Developing risk professionals

INDIA RISK REPORT 2.0

Building Resilience: A Comprehensive Analysis of Risk Culture in India's Corporate Sector

ANNUAL EDITION

2024-25

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1 INTRODUCTION

About ICICI Lombard

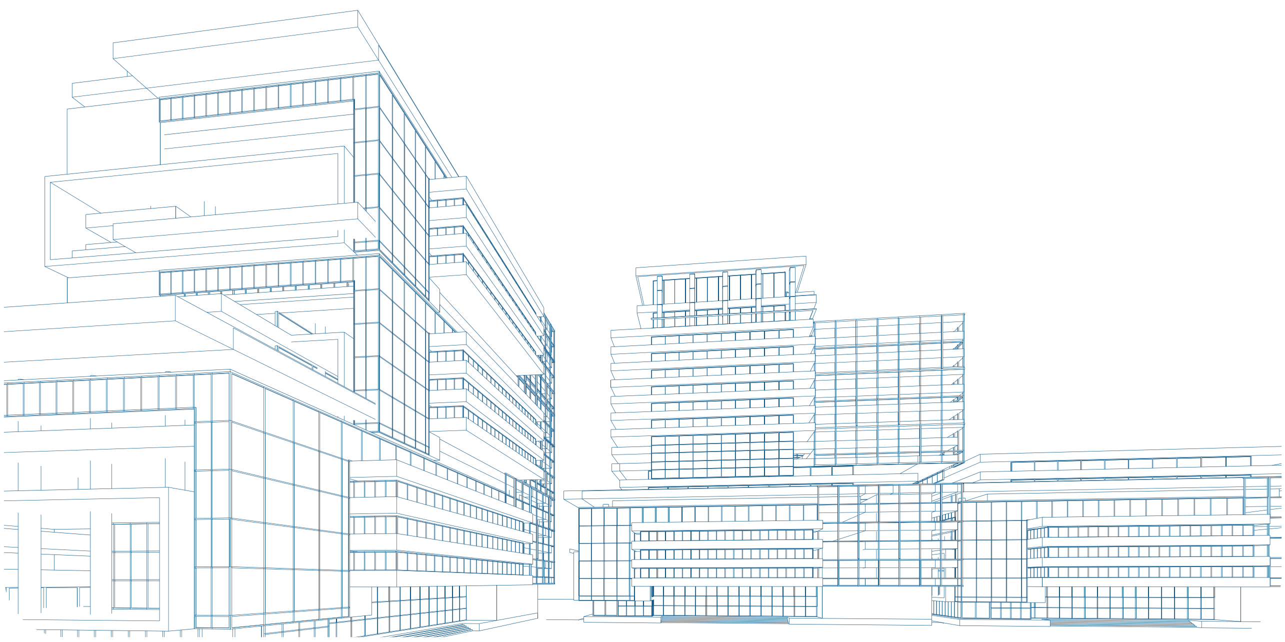
ICICI Lombard, is one of the leading private general insurance company in India, boasts a robust framework and governance mechanism. With our diversified exposure across geographies we aim to minimize client's risk.

The Company offers well-diversified range of products through multiple distribution channels, including motor, health, crop, fire, personal accident, marine, engineering, and liability insurance. Our value proposition is driven by a promise to be the best partner for our customers. With a legacy of over 23 years, ICICI Lombard is committed to customer centricity with its brand philosophy of 'Nibhaaye Vaade'. The company has issued over 36.2 million policies, settled 2.9 million claims and has a Gross Written Premium (GWP) of ₹255.94 billion for the year ended March 31, 2024. With 312 branches, and a dedicated team of 13,670 employees as of the same date, ICICI Lombard is unwavering in its commitment to customer-centricity

About IRM (Institute of Risk Management)

Established in 1986 and headquartered in the UK, the Institute of Risk Management (IRM) is the world's leading certifying body for Enterprise Risk Management (ERM) examinations and qualifications with Fellowship at Stage 5 / Level 5. With a presence spanning 143 countries and almost 40 years of driving excellence, IRM has published several frameworks, thought leaderships and white papers on a range of risk themes including stress testing, horizon scanning, climate change, artificial intelligence, pandemics, risk culture and more. The IRM's India Affiliate is expanding the global ERM ecosystem in India, bringing forth top-tier education to develop risk intelligent individuals and organisations for a resilient India.

Renowned as trailblazers in the field of Risk Management, we, ICICI Lombard and IRM India Affiliate, have collaborated for this annual report series, with a shared objective of enhancing risk awareness, risk culture and preparedness across sectors.



About the Report

The second edition of the India Risk Report represents a continued collaboration between IRM India and ICICI Lombard, offering an in-depth exploration of the Risk Culture within organizations. This report aims to improve risk understanding, increase risk preparedness, and foster a robust risk culture, all with the goal of strengthening Indian enterprises' resilience. By doing so, it positions them to capitalize on the unparalleled opportunities that lie ahead.

The report begins with an overview of the global and Indian risk landscapes, followed by a detailed examination of the following areas:

- **Risk Perceptions of Indian Organizations**
  This section analyzes survey responses to highlight current risk priorities, comparing them with those from the previous year. Additionally, it offers snapshots of risk perceptions across various industry sectors and revenue demographics.

- **Risk Management Practices and Preparedness**
  This analysis of survey responses assesses the current state of risk management practices and preparedness, illustrating how these have evolved since the previous report.

- **Risk Disclosures**
  An examination of risk disclosures from over 500 Indian companies and more than 50 global companies, based on their annual reports from the past two years. The number and quality of these disclosures offer insights into the prevailing risk culture within these organizations.

- **Risk Culture in the Industry**
  This section evaluates the survey responses to determine the maturity of risk culture across the industry. The discussion encompasses both organizational and implementation aspects of risk culture practices. The cultural practices combined with risk disclosure practices give us deeper insights into the industry resilience.

The comprehensive study, which is based on both primary and secondary research, has been supplemented with invaluable insights from business and risk leaders across various competencies.

This report is intended to serve as a crucial resource for deepening our collective understanding and management of risks while fostering a resilient organizational culture rooted in effective risk practices.

We express our sincere gratitude to the industry leaders who have contributed to this report, whether by participating in the survey or by offering their perspectives on our findings.

FOREWORDS

Mr. Sanjeev Mantri

MD & CEO
ICICI Lombard GIC Limited

Dear Readers,

While the Indian economy stands on the cusp of greatness, I am happy to introduce to you, the second edition of India Risk Report. This year's report is a testament to ICICI Lombard's commitment to empowering individuals and organizations with comprehensive risk management solutions. We at ICICI Lombard are deeply grateful for the trust and support you have placed with us, and we acknowledge the responsibility that comes with it.

As a trusted partner, we recognize the evolving risk paradigm and are constantly working to ensure we deliver integrated, end-to-end solutions that address your complex risk challenges. To this effect, we have put forward the 'One IL One Team' philosophy which fuels our mission to foster a culture of collaboration, expertise, and customer-centricity. Our journey of transformation is driven by a vision to become your one-stop solution for comprehensive risk management needs.

While risk discussions often take a backseat and are overshadowed by revenue growth, it is important to remember that ***"Promoting a robust risk culture at an organizational level is no longer a luxury, but a necessity."*** This report reflects our endeavour to drive this point home by addressing cybersecurity threats, regulatory changes, operational risks, as well as catastrophic events that are now viewed as potential threats to sustainability (as opposed to mere possibilities).

This year's report focuses on risk management practices and preparedness beyond the basics of using insurance as a mitigation tool, by delving into the intricacies of building risk culture. With the help of a comprehensive analysis of survey responses, we not only assess the current state of affairs in risk management, but also show you exactly how this state has evolved since last year's report. Culture has always been a difficult variable to measure as it's different for everyone and every organization.

An interesting part of this year's report is an emphasis on the importance of risk in mid-sized enterprises, which form the foundation of the Indian economy and account for nearly one-third of India's GDP and half of our total exports. In this section, we examine the critical components of risk including risk perception, risk mitigation, management capabilities, and culture of risk among the **Mid-size enterprises,** where **42% consider risk management as a competitive advantage** and only **12% demonstrate a strong risk culture,** signifying a long road still ahead of us.

While enterprises both large and small are rushing to invest in technology and Artificial Intelligence (AI), we are without a doubt at the dawn of a new age of disruption, highlighting the need for a more concerted and proactive approach to risk management. By prioritizing risk culture and disclosure, organizations can unlock their full potential, foster innovation, and thrive in today's fast-paced business environment.

As we embark on this enriching journey to develop a robust risk culture across organizations and enterprises alike, we invite you to join us in fostering a collaborative environment where departments unite to combat inherent risks. This report serves as a guide for leaders and risk practitioners, providing valuable perspectives and actionable advice for building a resilient, growth oriented organization.

Happy Reading!

In an era marked by unprecedented global shifts and rapid advancements, the path to progress for India's corporate sector is both exhilarating and fraught with complexity. As India charts its course towards becoming a developed nation under the Viksit Bharat 2047 initiative, it finds itself at the intersection of immense opportunities and intricate challenges. The dynamic landscape of business and risk demands a new level of agility and foresight.

Mr. Hersh Shah

CEO
IRM India Affiliate

It is within this context that we present the second edition of our report, "Building Resilience: A Comprehensive Analysis of Risk Culture in India's Corporate Sector," with ICICI Lombard. The second edition delves deeper into the essence of risk culture, a crucial yet often overlooked facet of organisational health. Our commitment to understanding and enhancing risk culture stems from its profound impact on an organisation's ability to prepare for evolving scenarios, navigate uncertainties, and leverage opportunities effectively.

In today's rapidly changing environment, where technological advancements and global risks intertwine, the importance of cultivating a robust risk culture cannot be overstated. A resilient risk culture is not just about managing potential threats; it is about fostering an environment where proactive risk management becomes an integral part of every decision and action. It empowers organisations to confidently face challenges, make informed choices, and ultimately drive sustainable success.

Our comprehensive analysis sheds light on the current state of risk culture across Indian enterprises, highlighting progress, best practices, and areas needing attention. By examining the interplay between organisational culture, risk management practices, and technological capabilities, we aim to provide actionable insights that can help businesses fortify their resilience.

As we continue to navigate through an era of change, our hope is that this report serves as a valuable resource for risk professionals, business leaders, and decision-makers. Embracing a strong risk culture will not only enhance an organisation's ability to withstand and thrive amidst uncertainties but also build a foundation for long-term success and trust.

Risk culture involves adopting a more inclusive approach and setting the "tone at the bottom." Along with the responsibility of leadership to set the risk culture, it's also about empowering the first line of defence to actively participate in risk management. When employees at all levels feel included and see risk as an opportunity, it fosters a stronger sense of ownership. It leads to better risk identification, improved compliance, increased innovation, and overall enhanced organizational performance. By cultivating a positive risk culture from the ground, organizations can transform potential threats into opportunities, driving financial stability, a stronger reputation, and sustainable growth.

Mr. Sandeep Goradia

Chief – Corporate Solutions Group
ICICI Lombard GIC Limited

India stands at the threshold of a new era of growth and transformation, and the need for effective risk management has never been more pressing. The vision of a "Viksit Bharat" by 2047, India's centennial year of independence, demands an eightfold increase in per capita income - an ambitious yet achievable goal. Ranked fifth among the world's largest economies by GDP, India is already an economic superpower a combination of a growing economy, a vast labour force, and a large population-which positions it for unparalleled growth.

The India Risk Report 2024 addresses these challenges head-on, analyzing short-term and long-term risks by severity and probability, and revealing shifts in risk perception. The top five short- and long-term risks remain consistent, with talent and regulatory/legal risks emerging as significant challenges in short-term scenarios, as well as climate change in long-term scenarios. Identifying "black swan" and "gray rhino" events (that refer to unexpected and foreseeable catastrophes, respectively) is now being looked at as a significant contributor to an organisation's success. As per the trends, we see that risk identification among all employees rose by 6% from 26% in 2023 to 32% in 2024, which indicates increased ownership and responsibility.

This year's report includes a dedicated chapter on risk disclosure, which evaluates risk efficiency across India and globally over a two-year period. An analysis of 521 listed Indian companies reveals that only 3% of respondents maintained consistent risk disclosure over two years, serving as a wake-up call for Indian organizations. Effective risk disclosure requires a top-down approach, where the tone is set at the top, and the board is held responsible for driving risk culture throughout the organization.

Measuring risk culture presents unique challenges due to its intangible and subjective nature. Despite this complexity, our research team has developed a risk culture scoring system (0–100) to benchmark organizational resilience. Our findings indicate that only 16% of businesses score above 60, with a mere 6% achieving scores between 80-100. This report highlights the importance of regular monitoring and measurement to identify strengths and weaknesses of an organization. Effective tools include surveys, focus groups, and annual improvement plans. By embracing these strategies, organizations can enhance their risk culture and better pursue objectives while managing potential threats.

The report equips leaders with insights to navigate India's growth trajectory, capitalise on opportunities, and mitigate risks. Notably, if India is to be viewed as a developed country by 2047, organizational independence or autonomy for the risk-management function, combined with fostering the right attitude across an organization, is essential to achieving global standards. This includes prioritizing communication, transparency, and cultivating a strong risk culture to fully realize India's fast-paced business environment.

Let us explore the dynamic interplay between India's changing risk landscape and how the nation adapts and prepares for emerging risks to ensure stability and growth. We are committed to facilitating informed decision-making and resilience-building. Your feedback is invaluable in helping us achieve this mission.

Wish you an insightful reading!

