ICICI Lombard
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CORPORATE INDIA RISK INDEX
2021

Intelligence partner FROST & SULLIVAN

Sector: BFSI

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/ Impresonation
- Physical violence/ abuse

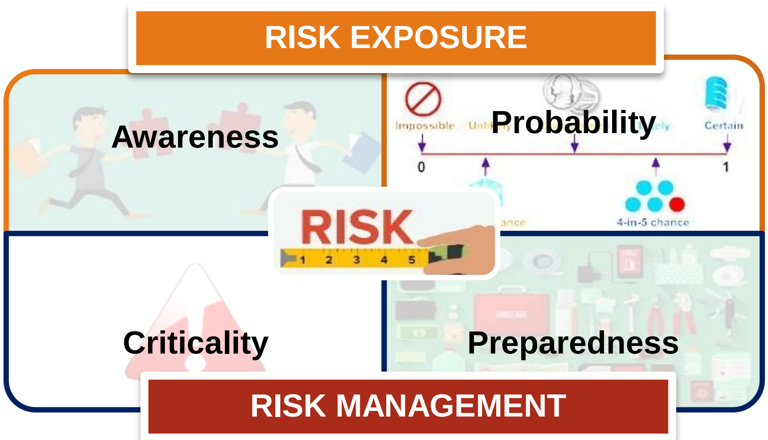
Operational and Physical
- Accidents/Fire Safety
- Strikes/Closure/Unrest
- Supply Chain Risk
- Environmental Risk
- Terrorism and Insurgency
- Equipment Malfunction

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

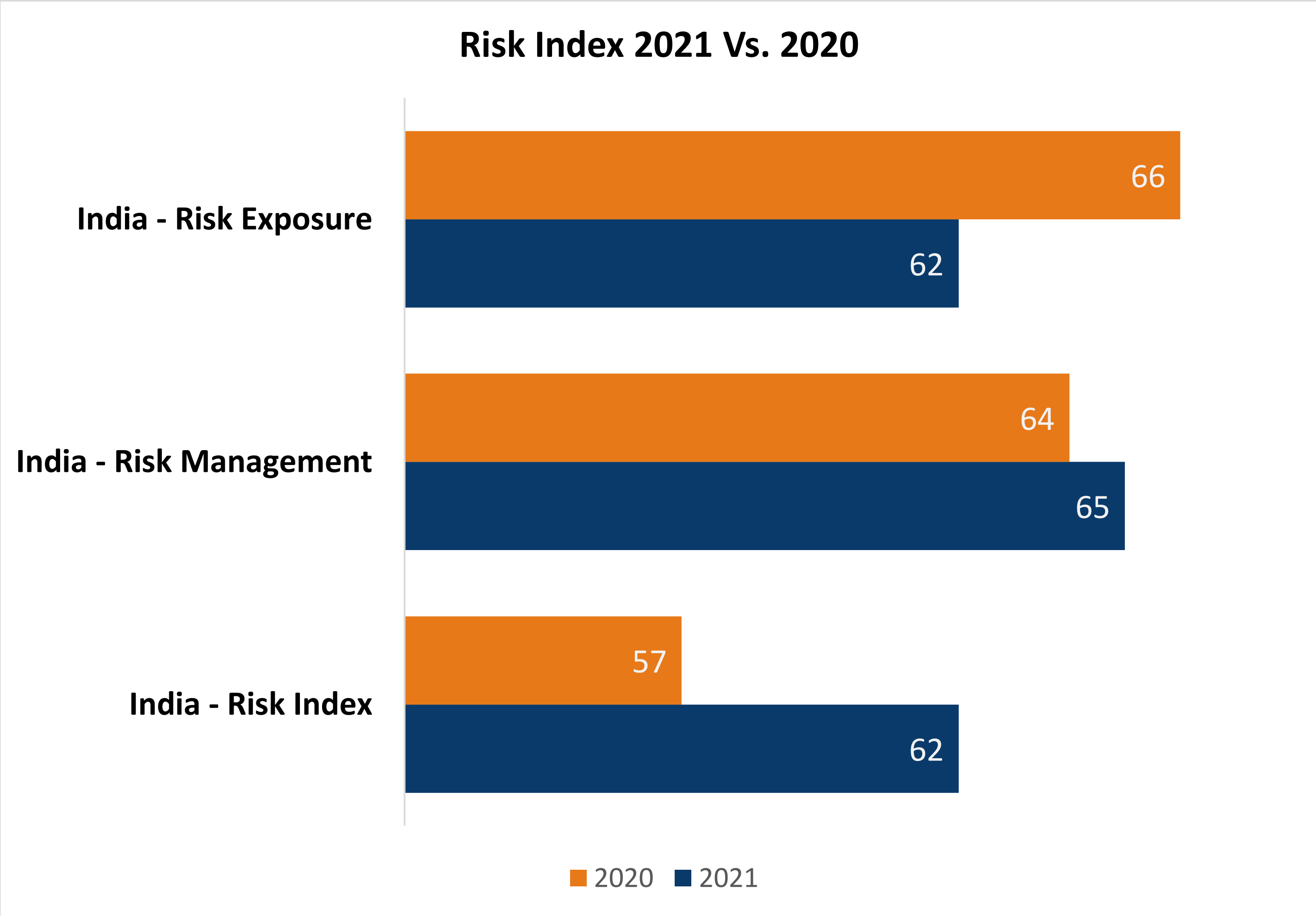
ICICI Lombard Corporate Risk Management – Scale

