - With cyber risk steadily increasing, security/ data breaches affect millions of records a year. Cyber Risk insurance coverage is designed to help an organization mitigate its risk exposure by offsetting costs involved with recovery after a cyber-related security breach or similar event.

c. Solutions

- **i. Simulated phishing tests** - Simulated real looking phishing tests andrecord employee behavior to phishing attacks along with training collateral in form of co-brandable posters, infographics and videos

- **ii. Cyber maturity assessments** - Assess the security posture of your organization and identify the potential risks with our assessment based on ISO 27001 Control measures for Information security

- **iii. D&O** - The need of Directors & Officers Insurance is more than ever before. Any breachor non-performance in the duties can result in claims against directors, officers and employees by reason of wrongful act and need to incur various expenses like defense costs, damages or compensation and other incidental costs. This can affect company's growth and performance.

Group Health

a. Employees are the backbone of an organization and the most valued asset. OurGroup health insurance product is designed to offer health coverage to suit employees of all business types ranging from small & medium enterprises to large organizations.

b. **Solutions:**

   i. **IL Take Care -** AI enabled mobile app for employees

   ii. **Health assistance services -** Health Assistance is a dedicated medical care service that assists you in all your health related queries for identifying specialist/hospital/fixing an appointment with doctors/nutritionist /facilitating2nd opinion

   iii. **Tele Consultation –** Hello Doctor

   iv. The insured is eligible to avail unlimited General Physician consultations for routine health issues over the phone by aqualified doctor

   v. **Diagnostics & pharmacy services –** Book a lab test or home delivery of medicines

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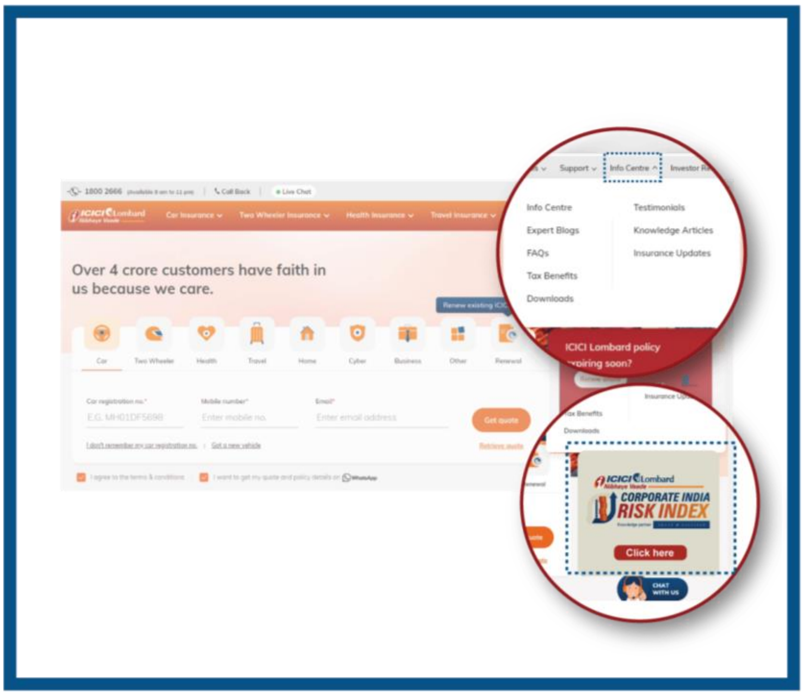

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