Lucia Wind

Advisory Board Member, IRM India
COSO Board Chair and Executive Director

The rate of risk around us is changing exponentially, propelled by many unique factors we face daily. Whether driven by the current rapid digital transformation organizations underwent during and following the recent pandemic or by the market or environmental conditions across the globe. The factors are many, and the rate of risk is fast. But with risk comes opportunity. Opportunity to get ahead and deploy effective risk management strategies to drive organizational growth.

Reports such as the India Risk Report 2024 are an important aspect of readiness for organizations and risk practitioners. They enable us to assess the current state or risk, develop future risk mitigation metrics, readiness plans, resource allocations and drive better informed discussions.

This year's report provides a great overview of key risk trends and data related to changing risk cultures within organizations. Risk cultures drive and support the risk appetite of any organization and significantly impact resulting risk management practices. I was very encouraged to see improvements in the risk management practices areas, including a rise in risk identification in the all-employee category, making risk management an inherent part of the company and not just the responsibility "of the few." Similarly, risk management ownership in organizations rose from 20% in 2023 to 42% in 2024 in the routine business processes category.

With more work to be done, deployment of effective frameworks, such as the Committee of Sponsoring Organizations Enterprise Risk Management Framework, provides companies with a set of tools easily deployed across the enterprise, beyond the Board, Executive Management, or just the risk teams. A framework approach ensures risk management practices are not a one-time assessment by a group of individuals but an embedded routine and repeatable effort to get ahead of the rapidly changing risk universe around us.

I encourage the readers to use the information noted in this report to help drive awareness around risk management practices in their companies and seize the opportunity this data provides for all of us.

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Developing risk professionals

ICICI Lombard
Nibhaye Vaade

3 EXECUTIVE SUMMARY

Over the past year, the global business and risk landscape has grown increasingly complex. As India advances towards becoming a developed nation under the Viksit Bharat 2047 program, it continues to maintain rapid economic growth. This progress, amid a complex Risk environment, presents both opportunities and challenges for Indian industries.

The swift pace of technological advancements is driving business digitalization and disrupting traditional communication models, necessitating innovation and transformation. Additionally, emerging High-Velocity Risks, such as global IT outages and geopolitical conflicts, emphasize the need for advanced Risk Management capabilities.

Cultivating a strong Risk Culture across organizations is crucial for proactive Risk Management and leveraging opportunities effectively. A strong Risk Culture enables an organisation to confidently pursue its objectives by taking calculated risks and effectively managing potential threats and hazards.

To build a strong risk culture, an organisation must :

- Be cognizant of its existing culture of risk and the desired level
- Recognizing its current technological capabilities and the required level of maturity
- Have an Improvement strategy along the process and cultural dimensions

This report analyses the self-assessment of processes and cultural standing of Indian enterprises, as well as their readiness to address current Risks. The self-assessment is derived from an extensive Risk survey that captures Risk Perceptions, Risk Management Practices and Risk Culture Aspects.

The discussion is framed within the context of evolving global and India-specific risk landscapes. The cultural analysis is supported by a detailed review of risks disclosed in annual reports by a broad range of global and Indian enterprises over a two-year period.

3.1 Preparedness to Face the Risks

In the risk perception survey, respondents were asked to identify the top 5 Risks they face from a list of 11 Risks. These Risks were ranked based on their frequency of appearance in the respondents' top 5 selections. The table below outlines the Risks and their rankings in the short and long term, along with the industry's preparedness to face these Risks, and the percentage of organizations not deploying loss control or insurance solutions for those risks.

Full preparedness encompasses having a comprehensive strategy, relevant skills, and the necessary investments to manage specific risks. Approximately 40% to 50% of organizations have limited preparedness, having only developed a Risk Mitigation Strategy. However, the percentage of organizations that have made investments in Risk Solutions varies between 11% and 35%. In-house expertise is notably lacking in the areas of Climate Change, Pandemics, and Natural Catastrophe Risks.

Risk	Short-Term → Long term Priority	% of organizations prepared to face risks[1]			% of organizations not deploying Insurance or loss control solutions
		Have Risk Mitigation Strategy	Have Invested in	Have in-house Expertise	
Cybersecurity	1 ↘ 2	40%	35%	53%	5.6%
Talent	2 ↘ 4	39%	20%	59%	15.0%
Legal/Regulatory	3 ↔ 3	34%	18%	71%	11.9%
Technology	4 ↗ 1	39%	25%	57%	18.8%
Macroeconomic	5 ↔ 5	51%	11%	48%	9.4%
Business Interruption	6 ↘ 7	54%	16%	56%	37.5%
Climate Change	7 ↗ 6	39%	19%	25%	23.1%
Civil Strife/Geopolitical	8 ↔ 8	54%	16%	56%	19.4%
Natural Catastrophes	9 ↔ 9	49%	21%	28%	20.0%
Pandemic	10 ↔ 10	49%	15%	32%	8.1%
Fire/Explosions	11 ↔ 11	47%	26%	51%	5.6%

Figure 3.1: Depicting the Risk priorities in the Short- and Long-term with preparedness and use of risk management solutions

As observed, even with the limited definition of preparedness, about half the organisations appear unprepared to face the Risks.

The deployment of insurance or non-insurance solutions is another crucial aspect (ref. last column), Even for Business Interruption Risks, 37.5% of respondents indicated having neither an insurance nor a non-insurance solution in place. This highlights the urgent need for organizations to focus on preparing themselves for Emerging Risks.

3.2 Cultivating a strong Risk Culture

The Risk Culture of an organisation represents the collective values, beliefs, knowledge, and understanding of risk shared across the entire organisation.

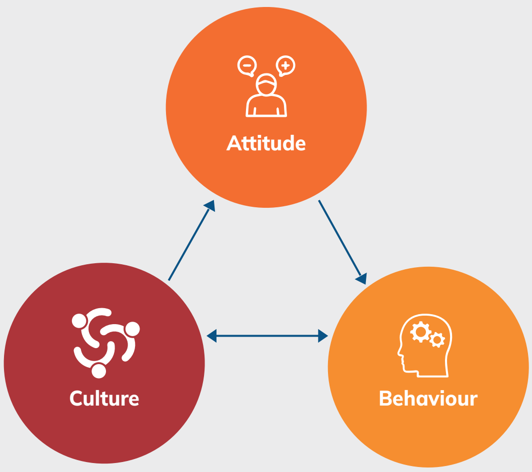


Figure 3.2: Depicting A-B-C approach to understand Risk Culture

[1]Respondents have chosen more than one option; hence the percentages are different.

The Institute of Risk Management (IRM) defines a simple A-B-C approach for understanding Risk Culture. **A**ttitudes of individuals and groups shape their **B**ehaviours. Over time, these repeated behaviours form the **C**ulture, which in turn influences the attitudes and behaviours within the organisation.

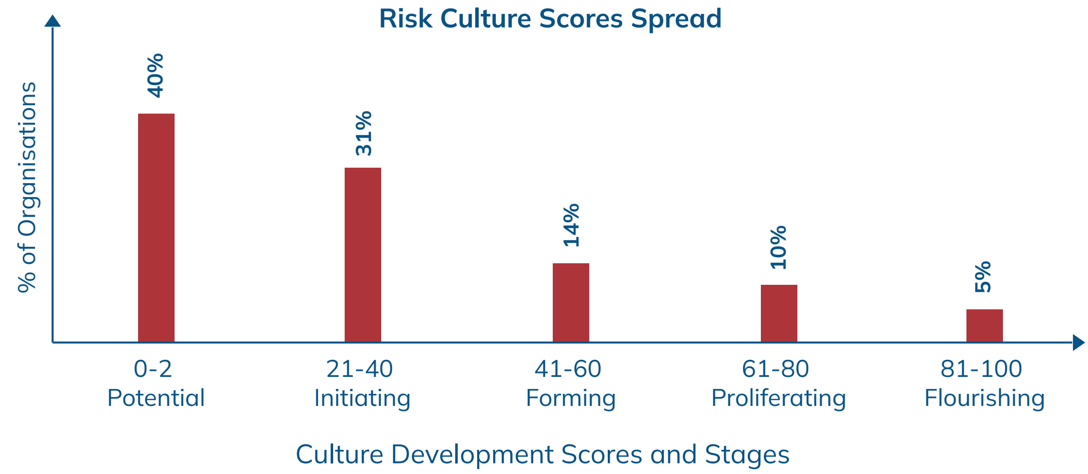


Figure 3.3: Depicts the percentage of organizations at different stages of Risk Culture maturity

The Risk survey asked participants to evaluate their organizational and implementation aspects related to Risk Culture. While measuring culture is difficult because it is intangible and complex in nature, we have attempted to score the self-assessment responses and place them on a cultural development scale.

Although 90% of respondents confirmed conducting a risk culture assessment exercise in the past year, the overall culture scores highlight the need for improvement. Additionally, our analysis of Risk Disclosures in annual reports indicates that most reports lack sufficient risk disclosures, and the quality of the descriptions requires enhancement. Both the self-assessment and the disclosure analysis reveal that organisational aspects need attention to ensure effective implementation.

Organisational risk culture significantly influences employee behaviour, decision-making, and ultimately, company outcomes. Cultivating a strong risk culture involves fostering employees to proactively identify and mitigate risks while minimising potential impacts. By prioritising Risk Culture, organisations can navigate complexities, adapt to changes and achieve strategic objectives. A strong Risk Culture is essential for building trust, enhancing reputation and ensuring long-term sustainability, ultimately leading to better decision-making and organisational success.

4 | GLOBAL RISKS LANDSCAPE

This chapter presents a summary of the current global risks and risk culture as described in many reputable international reports.

For this chapter, we have referred to the following reports:

- Global Risk Perception Survey (GRPS) 2024 by the World Economic Forum (WEF 2024)
- Economist Intelligence Unit Risk Outlook 2024 (EIU 2024)
- S&P Global Credit Outlook 2024
- 2024 Risks in Focus by the Internal Audit Foundation (IAF 2024)

We aim to highlight key commonalities as well as discuss the differences in perceptions specified in these reports. This will serve as a context and backdrop enhancing our understanding of India-specific risks.

The table below compares the major threats identified by WEF 2024 to those highlighted by IAF 2024. The table highlights those risks that are present in both.

Priority Order

2024 WEF	2024 IAF
Misinformation and disinformation	Cyber Security
Extreme weather events	Human capital
Societal polarization	Business continuity
Cyber insecurity	Regulatory change
Interstate armed conflict	Digital disruption
Lack of economic opportunity	Financial liquidity
Inflation	Market changes
Involuntary migration	Geopolitical uncertainty
Economic downturn	Governance/corporate reporting
Pollution	Supply chain and outsourcing

Global reports reveal a convergence of pressing risks including Misinformation and Disinformation, technological disruption, climate change, geopolitical tensions etc., which is shaping the global landscape and demands proactive mitigation strategies.

4.1 Structural Shifts and Evolving Global Risk Trends

The WEF Global Risks Perception Survey 2024 (WEF 2024) report highlights a world under strain from accelerated technological advancements and economic uncertainties, compounded by crises in climate and geopolitical conflicts. It delves into an unstable global order marked by polarizing narratives and eroding trust, alongside escalating climate impacts that are outstripping adaptation efforts.

The management of the transition from the current state to a future state, shaped by climate and conflict, is anticipated to be a significant risk in itself.

According to WEF 2024, the year 2023 brought in a significantly deteriorating outlook. Key issues included violent conflicts affecting vulnerable populations, extreme weather events, and widespread societal unrest marked by polarization and protests. While catastrophic global impacts like those during the initial stages of the Russia-Ukraine conflict or COVID-19 pandemic were largely avoided, the potential for future shocks remains, with instability expected to increase over the next decade.

4.2 Perceptions of urgency regarding Environmental Risks vary

The World Economic Forum's 2024 report highlights that environmental risks are the predominant concerns in both short-term and long-term outlooks, cautioning that we may be approaching a critical tipping point. The report underscores ‘Extreme Weather’ as the most likely and second most severe risk in the next 2 years and the top risk over the next decade. Other significant environmental risks identified include critical changes to Earth Systems, Biodiversity Loss and Natural Resource Shortages, all ranking in the top four over a 10-year horizon.

The report also reveals a generational divide in risk perception, with younger respondents to the Global Risks Perception Survey 2024 assigning greater urgency to environmental risks than older respondents over a 2-year period. Additionally, the private sector views these risks as primary concerns over the next decade, while stakeholders from civil society and government prioritise them over the next two years. In the IAF 2024 report, Climate Change ranks at number 14 amongst the 16 risks surveyed in the current outlook. However, over a 3-year outlook, Climate Change is perceived to be riskier, ranking at number 5.

Green subsidies are a noteworthy aspect of the Climate Change effort. Western economies are introducing significant incentives for clean energy investments to enhance domestic production and compete with China, the leader in green technologies. These incentives often come with stringent component sourcing requirements and aim to speed up the transition to net-zero emissions. However, they have also led to rising tensions, particularly between the EU and the US, and increased costs for green technologies. Furthermore, the geopolitical complexities involving China could escalate decarbonisation costs, potentially delaying net-zero timelines and reducing support for energy transitions in emerging markets.

WORLD ECONOMIC FORUM

The World Economic Forum's 2024 report highlights that environmental risks are the predominant concerns in both short-term and long-term outlooks, cautioning that we may be approaching a critical tipping point.

4.2.1 Artificial Intelligence, Digital Disruption, Misinformation and Disinformation

Organizations globally have started investing in Artificial Intelligence (AI) by integrating generative AI into existing processes and systems. This is expected to improve productivity across a multitude of functions. However, various reports also note risks due to the widespread use of AI in generating text, audio, pictures, and video and its potential misuse in social media.

The WEF 2024 report identifies Misinformation and Disinformation as the most significant global risks over the next 2 years, with the potential to exacerbate societal and political divisions as nearly three billion people participate in elections across various countries, potentially undermining the legitimacy of election outcomes.