Score	< 40	40 - 50	50 – 70	70 - 80	> 80
Category	**Poor Risk Management** Unable to understand the concept of Risk management and reactive to overall risks that affect it.	**Below Par Risk Management** Use of inefficient or legacy risk management practices which is reactive to newer or unknown risks.	**Acceptable Risk Management** The corporate is prepared to handle known risks and the criticality of its risks are not severe.	**Superior Risk Management** Top class risk management practices with its ability to manage dynamic risks as well as unknown risks.	**Exemplary Risk Management** 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** The corporate has very high exposure or very poor risk management practices or both	**Sub-optimal** Not all risks are handled effectively. Risk management practices are likely dated or inefficient.	**Optimal** Most current risks are being handled effectively. Emerging risks associated with strategic initiatives need more diligence.	**Superior** Very effective and efficient risk management practices. Well positioned to handle current and future risks across dimensions.	**Over-prepared** High investment in risk mitigation practices. Likely over-investment in one or more risk dimensions. Difficult to justify ROI

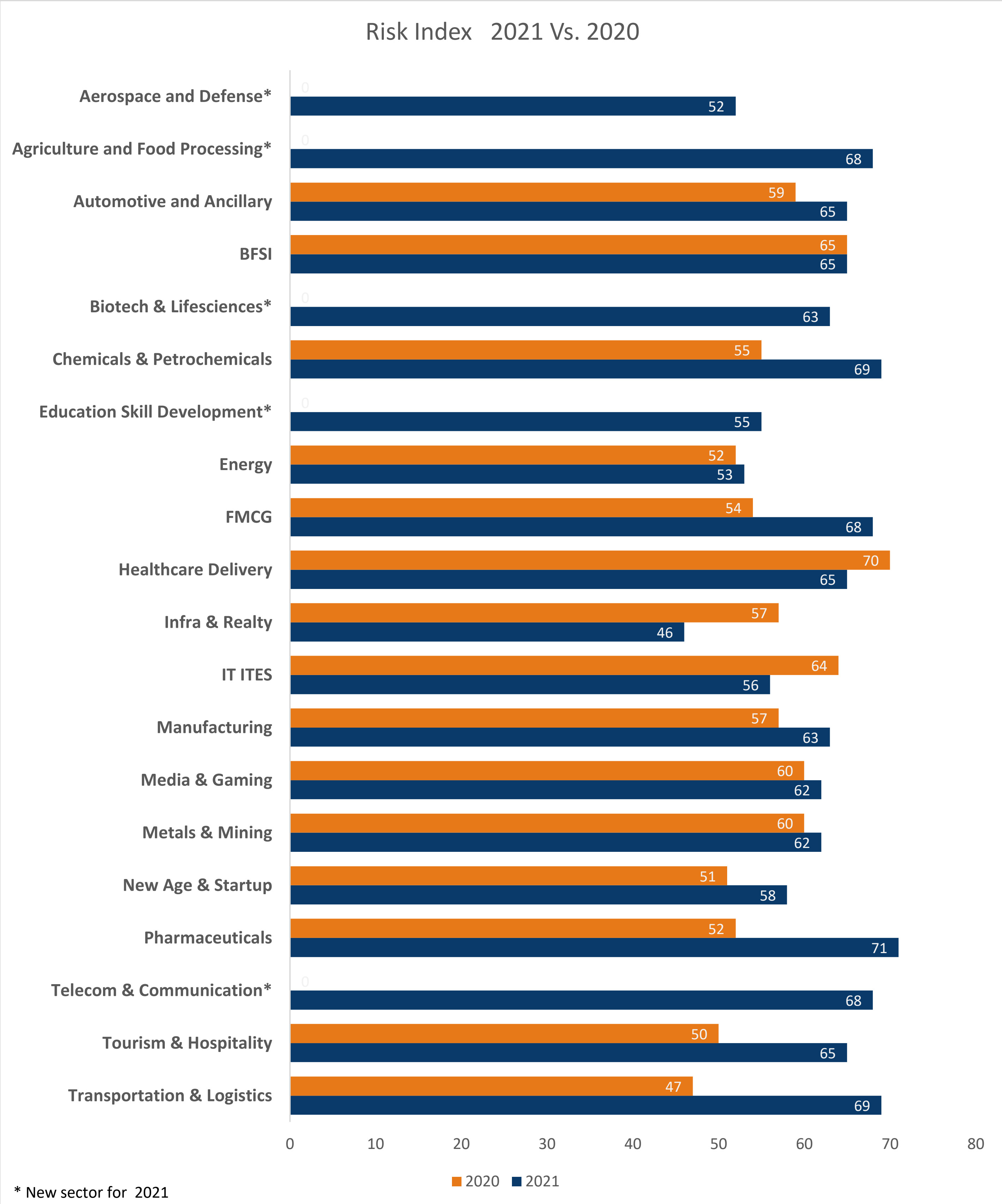
ICICI Lombard Corporate India Risk Index



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



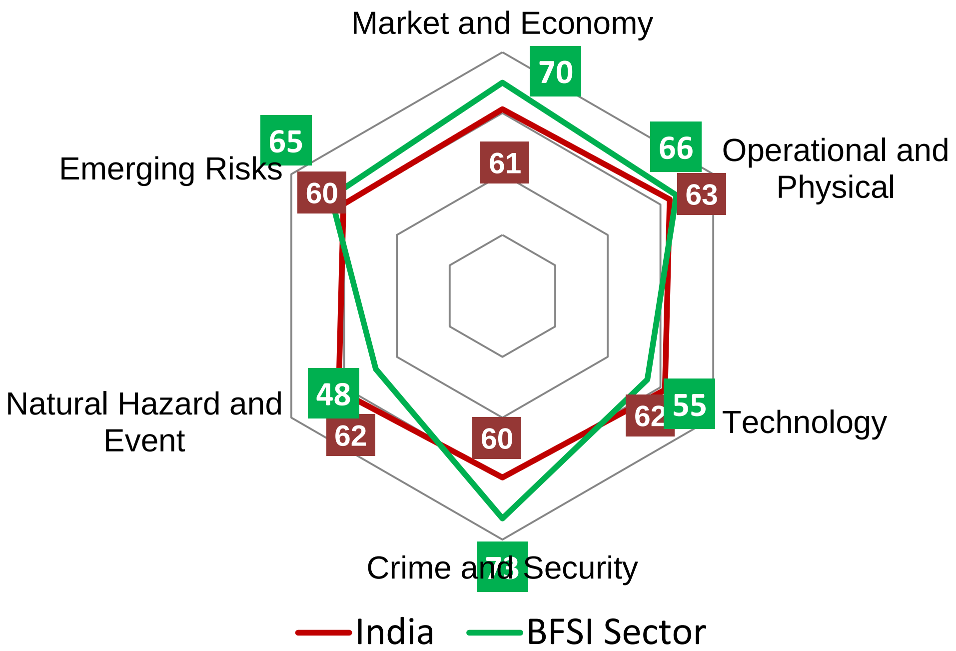
Observations:

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.

India Risk Profile Vs. Sector Risk Profile

Risk Profile	2022 Risk Exposure	2022 Risk Management	2022 Risk Index	2021 Risk Index
India	62	65	**62**	**57**
BFSI Sector	61	65	**65**	**65**

India Risk Index Vs. BFSI Sector Risk Index



The Indian BFSI sector's Risk Exposure score of 61 can be attributed mainly to factors like

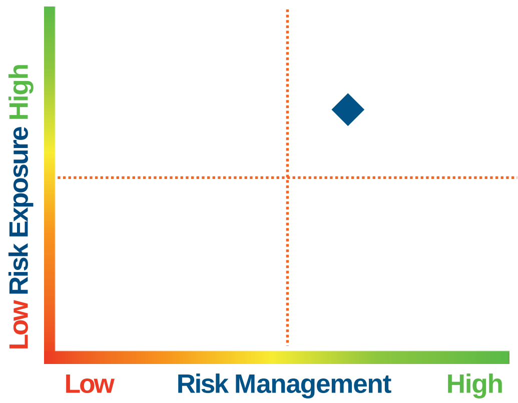
- Pandemic-related policies and regulation, interest rate environment, rapidly developing digital technologies and rapid shift to virtual, remote work environments.
- Thus, market & economy, technology and strategic risks are amongst the prime concerns for the financial services industry and have a significant impact on shaping the business operations.

The overall Risk Management score is 65 indicates the

- need for the BFSI companies to improve their risk management practices further.to tackle risks emanating from Technology and Natural hazards.
- Regulated sectors like the BFSI have the best risk management practices in terms of handling risks associated with Market & Economy and Crime and Security. These companies are more risk conscious as the regulators manage to bring in consistency and discipline.
- To address and mitigate the recurring risks, the RBI has issued multiple regulations addressing monetary transmission, bank credit flows, and sector-specific liquidity constraints over the last year. The Credit Policy Committee (CPC) oversees credit/counterparty risk and country risk, while the Asset-Liability Management Committee (ALCO) deals with various types of market risk. Market and credit risks are thus managed in banks in a two-track approach.

Risk Dimension Analysis: Market and Economy

Risk Exposure Score: 60
Risk Management Score: 65



Pandemic-related macro-economic risks are top concerns in the sector

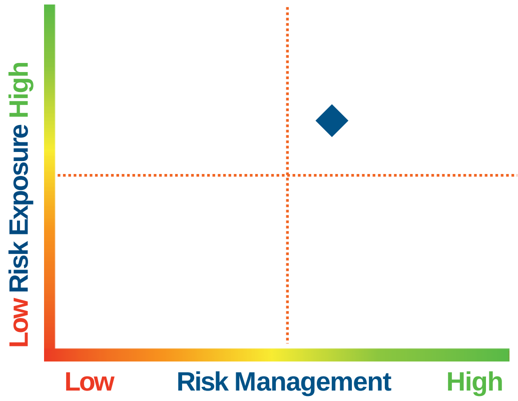
- Credit risk remains very high for Indian banks. These banks hold elevated levels of stressed corporate assets and, despite new foreclosure laws, progress on their resolution has been slow.
- Increase in working population and growing disposable income can lead to rise in demand for banking and related services
- RBI's new measures may go a long way in helping the restructuring of the domestic banking industry.