This widespread manipulation of information may fuel violence, protests, and even terrorism. Moreover, the distortion of reality could penetrate broader public discourse, leading to increased governmental control over information and a consequent decline in media and internet freedoms, risking further repression of information flows globally.

The EIU 2024 report discusses a scenario where malicious actors will use AI to mislead large chunks of the population, thereby trying to impact the results of multiple elections coming up in 2024 across the globe.

According to the IAF 2024 report, businesses are ranking Digital Disruption (which includes AI), 5th in the short term, expecting it to rise to the 2nd rank over the long term.

4.2.2 Cyber Security Concerns

Cyber Security remains a top concern for businesses in the immediate and long term (3 years) outlook, according to the IAF 2024 report. The WEF 2024 report also ranks Cyber Security at number 4 in the short term risk.

As organizations advance in their digital transformation journeys, Information Technology becomes a critical dependency for businesses and society at large. The widespread or even limited implementation of AI will significantly increase the vulnerability of organizations and governments to cyberattacks, potentially paralysing critical infrastructure. While AI introduces new vulnerabilities, it also serves as a powerful tool for cyber attackers, enabling them to devise and execute more sophisticated and destructive attacks. For instance, AI can be used to create convincing phishing emails through deep fakes.

Attacks on IoT devices surged by 400% in 2023. Data breaches continued to rise, with the global cost of recovery reaching approximately $4.5 million per breach and over $9.5 million in the USA. One in ten organizations was hit by a ransomware attack in 2023. Phishing remains one of the most significant vulnerabilities, as attackers steal passwords and other confidential information. Although the shift away from passwords is gaining traction, human behaviour continues to be a primary weakness in the fight against cyber attackers.

Given these factors and the fact that digital disruption is driving information technology deeper into organizations and homes, one can expect Cyber Security to remain a top concern in the coming years.

While AI introduces new vulnerabilities, it also serves as a powerful tool for cyber attackers, enabling them to devise and execute more sophisticated and destructive attacks.

4.2.3 Interstate armed conflict / Geopolitical Uncertainty

The EIU 2024 report outlines several geopolitical and inter-state conflict scenarios, including the Ukraine-Russia war, the Israel-Hamas conflict, potential changes in the US administration, and possible Chinese action in Taiwan.

Russia's invasion of Ukraine has exacerbated geopolitical tensions and fragmentation, raising military risks such as cyber-attacks and incidents among nuclear-armed states. A prolonged Israel-Hamas conflict could involve other actors supporting the Palestinian cause, with Iran already participating to some extent. The Biden administration has prioritized multilateral engagement and climate action, but a Republican-led administration post-2024 could bring significant foreign policy changes.

All of these could have far reaching consequences on global and business risks, with several scenarios falling in the low-probability – high impact zone.

4.2.4 Inflation, High Interest Rates, Economic Downturn

WEF 2024 identifies Inflation and Economic Downturn in the top 10 short-term risks, placed at 7th rank, with the IAF 2024 report ranking it at 5th position in the current outlook, and at 9th rank in a long (3 years) horizon.

The global economy has experienced high inflation following the COVID-19 pandemic, largely due to the monetary policies adopted by many countries during that challenging period. In an effort to control inflation, governments worldwide have increased interest rates, subsequently slowing economic growth. Although it was generally expected that monetary tightening would conclude in 2024, as evidenced in the IAF 2024 3 year ranking, inflation appears to be accelerating again due to higher demand and a tight labour market. Consequently, the continuation of stricter monetary policies is anticipated, resulting in a challenging macroeconomic outlook. The EIU 2024 white paper also outlines a moderate probability, high impact scenario of monetary policy tightening that extends deep into 2024, leading to global recession and financial volatility.

Similarly, the S&P 2024 Global Credit Outlook expects tight monetary conditions continuing through 2024, slowing the global GDP growth to 2.8%.

Summary

Identifying a common thread across WEF 2024, EIU 2024 and IAF 2024 reports, we can conclude that Climate Change/Extreme Weather, Cyber Security, Digital Transformation/AI, Geopolitical Factors and Macroeconomic Factors represent the top risks facing business in the next 2-3 years.

At the same time, as multiple reports point out, the world is witnessing major change driven by climate, conflict, and technology, which will drive businesses into a new risk landscape. Organisations create their risk management plans based on certain threat models. Rapid and complex changes to the risk landscape may create threats to the threat model itself, as demonstrated by the global IT outages of July 2024. Managing the transition to this new landscape will be crucial for ensuring the success and continuity of businesses.

5 INDIA RISK LANDSCAPE

Holding the 5th highest share of global GDP and annual GDP growth rate at 7%, India's extraordinary economic rise presents both unprecedented opportunities and formidable risks. India's economy boasts diversity and swift growth, fuelled by key sectors such as information technology, services, agriculture, and manufacturing. The nation capitalizes on its broad domestic market, a youthful and technologically adept labour force.

Building on the insights from last year's report, this section of the Risk Report delves deep into the evolving threats and opportunities faced by enterprises in this dynamic market. we shall explore how the risk environment in India has developed. Through our analysis, we'll look at how different categories of risks that affects the Indian business environment.

This section draws from a range of authoritative sources, including the Systemic Risk Surveys of the Reserve Bank of India (RBI) published in December 2023 and June 2024, Global Economic Prospects published by The World Bank (January 2024), World Economic Outlook published by IMF (April 2024), Purchasing Managers' Index from S&P Global Ratings (April, June, July 2024) and The World Bank report on India's Climate Risk Profile (2021). We also studied the MIT Cyber Defense Index 2022-2023 (November 2022), the 2024 Cisco Cybersecurity Readiness Index (March 2024), and the Economist Intelligence Unit's outlook for India (Q3 2023, Q1 2024).

Some of the major risks in the Indian risk landscape, as derived from the reference sources, are presented in Figure 5.1. This figure depicts perceptions about the severity of risks and the changes expected in them over time.

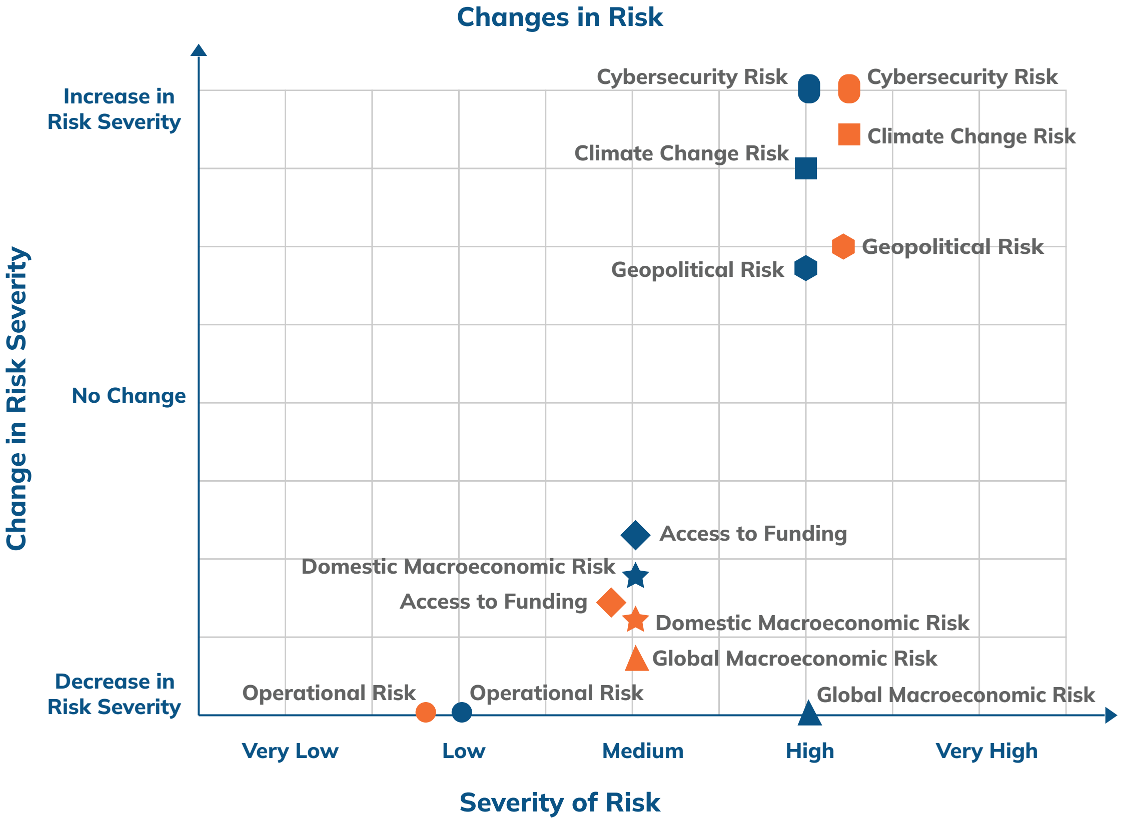


*Figure 5.1: Movement of risk measures as calculated by different studies (shapes in **blue** & **orange** reflect risks in **2023** & **2024** respectively)*

5.1 Macroeconomic Risk

Domestic macroeconomic risks are perceived at moderate severity and show a decreasing trend.

India stands out as a bright spot at the global stage, with the Indian economy being the fastest-growing among large economies. The risk associated with domestic growth has significantly decreased, as reported in the 25th and 26th RBI Systemic Risk Surveys (released in December 2023 and June 2024, respectively) conducted by the Reserve Bank of India. Domestic macroeconomic indicators like domestic inflation, current account deficit, and capital inflows (FDI and FII inflows) have moderately decreased over the past year (from June 2023 to June 2024). Commodity price risk is the only category that has shown a substantial increase since May 2023 and remains unchanged from the levels observed in November 2023.

The World Bank's Global Economic Prospects report suggests a slowdown in global growth for the third consecutive year, with tightening of monetary policies, slow global trade, and geopolitical conflicts as significant factors. However, the 26th Systemic Risk Survey of RBI predicts a slightly more optimistic outlook for global growth trends. India's economic outlook remains positive, propelled by strong consumption and investment, resulting in robust annual growth. While India's growth trajectory may be affected by the global dynamics, it is forecasted to be among the most robust performers among the large and emerging economies. The government's focus on infrastructure development and initiatives to ease business operations are anticipated to boost private investments and bolster the expansion of manufacturing capabilities.

5.2 Operational Risk

The operational risk for India is low, with an outlook for further reduction.

The Purchasing Managers' Index (PMI) developed by S&P Global provides insights into both input and output aspects of operations, offering a perspective on how organizations perceive operational risk.

According to the manufacturing and services PMI data, Indian companies exhibited strong operational performance. India's manufacturing PMI reaching 58.3 in June 2024, after hitting a 16-year high of 59.1 in March 2024. The services sector also showed growth (although the growth was the slowest in the calendar year-to-date) with the services PMI recorded at 60.5 in June 2024. India’s composite PMI, as measured by the HSBC Flash India Composite PMI Output Index, stood at 60.9 in June 2024, having achieved a historically high figure of 62.2 in April 2024[1] .

These reports highlight favourable conditions, characterized by strong demand for goods and services and increased purchasing activity. Input costs have also improved, and both companies and vendors have shown ample spare capacity. The low operational risk rating for India is further bolstered by the Indian economy’s performance as one of the ten economic indicators for Purchasing Managers worldwide.

The government's focus on infrastructure development and initiatives to ease business operations are anticipated to boost private investments and bolster the expansion of manufacturing capabilities

[1]A PMI figure greater than 50 indicates growth in the sector (manufacturing/services/overall economy) as compared to the previous month.

5.3 Access to funding

The risk associated with Access to funding for organizations is moderate and shows indications of a slight decrease in the future.

This risk has remained relatively modest over the last four rounds of the Systemic Risk Survey. Trends indicate that the perception of risk associated with asset quality, banks' exposure to interest rate risk, and general interest rate risk have slightly declined. There has also been a decrease in funding risk concerning external borrowings and risks associated with monetary policy tightening in advanced countries, although the latter remains toward the higher end of moderate. Additionally, foreign exchange risk faced by Indian companies and financial institutions has also decreased.

Overall, these trends indicate moderate risk for companies in terms of access to funding, with a potential downward trend. This suggests that businesses with robust plans and operations have plenty of funding opportunities available.

5.4 Cybersecurity and Technology Risks

Cyber risks are seen to be of high severity with an expected increase in coming years.

In the first annual ranking published by the MIT Technology Review, the Cyber Defense Index 2022/23 (CDI) placed India at #17 among the top 20 digitally advanced economies. Despite having a digitally progressive government and the world's largest IT-enabled services sector, India still has substantial ground to cover to lead the list. In 2023, India witnessed a 15% increase in cybersecurity incidents compared to 2022, according to research by cybersecurity firm Check Point, and ranked second in the Asia Pacific region for such incidents, trailing only Taiwan. Another study by cybersecurity firm Zscaler revealed that India was the 3rd most targeted country globally, with its technology sector facing 33% of all phishing attacks worldwide. The rise in cybersecurity risk is further underscored by the increase in Cyber Risk ratings in the 25th and 26th Systemic Risk Surveys conducted by the RBI.

Data from the 2024 Cisco Cybersecurity Readiness Index indicated that India has improved on its preparedness concerning Cybersecurity and Technology risks. The study found that 41% of Indian businesses were classified as "Mature" or "Progressive" in their readiness, compared to only 29% globally. Furthermore, Indian companies consistently scored above the global average across various parameters in this index, including Identity Intelligence Readiness, Machine Trustworthiness Readiness, Network Resilience Readiness, Cloud Reinforcement Readiness, and AI Fortification Readiness.

Although as per the risk perception survey, India Inc. appears to have significantly improved compared to the previous year, where nearly 60% of businesses are still classified as "Beginner" or "Progressive" in their overall readiness to handle these risks. Henceforth, enterprises must proactively continue to strengthen their network infrastructure and information systems to prevent potential operational, financial, and reputational losses.

> Cybersecurity risks are a growing concern in today's digital age. As our reliance on technology increases, so does the potential for cyberattacks. Cyberattacks can have far-reaching consequences, affecting individuals, businesses, and entire nations. Financial and IPR loss can wipe out years of hard work. To mitigate the risks of cyberattacks, it is essential to implement robust cybersecurity measures, such as:
>
> - Regular security assessments
> - Employee training and awareness
> - Strong access controls
> - Data encryption
> - Incident response planning
>
> By proactively addressing these risks, individuals and organizations can protect themselves from the devastating consequences of cyberattacks.

Atul Daga, CFO - Ultratech Cement

5.5 Geopolitical Risk

Geopolitical risk faced by companies are considered highly severe, with moderate increase expected in the coming years.

2024 saw major escalation of conflict in the Middle East and also marked the second year of the Ukraine-Russia conflict. Additionally, numerous trade restrictions were imposed on Chinese companies and industries by USA and Europe. These conflicts between countries (either hostilities breaking out or trade restrictions being imposed) represent factors that could pose significant risks, particularly for companies directly or indirectly affected by these geopolitical events. The ongoing war between Russia and Ukraine serves as a prime example, illustrating how geopolitical tensions can escalate suddenly and persist for extended periods, causing major disruptions.

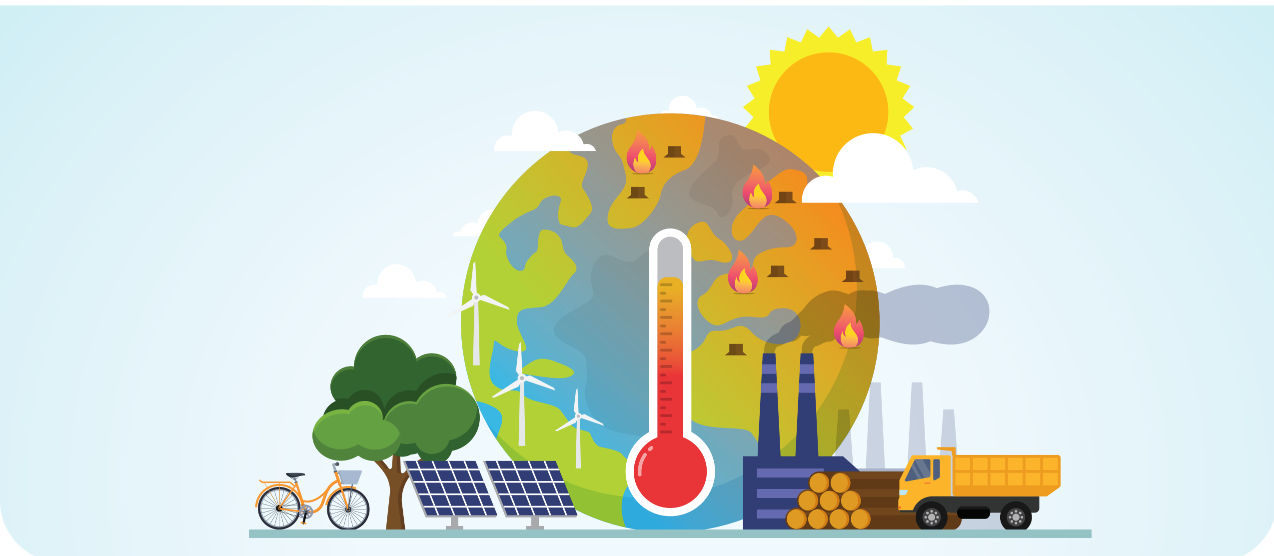
Ongoing tensions between Ukraine and Russia, multiple fronts in hostilities in the Middle East (between Israel and Hamas in addition to between Israel/USA and Iran), as well as ongoing tensions in the Taiwan Strait, contribute to geopolitical risks. The conflicts in the Middle East have had a ripple effect on global shipping lines and supply chains, particularly those passing through Gulf of Aden and the Red Sea, which have been severely affected. Geopolitical risks appear to have increased compared to last year, with the upcoming presidential elections in the United States (and across multiple countries accounting for almost half the global population) potentially adding to the geopolitical uncertainty and impacting both Indian and international companies.

While the Indian economy has shown resilience in the face of global events, businesses must closely monitor and assess the impact of geopolitical risks on global supply chains. Changes in the geopolitical landscape also present additional opportunities and threats for Indian business.

5.6 Climate change and Natural Disasters risk

Climate change and Natural Disasters are categorized as high-level risks, with moderate increase in risk perception.

India ranks 116th out of 185 countries on the ND-GAIN index[2], which measures vulnerability to climate change and readiness to improve resilience. It ranks 138th in the “Vulnerability” parameter and 104th in the “Readiness” parameter studied in this index. India’s poor ranking in vulnerability to climate change stems from large variations in climates across the country and the vulnerability of significant portions of the population to extreme weather events. The 25th and 26th Systemic Risk Surveys of the RBI categorizes climate risk as high, with an upward trend in the risk as compared to the previous surveys.



[2]https://gain.nd.edu/our-work/country-index/rankings/

In addition to climate change, India also experienced several natural disasters last year, including floods, forest fires, and cyclones. 2023 was particularly deadly for cyclones, marking one of the deadliest years in recent memory. The winter of 2023-24 was one of the warmest in the recent years, with higher temperatures continuing into an early summer in 2024, leading to increased incidents of forest fires in states like Uttarakhand (2024), Arunachal Pradesh (2024), Odisha (2023), and Goa (2023). Widespread drought affected several states like Karnataka and Maharashtra. These natural disasters were exacerbated by human-induced challenges, such as water crisis in Bengaluru highlighting the increasing amount of risk posed by climate change and natural disasters in India.

Key Takeaways

Companies in India are operating in a dynamic landscape, facing various risks. The macroeconomic environment is improving, with a reduction in the level of risk posed to companies. This positive development is coupled with decrease in operational risk. However, these positives are offset by other risks moving in a negative direction. Geopolitical risks are on the rise, driven by increasing global tensions and ongoing conflict. Climate change risks and natural disasters are also worsening, posing significant challenges to Indian businesses. Additionally, while Indian companies have made improvements to their cybersecurity preparedness and technological readiness, these areas remain high-risk and are expected to grow in importance. Companies must stay vigilant and proactive in addressing these evolving threats .

Diverse sectors fuel India's growth story, but they also entangle in a complex risk landscape that demands careful attention. To maintain their rapid growth trajectory and ensure a resilient economic future, Indian companies must balance risk and reward.

Test Your Knowledge—Scan for Chapter Q&A!

6 | RISK PERCEPTIONS OF INDIA INC.

6.1 Top Risks

The respondents were asked to choose the top 5 risks for short term (0–2 years) and long term, (defined as 2-4 years) for the purpose of the survey. We ranked the risks based on how often they appeared in the top 5.

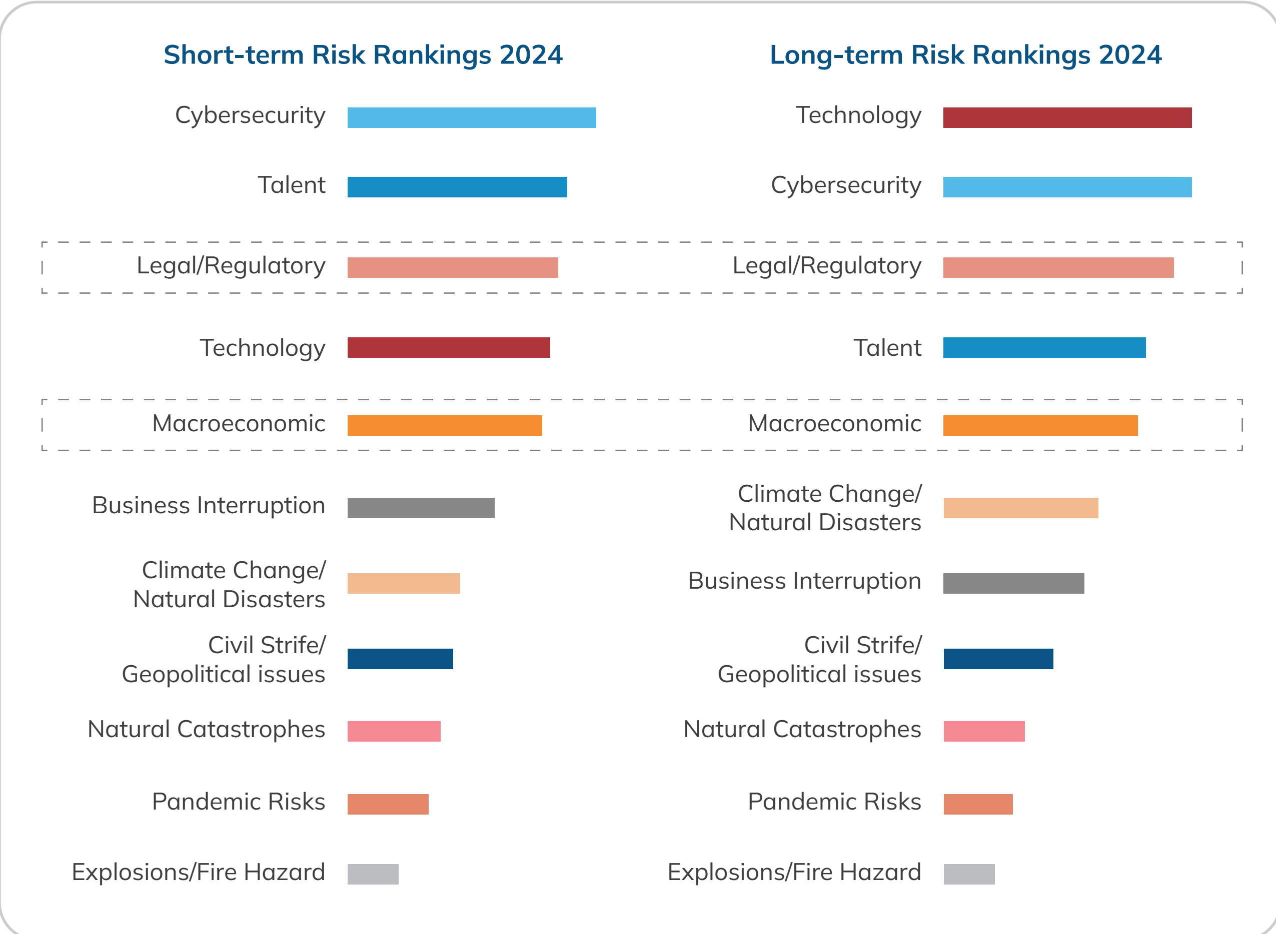


Figure 6.1: The graph above depicts Comparison of Short and Long-term Risk Rankings for 2024

As observed in the comparison:

- The top five risks for both short-term and long-term remain the same, with minor variations in their ranks.
- Technology has risen from 4th place in the short-term to 1st place in the long-term, consistent with last year's long-term rankings. This suggests that businesses expect continued technological disruptions and developments in the long run
- Cybersecurity ranks 2nd in the long-term, closely tied with Technology risk, which is a logical correlation as most cybersecurity concerns are linked to technological advances
- Talent has shifted from 2nd place in the short-term to 4th place in the long-term, suggesting that enterprises anticipate talent shortages to ease within the next 2-4 years

Figure 6.2: The graph above shows comparison of short term risk rankings for 2023 and 2024

Comparing this years rankings with those of the previous year, the most notable shifts observed are :

- **Talent risk** has moved up from 8th to 2nd position this year in short-term rankings, and from 8th to 4th in long-term rankings (Refer to Figure 6.3). It remains a top risk across all revenue demographics and sectors in the short term. The 2024 Risks in Focus report by Internal Auditors Foundation has also identified Human Capital as the second issue right behind Cybersecurity. Thus, the perception of India Inc. seems to be in line with the global risk perception

- **Legal / Regulatory risks** have moved up in their rank compared to last year both in short-and long-term, while remaining in top 5 risks.

Figure 6.3: The graph above shows comparison of long term risk rankings for 2023 and 2024

- **Climate change** is perceived riskier in the long-term scenario

- **Talent** remains a top risk across all revenue demographics and sectors in the short term. 2004 report on Risks in Focus by Internal Auditors Foundation has also identified Human Capital as the second issue right behind **Cybersecurity.** Thus, the perception of India Inc. seems to be in line with the global risk perception

"

There is an increased demand for **Talent** with the right skills, and we are not talking about just numbers. Besides there is an overall need for AI aware / trained resources to bring more value additions and cost under control. Other key factors are the increased focus on infrastructure development and setting up of manufacturing units, which are causing increased talent demand in different Industry areas.

As for **Legal & Regulatory**, which is also a top risk, one has to keep in mind both the global and domestic landscape. Globally, due to supply chains and other geopolitical and economic challenges, the world is seeing a wave of Anti-Globalisation where everyone is trying to protect their country's interests and markets by bringing in more non-tariff barriers. From a domestic perspective, each state, along with its respective governments, has its own unique local nuances and compliance requirements. Hence, Corporates have to be agile to changing socio-political environments that impact the conduct of their business from a legal and regulatory perspective.

Rajeev Tanna, CFIRM
Head - Risk Management
and Internal Compliance
Tata Consulting Engineers Limited

"

6.1.1 Top Risks by Revenue Demographics

We compared the top 5 risks for different revenue demographics with the overall top 5 risks. The picture below highlights the top five short-and long-term priorities of various revenue demographics in comparison to the overall top five risks.