Recommendation:

Companies can leverage strong growth opportunities in deposits due to the country's high savings rate. Large banks can focus on gaining market share and consolidating the industry. Upgrading technology infrastructure to enhance customer's overall experience can further give banks a competitive edge.

Risk Dimension Analysis: Technology

Risk Exposure Score: 66
Risk Management Score: 67



Technology maturity and the ability to innovate quickly in order to stay relevant

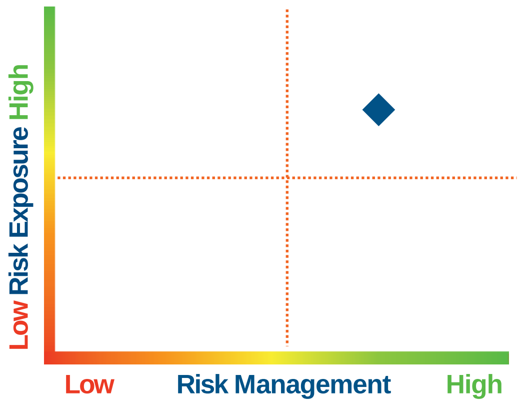
- India has the highest FinTech adoption rate globally. High growth is expected toward digital payments (led by UPI), Cashless Economy and digital lending, WealthTech platforms etc.
- Continuous efforts by the GoI through initiatives to create platform for growth and innovation in the sector like launch of e-RUPI, a person and purpose-specific digital payment solution
- Rise in higher investments into the segment along with leveraging AI and ML to create customized product segments

Recommendation:

Continuous developments and adoption of technologies like the public and hybrid cloud space, blockchain, microservices-based architecture, and artificial intelligence can enhance risk monitoring and management capabilities of the companies in the BFSI sector.

Risk Dimension Analysis: Operational and Physical

Risk Exposure Score: 61
Risk Management Score: 65



Model & Enterprise risk management needs to undergo comprehensive changes

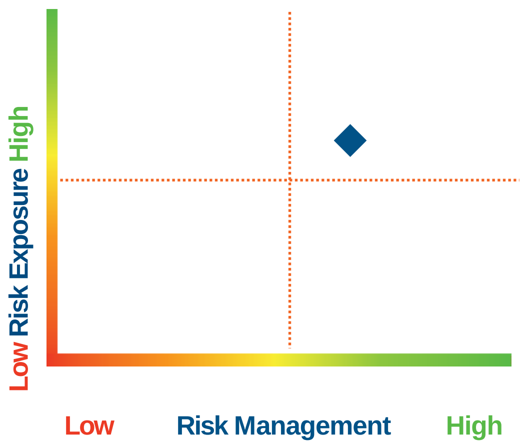
- Plans to establish a "bad bank" and strengthen the National Company Law Tribunal framework (Fiscal 2022 Budget announcement).
- The banking sector's funding profile remains its strength. Indian banks' good franchise, extensive branch network and large domestic savings support a granular and stable deposit base.
- Accelerated adoption of open banking increases the sector's reliance on sophisticated financial models involving big data algorithms which carry with them huge risks related to awareness, accuracy and validation..

Recommendation:

Government measures can benefit banks if they ensure that management resources are not spent on recoveries of weak assets. Further, adoption of responsible and trustworthy AI-driven financial models can allow banks to uphold ethics and governance and minimize model risks, while driving continuous efficiencies.