Notably, the same top 5 short-term risks appear in each group. However, slight differences can be seen in long-term rankings of some revenue demographics

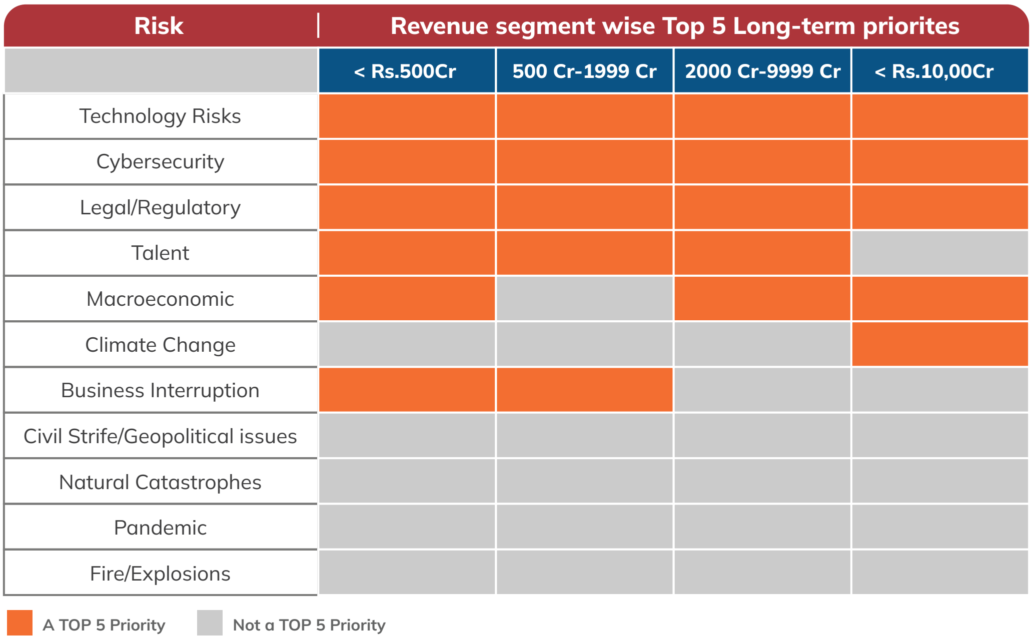


Figure 6.4: The table above depicts Revenue segment wise Top 5 Long-term priorities

Climate Change has a higher recognition compared to last year's survey, particularly in the long-term, for companies with annual revenues of ₹10,000 Cr and above.

Business Interruption also ranks among the top five long-term concerns for companies whose annual revenue is below ₹2000 Cr. Macroeconomic risks move to 6th place among enterprises with revenues ranging from ₹500 to ₹2000 crore.

6.1.2 Top Short term and long term Risks by Industry Sectors

We compared the top 5 risk priorities, as perceived by various sectors, with the overall top 5 risks. The pictures below provide a comparison of the short-term and long-term risk priorities of various sectors against the overall top risks.

- Legal and regulatory risk is among the top 5 priorities for all sectors in both the short and long-term
- Both the BFSI and Services sector share the same top risks as the overall risk rankings for short and long-term
- Manufacturing sector's short-term priorities include Climate Change and Business Interruption, demonstrating the sector's sensitivity to these risks. Climate Change is also listed among the top 5 long-term risks for the Manufacturing sector
- For Pharmaceuticals sector, top priorities include Natural Catastrophes and Business Interruption. Additionally, the Pharmaceuticals sector has identified Climate Change and Civil Strife/Geopolitical risks as additional long-term risks beyond the overall top risks

Risk	Sector-wise Top 5 Short-term priorites					
	BFSI	Manufacturing & Distribution	Pharma & Chemicals	Services	Energy & Utilities	Logistics
Cybersecurity	■	■	■	■		■
Talent	■	■	■	■		■
Legal/Regulatory	■	■	■	■	■	■
Technology	■	■		■		■
Macroeconomic	■	■	■	■		
Business Interruption		■	■			■
Climate Change		■			■	
Civil Strife/Geopolitical issues					■	■
Natural Catastrophes					■	
Pandemic						
Fire/Explosions					■	

■ A TOP 5 Priority □ Not a TOP 5 Priority

Figure 6.5: The table above depicts Sector-wise Top 5 Short-term priorities

Risk	Sector-wise Top 5 Long-term priorites					
	BFSI	Manufacturing & Distribution	Pharma & Chemicals	Services	Energy & Utilities	Logistics
Technology Risks	■	■		■	■	■
Cybersecurity	■	■	■	■	■	■
Legal/Regulatory	■	■	■	■	■	■
Talent	■	■	■	■		
Macroeconomic	■	■	■	■	■	
Climate Change		■	■		■	
Business Interruption			■		■	■
Civil Strife/Geopolitical issues			■		■	■
Natural Catastrophes					■	
Pandemic						
Fire/Explosions			■			

■ A TOP 5 Priority □ Not a TOP 5 Priority

Figure 6.6: The table above depicts Sector-wise Top 5 Long-term priorities

- For the Logistics sector, the top 5 short-term risks see the inclusion of Civil Strife / Geopolitical Issues. In the long-term, the Logistics sector also includes Business interruption and Civil/Geopolitical issues in the top 5 priorities

- The Energy and Utilities sector has the maximum deviations from the overall rankings. Apart from Legal/Regulatory, the top 5 short term risks for the sector include Climate Change, Civil Strife / Geopolitical Issues, Natural Catastrophes and Explosions/Fire Hazard.
  - Governments are pursuing green energy initiatives, posing risks for companies' dependent on fossil fuels and creating opportunities to open new markets.

- Civil Strife and Geopolitical events can impact the generation, pricing, and distribution of energy products
- Climate Change and Natural Catastrophes can lead to severe weather events, creating physical disruptions for Energy and Utility companies and impacting revenue generation (positively or negatively)

> The survey results are revealing as they look realistic. Thanks to the pace of change in the dynamics of macro financial scenarios, incremental talent in specific spaces would be a dire necessity, even though it is time-sensitive and hence hard to meet the volume of requirements in the short term. Similarly, changes in legal provisions and regulatory guidelines in such a transformed scenario would be a given. Compliance would be a challenging task as a consequence. Remaining compliant in a cost-effective manner would be a challenge.
>
> Another interesting finding is the recognition of macroeconomic conditions impacting the health of BFSI entities. It is time to create analytical ability to measure such interconnectedness on an entity-specific basis to boost resilience in them. Proactive and Pre-emptive measures on the identified risks in the survey on an enterprise-wide scale would keep the BFSI sector future-ready.

Dr. Rabi N Mishra
Senior Risks & Resilience Specialist
Governance Board
IRM India Affiliate

6.2 How risks impact business goals

While risk rankings provide insights into the relative importance of various risks to businesses, it is essential to identify which risks impact specific business goals. This enables the quantification of the impact and the design of proper controls. The IRM and ICICI Lombard survey assessed perceptions of the impact of various risks on three generic business goals: Customer Satisfaction, Growth and Profitability.

Business Goal	Risks with Highest Impact	Risks with Medium Impact	Risks with Low Impact
Customer Satisfaction	Business Interruption Technology	Cybersecurity Talent	Legal/Regulatory Civil Strife / Geopolitical Pandemic Fire/Explosions
Growth	Legal/Regulatory Climate Change Civil Strife / Geopolitical Macroeconomic Talent	Cybersecurity Business Interruption	Technology Natural Catastrophes
Profitability	Technology Talent Climate Change	Cybersecurity Legal / Regulatory Macroeconomic	Business Interruption

Risks and Business Goals

Figure 6.7: The table above depicts Risks and Business Goals

Customer Satisfaction

Customer Satisfaction is perceived to be most affected by business interruptions, followed by Technology, Cyber Security and Talent risks. Last year, only the services sector identified Talent risk as a threat to customer satisfaction. This year, a broader range of industries share this perception.

The Manufacturing and Distribution sector identifies Technology as the biggest risk to Customer Satisfaction.

Growth

Growth is perceived to be impacted by Legal/ Regulatory, Climate Change, Civil Strife / Geopolitical, Macroeconomic and Talent Risks. Cybersecurity and Business Interruption are also seen to impact growth, but to a lesser extent. Compared to last year, industries categorised Macroeconomic Risk, Business Interruption and Funding as the biggest risk. This year, Business Interruption has shifted to a lower risk category.

Profitability

Profitability is perceived to be impacted by Technology, Talent, Cybersecurity and Climate Change risks. Last year, Macroeconomic risk and Business Interruption were categorized as high-risk. Legal / Regulatory and Macroeconomic risks are now perceived to have a lesser impact on profitability.

Overall Observation

There has been a notable shift in the perception of business interruption risk across all categories of business goals, moving from high to medium/low risk.

6.3 Changes in Risk Perception

The survey asked respondents to indicate how they perceived individual risks to have changed over the last two years: increased, decreased or remained same. Graph 6.3 shows the response.

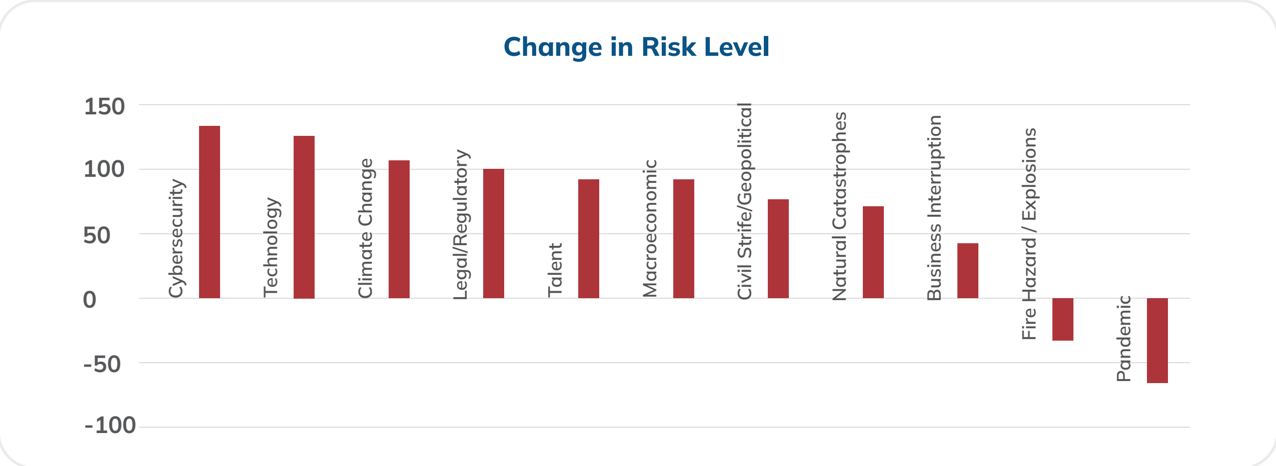


Figure 6.8: The graph above depicts Change in Risk Level from year 2023 to 2024

The prevailing perception shows a marked decrease in Pandemic and Fire/Explosion risks. Consistent with last year's findings, the most pronounced increases are perceived to be in Cybersecurity and Technology risks. Furthermore, this year's survey indicates significant escalations in Climate Change, Legal / Regulatory, and Talent risks, which have exceeded the increases noted in Macroeconomic risks.

6.4 Perception of Total Risk

While risk rankings and changes provide insights into how respondents perceive individual risks, the survey included a question aimed at gauging the "perception of total risk your organization will face over the next two years."

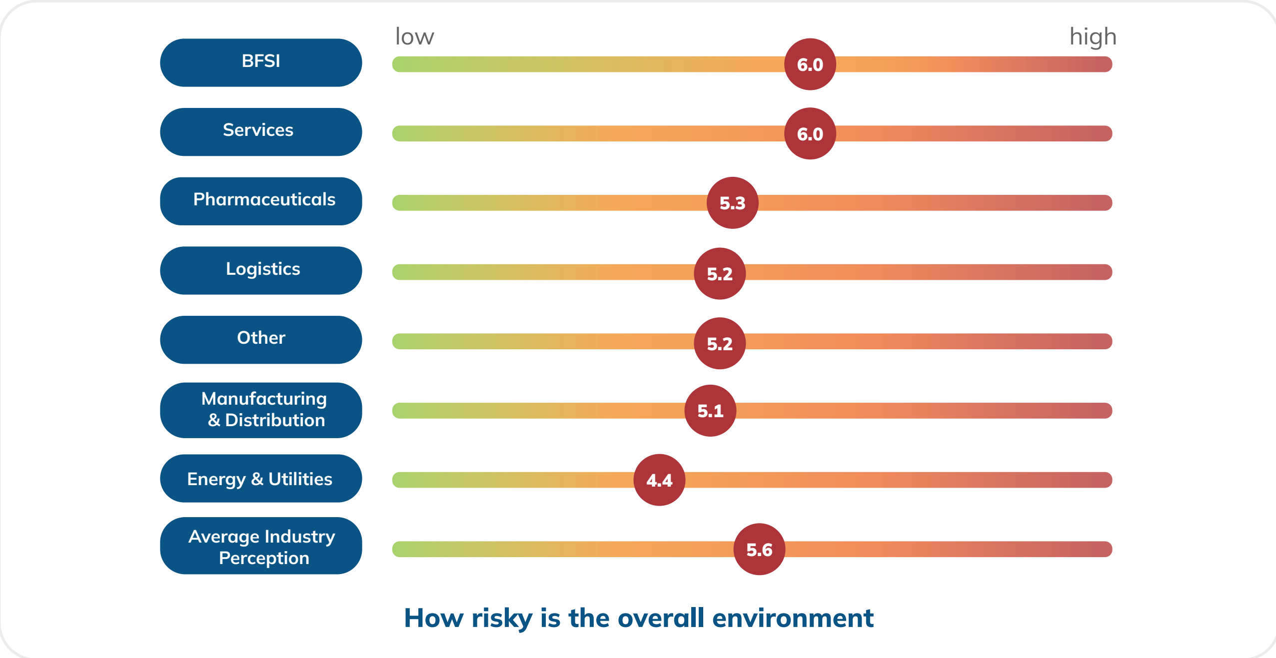


Figure 6.9: The graph above depicts How risky is the overall environment

The purpose of this question was to obtain a qualitative assessment of the overall risk level perceived by respondents in the business environment, on a scale from 0 (low risk) to 10 (high risk).

The prevailing perception across all sectors indicates a moderate risk level. Excluding the "Other" industry sector, BFSI and Services sector see the overall risk levels at 5.9. This possibly indicates the impact of an increase in Technology and Talent risks, attributed to the advent of AI.

6.5 The Individual Risks

First, we will examine the risks which were a part of the risk perception survey. The descriptions appear in the order of the short-term ranking of risks in the survey.

Cybersecurity Risk

As per risk perception survey:

2023 Rank: 1 **2024 Rank: 1**	**High Impact:** –	**Medium Impact:** Customer Satisfaction, Growth, Profitability	**Low Impact:** –

Cybersecurity remains a top risk this year, consistently ranking in the top five across all revenue demographics and industry sectors. This underscores the increasing integration of IT into organizational operations.

Over the past year, advancements in Generative AI have led organizations to adopt these technologies to enhance cost competitiveness and improve core products and services. Consequently, Cybersecurity risks have maintained their position in the top five over the long term.

Cybersecurity risk encompasses threats such as data breaches, hacking, malware, and ransomware attacks. These risks can compromise sensitive information, disrupt business operations, and undermine customer trust.

Effective risk management involves:

- Implementing robust security measures,
- Conducting regular vulnerability assessments,
- Providing employee training,
- Fostering a security-conscious culture, and
- Developing comprehensive incident response plans

These steps are crucial to protect against and mitigate the impact of cyber threats.

FROM THE DESK OF ICICI LOMBARD'S CYBER INSURANCE EXPERT

Bipin Titus

Deputy Vice President -Underwriting and Liability

Trends in cybersecurity and related liability over the past year have been observed:

- Advancements in technologies, particularly in AI and big data, have heightened data exposure risks and prompted regulatory changes, thereby escalating cyber liability risks
- The initiation of new AI projects has led to a rise in contractual disputes
- A significant number of companies, varying in size and capabilities, are concurrently undertaking AI-related projects, resulting in severe talent shortages
- AI technologies are also facilitating new forms of fraud through deep fakes, causing substantial financial losses and increasing crime-related liabilities for organizations
- Growing climate change awareness among governments and society has led to the introduction of new regulations addressing environmental and climate-related issues. Non-compliance with these new or revised regulations can result in significant liabilities for organizations
- Increased consumer rights awareness may lead to heightened liabilities, particularly for companies in the consumer services sector

How can organisations better manage emerging liability risks?

- While many emerging liability risks are related to technology, risk management must address people, processes, and technology—all three dimensions
- Securing the right talent for executing new initiatives is crucial to minimizing issues associated with new technologies
- Continuous staff training and heightened awareness can significantly enhance cyber defence and regulatory compliance
- Processes must adhere to basic hygiene requirements, such as separation of duties, and be supported by robust systems to prevent fraud
- Technology should be leveraged to mitigate threats related to phishing, data leaks, authentication, and employee fraud
- Systems must be kept up-to-date with the latest patches and versions to cover all known and zero-day threats

The design and implementation of comprehensive plans for business resilience and incident response are essential.

For detailed information, please reach out to us at **bipin.titus@icicilombard.com**

Talent Risk

As per risk perception survey:

2023 Rank: 8 / 2024 Rank: 2	High Impact:	Medium Impact:	Low Impact:
	Growth, profitability	Customer Satisfaction	–

Talent risk refers to the potential negative impact on a business due to challenges in attracting, retaining, and developing skilled employees, as well as in succession planning. This risk can result in reduced productivity, innovation, and competitive advantage. Factors contributing to this include labour market shortages, inadequate succession planning, and evolving skill requirements. Effective talent risk management involves strategic workforce planning, competitive compensation and benefits, continuous training and development programs, and fostering a positive organizational culture to ensure a capable and motivated workforce.

Compared to the previous year, Talent risk has risen in the risk rankings, now holding the 2nd position in the short term and the 4th position in the long term. Several factors, including the following, contribute to this rise:

- Significant technological advancements across various industry sectors have led to a skills mismatch, prompting organizations to initiate reskilling and upskilling programs. Concurrently, the demand for specific skills has increased, resulting in higher attrition rates
- As part of the technological shift, the sudden and substantial increase in Generative AI investments by start-ups, product companies, and end-user organizations has resulted in a shortage of AI-specific skills. Furthermore, end-user companies are experiencing a scarcity of business and management professionals capable of effectively implementing these projects
- Shortage of blue-collar workers: Many organisations are struggling to attract the technical skills needed to fill existing vacancies, hindering their growth. Several ITI's (Industrial Training Institutes) across India have reported 100% placement rates this year, while even top engineering schools have achieved only 70-80% placement rates. Abundant opportunities abroad have also attracted these skills
- There is a growing mismatch between the required skills and the skills available in the labour market

While Talent is perceived to have a medium level impact on Customer Satisfaction in the overall ratings, the BFSI and Services sectors see Talent as the biggest risk to Customer Satisfaction.

Legal/Regulatory Risk

As per risk perception survey:

2023 Rank: 5 / 2024 Rank: 3	High Impact:	Medium Impact:	Low Impact:
	Growth	Profitability	Customer Satisfaction

Legal and regulatory risks continue to be among the top 5 short- and long-term risks, with a higher rank this year compared to previous years.

Factors contributing to these risks include new legislation, regulatory enforcement actions, and evolving interpretations of existing laws. These risks can result in fines, lawsuits, operational restrictions, reputational damage, and increased compliance costs.

Effective risk management involves monitoring regulatory developments, maintaining compliance with applicable laws, engaging with legal counsel, and implementing proactive measures to mitigate legal and regulatory uncertainties.

This year's rise in rank can be attributed to:

- Accelerated regulatory changes combined with enhanced enforcement
- Risks arising from export/import controls
- An increase in project disputes, such as those related to AI implementation
- The number of legal disputes and litigious activities in India has increased.

FROM THE DESK OF ICICI LOMBARD'S LIABILITY UNDERWRITING EXPERT

Ramneek Goyal

Vice President – Liability Underwriting & Claims

What should companies do to manage liability-related risks:

- Effective management of liability-related risks involve and engages the entire organisation's core processes and risk management capabilities
- While a company's core operational strengths play a very important role in managing and minimising liability risks, the human angle also plays a pivotal role in almost all the liabilities. Thus, a strong organisational risk culture enables effective management and mitigation of these risks
- Despite best risk management practices, there could still be some unknown and uncertain exposures that can have a devastating impact on the company's balance sheet. For such exposures, the best way is to transfer it via the purchase of liability insurance
- Liability insurance offers a wide range of protection, e.g., there are more than 20 products that protect insureds against a broad spectrum of liability exposures; some of these are liabilities related to core products or services, cyber, data, employees etc. While some of the liabilities would be common across the sectors, the nature of liabilities related to core products and services may vary from sector to sector

Managing cyber-related liabilities and risks

- Cybersecurity is one of the top five risks that a corporation faces. It is also a very dynamic risk as the cyber threat landscape is too fluid. The costs associated with cyber incidents have also changed over the years. Previously, managing incident response incurred major costs; now, business interruptions due to cyber breaches have become the key component. Additionally, cyber-attacks could potentially expose the organization to third-party liabilities if they exfiltrated data from its systems

Organisations need to examine their postures and plug vulnerabilities on a regular basis to avoid cyber-attacks and/or minimize the impact of such attacks. Besides strengthening the processes and putting up defence mechanism, people should be trained and continuously sensitized on ransomware attacks, phishing, data breaches, and evolving vulnerabilities to avoid business interruptions and high severity incidents that may lead to large losses

For detailed information, please reach out to us at **ramneek.goyal@icicilombard.com**

Technology Risk

As per risk perception survey:

2023 Rank: 4 **2024 Rank: 4**	**High Impact:** Customer satisfaction, Profitability	**Medium Impact:** –	**Low Impact:** Growth

Like last year, Technology Risk continues to appear in the Top 5 for both short- and long-term risks.

Technology Risk refers to the potential adverse effects on a business due to improvements in the current technology that the enterprise uses in its core products or operations. It could also refer to failures, malfunctions, or obsolescence of technological systems and infrastructure. This risk can lead to the enterprise lagging behind its competitors, operational disruptions, data loss, security breaches, and financial losses. Contributing factors include a lack of innovation, outdated technology, insufficient cybersecurity measures, and rapid technological advancements. The increased adoption of the Internet of Things and Generative AI in the past year may have contributed to the persistence of technology risk in the top 5 categories for both short-term and long-term hazards.

Macroeconomic Risk

As per risk perception survey:

2023 Rank: 2 **2024 Rank: 5**	**High Impact:** Growth	**Medium Impact:** Profitability	**Low Impact:** –

Macroeconomic risks have remained in the top 5 for the short and long term, but with a lower rank compared to the previous year.

These risks refer to the potential adverse effects on businesses stemming from fluctuations or instability in the overall economy. Factors contributing to macroeconomic risks include changes in interest rates, inflation rates, exchange rates, commodity prices, and economic growth rates. Such fluctuations can impact consumer spending, demand for products and services, raw material costs, financing costs, and overall market conditions. The Indian economy has shown resilience and strong growth, particularly when compared to the global macroeconomic scenario. Because of this resilience, Indian companies have become more confident about the macroeconomic situation in India, as evidenced by the lower ranking of macroeconomic risks in both short- and long-term risk perception surveys.

Business Interruption Risk

As per risk perception survey:

2023 Rank: 3 **2024 Rank: 6**	**High Impact:** Customer Satisfaction	**Medium Impact:** Growth	**Low Impact:** Profitability

Business Interruption Risk refers to the potential loss a company faces due to an unexpected disruption in its operations. This can result from various events, such as natural disasters, cyberattacks, equipment failures, or supply chain issues. The impact includes lost revenue, increased operational costs, and potential long-term harm to the business's reputation and customer relationships.

An enterprise can implement measures to minimize the impact of other risks that could, in turn, lead to an interruption of its operations. The development and implementation of robust business continuity plans help an organization minimise or eliminate business interruption risk.

FROM THE DESK OF ICICI LOMBARD'S PROPERTY UNDERWRITING EXPERT

Jitendra Singh

Vice President – Property underwriting

Trends in Property Risks:

Events over the past year and early months of 2024 show that climate change is becoming more widespread, and its impact is more pronounced. Cities around the globe are experiencing record high temperatures due to heatwaves. High temperatures have several cascading effects:

- Shortage of water – leading to less water for contingencies
- Higher use of air conditioning systems means higher energy consumption and higher load on power plants
- Higher load on electric grids as well as electric circuits in the buildings. Combined with higher temperatures, this raises fire risks
- Surge in EV fire incidents

What steps can be taken to handle the surge in fire incidents during every summer

- Use construction materials that are suitable for Indian conditions
- Avoid using combustible materials in the walls like puff panels
- Conduct health checks on fire electrical units, and provide shade for the outer AC units
- Design buildings to handle higher and higher temperatures efficiently
- Conduct health check-ups on building fire safety before the onset of summer
- Remove dry vegetation from the surroundings

Big changes are expected in insurance products for property risks

- Fire insurance tariffs have been de-notified from 1st April 2024
- Property Insurance guidelines have been introduced, which signal a move from a rule-based to a principle-based regime in regulating the property insurance products
- The next 2-3 years will see big changes, including the emergence of long-term fire insurance products

For detailed information, please reach out to us at **jitendra.singh@icicilombard.com**

Climate Change Risk

As per risk perception survey:

2023 Rank: 6 / 2024 Rank: 7	High Impact:	Medium Impact:	Low Impact:
	Growth Profitability	–	–

Climate Change Risk refers to the potential adverse effects on businesses caused by long-term shifts in climate patterns. These risks include physical impacts like extreme weather events, rising sea levels, and temperature changes, as well as regulatory and market impacts such as stricter environmental regulations and shifting consumer preferences. Companies face increased operational costs, supply chain disruptions, and asset devaluation.

In last year's risk perceptions survey, we combined the risks expected by enterprises due to both climate change and natural catastrophes into one single risk category. This year's survey differentiates between the two risks. In the long-term risk ranking of enterprises, climate change risk has moved up. The meteorological department issued several heat wave warnings this summer, marking an increase in the number of extreme climate events in India in the last year. India also faced one of the warmest winters on record in the winter of 2023–24. These events could have contributed to Climate Change risk being scored higher.

Civil Strife/Geopolitical Risk

As per risk perception survey:

2023 Rank: 9 **2024 Rank: 8**	**High Impact:** Growth	**Medium Impact:** –	**Low Impact:** Customer Satisfaction

This category of risk includes risk from two sub-categories: risk due to Civil Strife and risk due to Geopolitical issues. Civil Strife Risk refers to the potential adverse effects on business operations due to social unrest, political instability, protests, or violent conflicts within a country. This can lead to property damage, supply chain disruptions, employee safety concerns, and operational halts.

An enterprise faces geopolitical risk as a result of political instability in a region, inter-governmental disputes, or international conflicts. This risk includes trade wars, sanctions, regulatory changes, and political upheavals, all of which can impact market conditions, supply chains, and investment environments. Companies must monitor global political developments and implement risk mitigation strategies to navigate and reduce the impact of geopolitical uncertainties.