Risk Dimension Analysis: Crime and Security

Risk Exposure Score: 61
Risk Management Score: 67



The Rising Online Banking Frauds in India

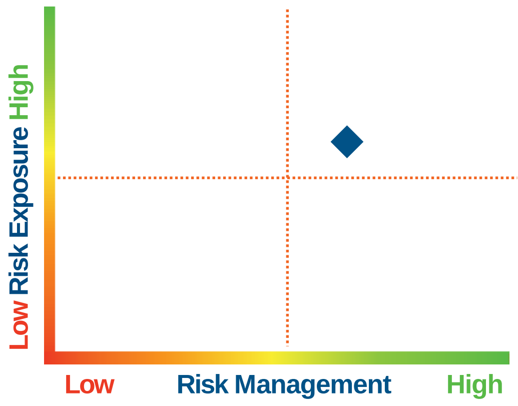
- The RBI introduced new auto debit rules with a mandatory additional factor of authentication (AFA), to improve the safety and security of card transactions, as part of its risk mitigation measures.
- Established providers seek both to maximize the value of their vast historical data sets and protect them from upstart competitors in order to prevent disintermediation, in a way that complies with rapidly evolving privacy compliance environment.
- Implementation of cyber security awareness tools in office systems can help in simulating cyber attacks to check the number of vulnerable employees in the organization and train them accordingly

Recommendation:

Companies can work towards inclusion of blockchain in banking. The shared infrastructure of blockchain ensures the veracity of information, making it easier for banks to detect fraud and eliminate risks. Furthermore, adoption to cloud will ensure the security of on-premise set-up

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure Score: 57
Risk Management Score: 56



Causal impact of an pandemic like Covid-19 on banks due to lockdown

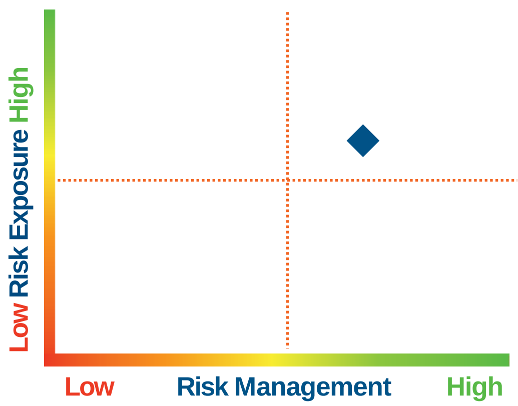
- For Indian banks, the pandemic-induced downturn has slowed asset quality improvement. Small and midsize businesses (SME) have taken the brunt of the blow, followed by retail loans.
- In response to the novel corona virus crisis, the Reserve Bank of India asked all lending institutions to allow a three-month moratorium on EMI payments.
- COVID-19 has led to significant structural and behavioral changes such as disruptions to physical operations, impact on asset quality and liquidity, and demand pressure on digital channels, posing challenges across key functions.

Recommendation:

Organizations must also keep track of government-mandated constructions at their infrastructure facilities and deploy a disaster management team along with a disaster relief programme. It can identify priority areas post the event, that have the potential to help kick-start the recovery of the business.

Risk Dimension Analysis: Strategic Risk

Risk Exposure Score: 60
Risk Management Score: 64



Risk of poor implementation of business decisions and lack of responsiveness to changes

- By setting up the National Centre for Financial Education and implementation of the Centre for Financial Literacy project, RBI aims to promote financial education across India for all sections of the population.
- 'On-tap' bank licensing norms, which NBFCs eligible to convert to banks are required to abide by, are driven by certain important parameters for ensuring financial stability and customer protection.
- Some of the well-balanced measures include minimum initial seed capital, promoter stake, fit and proper criteria, permissible period for entity listing, holding company model to keep ownership, and risks associated with conflict of interest.

Recommendation:

Stakeholders need to build adequate systemic control to mitigate the domino impact of spillover risks to the banking system. Banks should shift from being "loan approvers" to proactively "partnering with loan seekers" in order to build a base of wealth-creating entrepreneurs who can potentially help build a self-sufficient country.

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CORPORATE INDIA RISK INDEX

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