For Indian enterprises, the risk has a low ranking due to the following possible reasons:

- Organisations have evolved their processes and controls to manage these risks over the years
- In many cases, global geopolitical issues may present new opportunities to enterprises in India

Risk due to Natural Catastrophes

As per risk perception survey:

2023 Rank: Not polled **2024 Rank: 9**	**High Impact:** –	**Medium Impact:** –	**Low Impact:** Growth

Natural catastrophes such as earthquakes, hurricanes, floods, and wildfires have the potential to significantly disrupt an enterprise. These events can lead to property damage, supply chain interruptions, loss of life, and prolonged business downtime. Effective risk management involves identifying vulnerable areas, investing in resilient infrastructure, securing appropriate insurance coverage, and developing comprehensive disaster response and recovery plans to mitigate the impact of natural catastrophes.

In addition to extreme climate events, India also faced several natural disasters this year, including forest fires in multiple states (Odisha, Arunachal Pradesh, Uttarakhand, etc.) as well as floods in multiple places. The long-term ranking of natural catastrophes may be due to enterprises' increased awareness of the impact of these disasters on meeting their objectives.

Pandemic Risk

As per risk perception survey:

2023 Rank: 10 / 2024 Rank: 10	High Impact:	Medium Impact:	Low Impact:
	–	–	Customer Satisfaction

Pandemic risk refers to the potential for widespread health crises caused by infectious diseases, leading to significant disruptions in an enterprise's objectives. This risk can result in workforce shortages, supply chain interruptions, decreased consumer demand, and financial instability. The impact extends to health and safety concerns for employees and customers, necessitating businesses to develop robust contingency plans, including remote work capabilities, health protocols, and supply chain diversification, in order to maintain resilience during such events.

Fire/Explosion Risk

As per risk perception survey:

2023 Rank: 11 / 2024 Rank: 11	High Impact:	Medium Impact:	Low Impact:
	–	–	Customer Satisfaction

This category of risk refers to the potential damage and disruption caused by fires or explosions within a business environment. This risk can lead to severe property damage, loss of life, injury, and significant operational downtime.

Contributing factors include flammable materials, faulty electrical systems, and inadequate safety protocols. Despite the inherent dangers, fire risk has shown a surprising consistency in rank over the years.

This might suggest that most corporations have implemented robust fire prevention and mitigation measures, thus not categorizing fire risk as a top concern in the risky zone.

7 | PREPAREDNESS TO FACE RISKS

This section presents analysis of Enterprise Risk Management Maturity (RMM) and preparedness of organizations to face specific risks.

7.1 Risk Management Capability Maturity

We asked respondents to assess their own levels of maturity in the following aspects of enterprise risk management capability:

- Risk identification practices
- Risk management process ownership
- Practices around information needed for and emanating from risk management activities
- Talent-related practices are necessary for risk management.

Based on responses received, we have derived RMM (Risk Management Maturity) scores for respondents. Organizational maturity has been assessed at four levels:

Level 1
Beginner:
Organizations whose ERM practices are at an initial stage

Level 2
Emerging:
Inconsistent implementation of certain risk management practices

Level 3
Progressing:
High level of maturity across multiple areas of ERM

Level 4
Transforming:
High levels of maturity across all areas

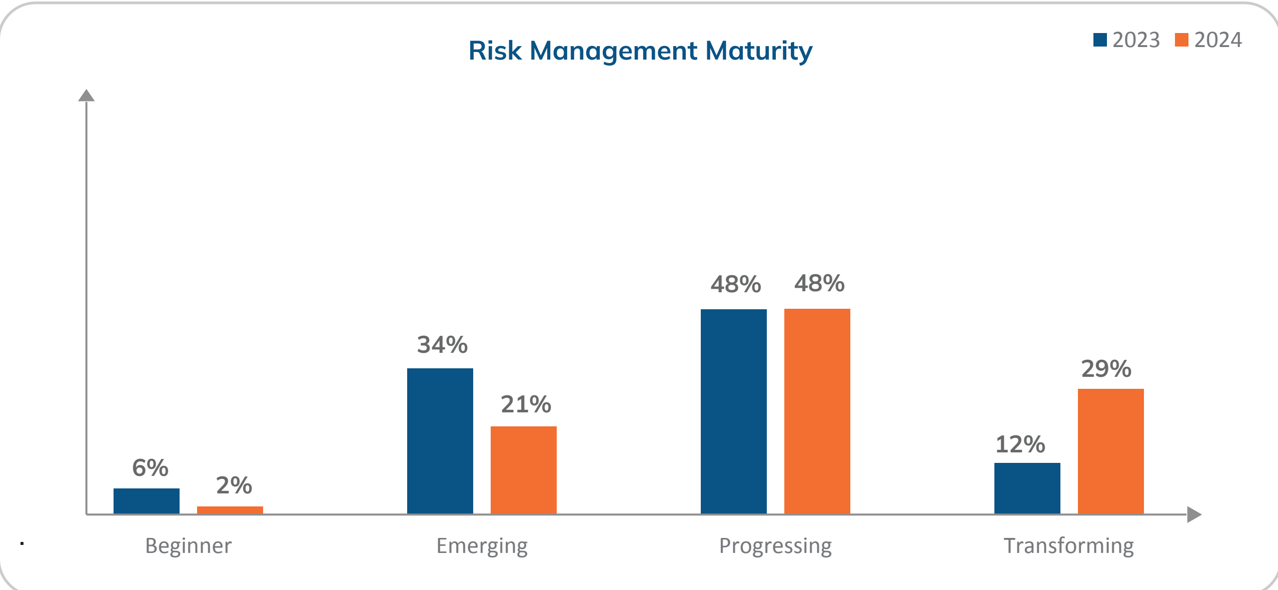


Figure 7.1: Risk Management Maturity (RMM) profile, depicting the organizational maturity of the survey respondents.

The diagram above depicts the maturity levels of companies over a two-year period. It is clear that there has been an improvement in the companies' risk maturity, with a growing number of enterprises advancing to Levels (Transforming) Levels 3 or 4.

Nonetheless, around 23% of the surveyed companies remain at Levels 1 and 2, highlighting the need for substantial efforts to advance to achieve Level 4 - Transforming, an organization must secure a rating of 3 (Progressing) or higher in most areas. Currently, just under 30% of organizations have attained this level. Consistent with the previous year, over 30% of companies with overseas subsidiaries have reached Level 4 maturity. To progress to higher levels of capability maturity, organizations must ensure consistent and standardized practices across risk management, processes, talent management, and technology management.

7.1.1 Risk Identification Practices

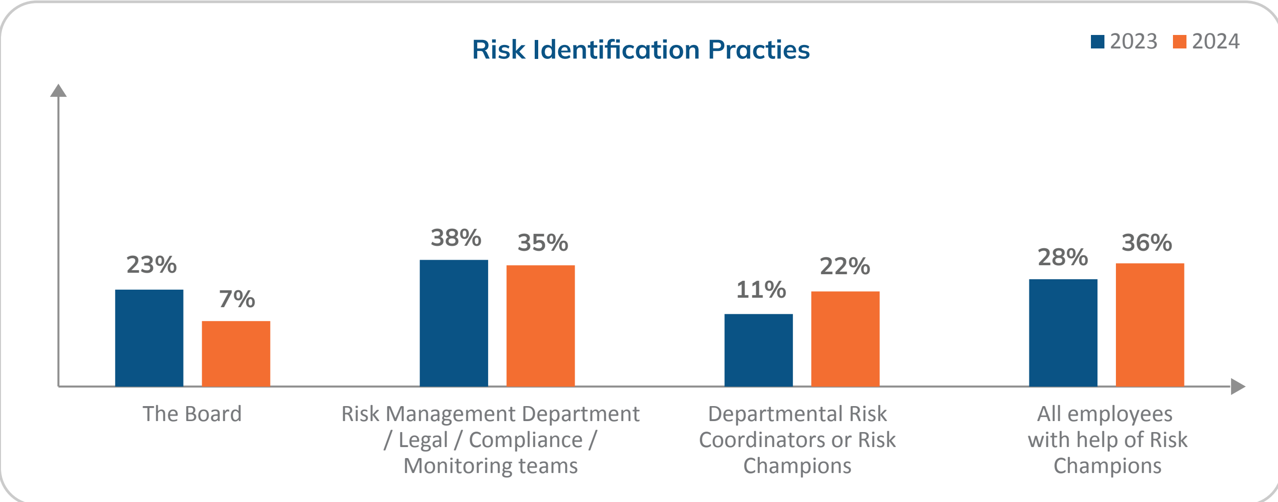


Figure 7.2: Risk identification practices shown by the respondent companies, in increasing order of maturity.

Mature organizations ensure that all employees can identify risks within their areas of responsibility, with timely support from risk champions in their departments. All personnel must undergo training in risk identification skills, and their leaders must provide the necessary support and encouragement. The ability to identify "black swans" and "grey rhinos" significantly contributes to the organization's continued success.

According to survey responses, there has been a marked improvement in this aspect compared to the previous year. However, approximately 42% of organizations still expect the Board or the Risk Department to identify risks, which is not the appropriate level for risk identification.

7.1.2 Risk Management Process Ownership

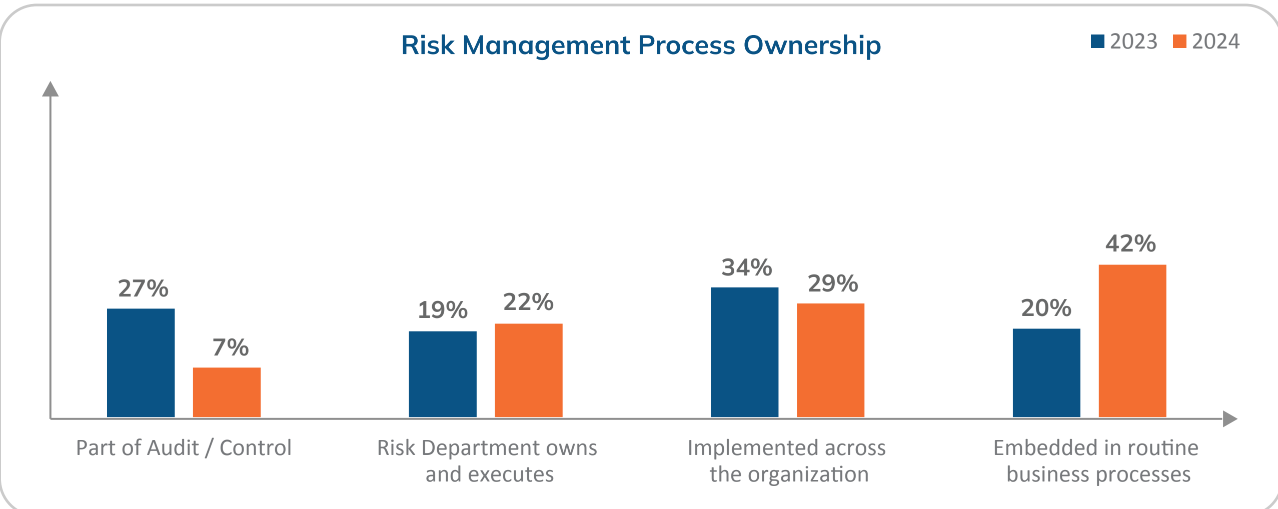


Figure 7.3: Risk Management Processes ownership adapted by the respondent companies, in increasing order of maturity.

Robust risk management processes help implement high quality risk management activities consistently across the organisation. The organization's mission, vision, and short- and long-term goals must fully align with the processes. At every level, appropriate information systems must be supported. In addition to the process definition, a cycle of continuous improvement and process implementation is crucial.

A high level of maturity in this domain indicates that the organization's risk management procedures are being applied throughout and may even be ingrained in everyday operations.

The total number of organizations with the highest maturity in this area has increased from 20% last year to around 42% this year, which is a significant improvement. However, approximately 30% of organizations still restrict their risk management process to the audit/control/risk department. A key indicator of process maturity and robustness is the utilization of an appropriate standard in the development of the risk management system.

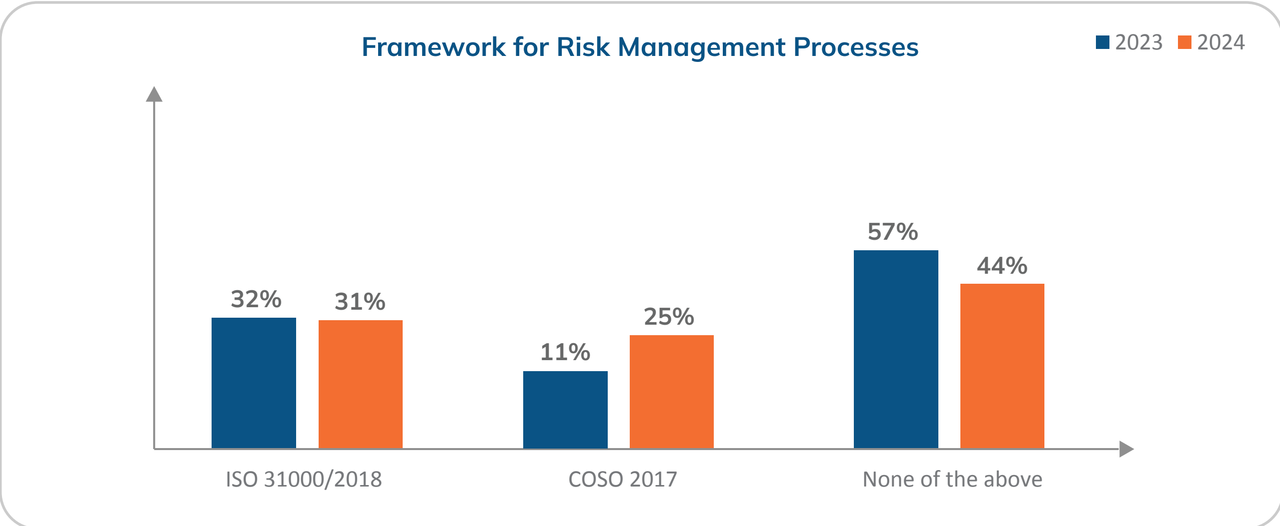


Figure 7.4: Risk Management Frameworks adapted by the respondent companies

The International Standards Organization (ISO) has established standards for enterprise risk management under ISO 31000, with the most recent update issued in 2018. Similarly, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) has developed a risk management standard, with its latest update released in 2017. These two enterprise risk management standards provide a foundational framework for implementing risk management practices within an organization, encompassing all stages from strategy to execution. Adopting these standards ensures comprehensive and rigorous risk management processes.

We surveyed respondents about the standards they use for their risk management processes. Compared to the previous year, a higher number of organizations reported utilizing the COSO-2017 framework for their systems. Additionally, the percentage of companies without a foundational risk management standard has decreased. This shift indicates an enhancement in process quality.

7.1.3 Risk Management Information

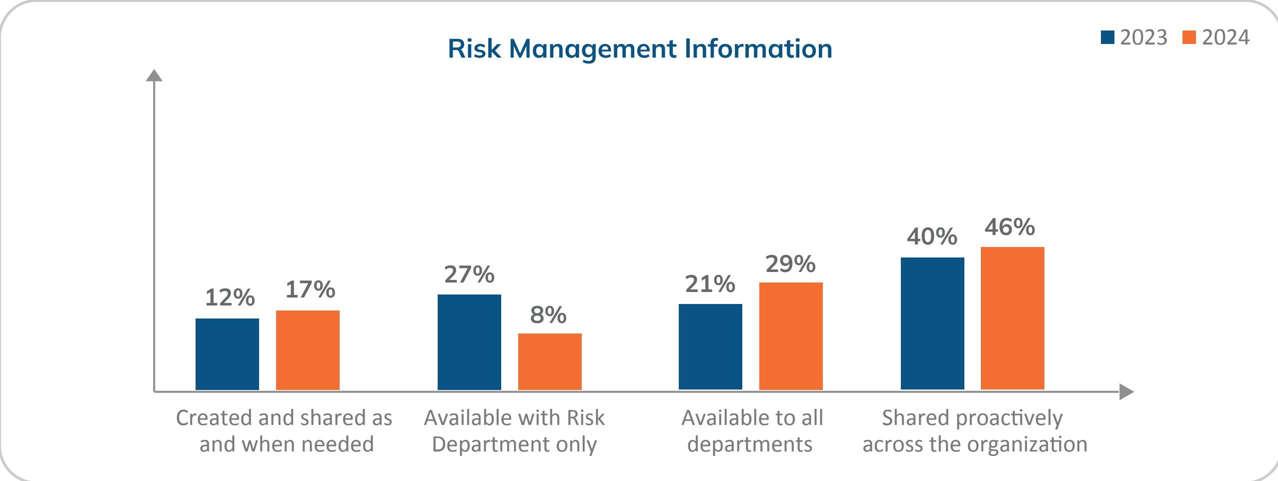


Figure 7.5: Risk Management Information sharing practices adapted by the respondent companies in increasing order of maturity.

Effective risk management necessitates timely access to relevant and appropriate information within any organization.

Approximately 75% of respondents indicated advanced levels of maturity in this area, characterized by proactive information sharing across the organization or real-time availability of information to all departments. Achieving these higher levels of maturity involved identifying valuable information for risk management, collecting and analysing it, and distributing it throughout the company to ensure it is accessible to the appropriate personnel in real time. Notably, companies with overseas subsidiaries exhibit slightly higher maturity, with about 50% of responses indicating Level 4, i.e., robust information sharing across the organization.

7.1.4 Talent for Risk Management

Figure 7.6: Practices around Talent for Risk Management as selected by the respondent companies, in increasing order of maturity.

Acquiring the appropriate skill set for the risk management department is essential, but it is just the beginning. Every level, from the executive suite to front-line employees, must embed expertise in risk management.

High-maturity organizations ensure that adequate risk talent is available throughout the organization. Risk-related goals, KPIs, qualifications and training requirements are integrated into all job descriptions. Specific risk skill needs are addressed during regular talent planning exercises, ensuring that the availability and management of risk talent are seamlessly incorporated into the organization's routine business processes.

According to survey responses, around 49% of organizations still have relatively low maturity practices, either discussing risk talent on an as-needed basis or planning it only for the risk department.

7.2 ERM Improvement objectives

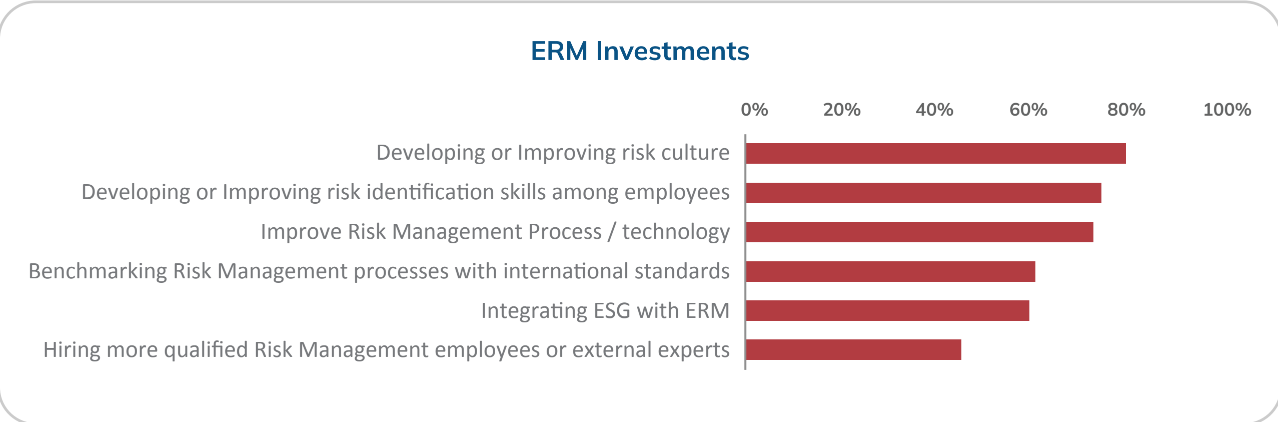


Figure 7.7: Enterprise Risk Management Investments planned by the respondent companies

In response to a question about their improvement objectives for this year, almost 79% of respondents selected creating or enhancing risk culture as an investment for the upcoming year. Enhancing employees' risk identification skills is the second most selected objective, followed by improving risk management processes and technology.

Close to 60% of respondents intend to benchmark their ERM Practices against international standards. Almost a similar number of organisations plan to integrate ESG (Environmental, Social, and Governance) with ERM.

FROM THE DESK OF ICICI LOMBARDS'S RISK MANAGEMENT EXPERT

Burzin Sarbhanwala
Vice President-Risk Team

What steps can improve Risk Management practices and minimize losses?

- Organisations must recognize that risk transfer (Insurance) is only one aspect of Risk Management. Simply obtaining insurance does not prevent the occurrence of risks or nullify their impacts. For each identified risk, it is essential to develop a comprehensive management strategy that includes risk controls, loss minimization, and risk transfer. Hazard risk controls should first aim to eliminate hazards before traversing down the remaining risk control hierarchy of Substitution, Engineering Control, Administrative Control and Personal Protection Equipment.
- Organizations must track all incidents, regardless of whether they result in the materialization of a risk. Analysing these incidents, identifying root causes, and continuously improving risk management strategies and processes are essential steps in effective risk management. Furthermore, these incidents and the resulting improvements should be communicated throughout the organization to ensure consistently high levels of risk awareness and risk maturity.
- The availability of the right talent has never been more critical. Having the right skills across all functions ensure minimal issues, which is the first step in effective risk management.
- The maturity of an organization's risk management process and its risk culture are crucial. These processes and cultural practices must permeate the entire organization and extend to all stakeholders. Adequate training and familiarization are necessary for everyone, whether they are new employees or short-term visitors.
- Rewarding organizations with robust risk management practices would be an excellent incentive. Regulatory bodies or insurance companies could provide these rewards, potentially in the form of reduced premiums.

Suggestions:

- Basing the risk management processes of an organization on international standards such as ISO or COSO will provide a basic strength to the system
- Conduct frequent assessments such as hazard identification, risk assessment, FEAMS, etc.
- View risk as an opportunity: Risk management capabilities can be leveraged to attract more customers and expand business opportunities.

For detailed information, please reach out to us at **burzin.sarbhanwala@icicilombard.com**

7.3 Risk Preparedness: Capabilities and Investments

An organisation must make the following preparations to be completely ready to manage a risk:

- Develop a strategy
- Ensure the availability of people with proficiency and expertise in the field
- Invest in the development and implementation of risk management solutions

In the survey, we asked questions to assess how many organisations had prepared themselves along these lines.

The table below shows risk preparedness for various risks, ranked according to their short-term significance.

Risk	Have Risk Mitigation Strategy	Have invested in	Have in-house Expertise	Fully Prepared	Need External Expertise
Cybersecurity Risks	40%	35%	53%	14%	33%
Talent	39%	20%	59%	6%	12%
Legal / Regulatory Risks	34%	18%	71%	8%	18%
Technology	39%	25%	57%	13%	30%
Macroeconomic	51%	11%	48%	11%	17%
Business Interruption	54%	16%	56%	6%	11%
Climate Change	39%	19%	25%	34%	44%
Civil Strife / Geopolitical	54%	16%	56%	6%	11%
Natural Catastrophes	49%	21%	28%	25%	30%
Pandemic	49%	15%	32%	23%	29%
Fire Hazard/Explosion	47%	26%	51%	9%	13%

Figure 7.8: The table above demonstrates the Risk Preparedness for various risks

The strategy must not only align with business objectives and the surrounding conditions, but also address the predicted severity and likelihood of the risk. The 'Fully Prepared' column reveals a low level of preparedness among organizations across all risk management dimensions.

Scan to test your chapter smarts.

8 | RISK DISCLOSURES IN ANNUAL REPORTS

Risk disclosures are a crucial element of an organisation's financial and strategic reporting, providing stakeholders insights into the specific potential challenges and uncertainties that may affect the company's performance and sustainability. These disclosures are vital for fostering transparency and trust, as they enable investors, regulators, and other stakeholders to make informed decisions based on a comprehensive understanding of the risk landscape specific to an organisation.

High-quality risk disclosures reflect a mature and proactive risk culture within the organisation, demonstrating a commitment to identifying, assessing, and mitigating risks in a structured and transparent manner. Such a culture not only enhances the organisation's resilience but also underscores its dedication to long-term value creation and accountability. Effective risk disclosures thus differentiate organisations in the eyes of stakeholders, highlighting those that are better prepared to navigate an increasingly complex and uncertain business environment.

As part of the Risk Culture analysis in this report, we analyzed and compared the risk disclosures of global companies (listed on US/European stock exchanges) and Indian companies to gain further insights into the prevailing risk culture.

8.1 Risk Disclosure Analysis Methodology

Annual reports often present risk disclosures in free-form language, with each company using its own terminology and classifications to describe risks. To enable a uniform analysis, scoring, and comparison of these risk disclosures across various organizations, we have categorized the disclosures into 14 distinct categories :

- Business Interruption
- Macro- economic
- Legal / Regulatory Risks
- Technology Risks
- Talent Risks
- Cybersecurity Risks
- Climate Change
- Natural Catastrophes
- Civil Strife/Geopolitical Risks
- Pandemic
- Fire
- Strategic Risks
- Market Disruption Risks
- ESG

The first 11 categories have also been used for the Industry Risk Perceptions Survey this year.

For each category, we have assessed the coverage of the category in the disclosures to determine their adequacy and completeness. A score has been awarded based on the quality of the coverage:

Quality of the Risk Disclosure description	Awarded Score
Risk is not mentioned	0
Risk is mentioned, possibly with minimal information	10
Risk is mentioned and described	25
Risk described in the context of the company along with its impact	50
Contextual description of the risk, its impact and mitigation strategy	75
Contextual risk description, its impact, mitigation strategy and examples	100

The average of scores across all 14 categories determines the Risk Coverage Score for a company.

Before discussing risk disclosure analysis, we will briefly review the regulatory requirements for risk disclosures in the relevant geographies. Finally, we will compare the risk profiles of global organisations with those of Indian enterprises.

8.2 Risk Disclosures of Global Organisations

8.2.1 Global Risk Disclosure Regulations

We have analysed the annual reports for financial years 2022 and 2023 for **64 global companies** listed on US and European stock exchanges.

8.2.1.1 Risk Disclosure Regulations in the USA

The United States has a long history of regulations related to enterprise risk disclosures.

In 2005, risk factor disclosure transitioned from being voluntary to mandatory when the SEC introduced item 1A into forms 10-K and 10-Q. Item 1A requires most public companies to disclose their risk factors. Disclosures are a part of form 10-K annually and form 10-Q quarterly. Prior to this change, only companies with higher litigation risk made proper disclosures to protect themselves from lawsuits related to forward-looking statements. Even low-risk companies began to provide detailed risk disclosures in their reports after 2005.

In August 2020, the SEC revised Regulation S-K. Companies are now required to include a summary of risk factors if their disclosures exceed 15 pages. They must also report only "material" risk factors, rather than just the "most significant" ones. "Material" refers to risks that reasonable investors would consider important when making investment or voting decisions. The intent behind these regulations was to enhance the quality of risk disclosures. However, a December 2021 post on the Harvard Law School Forum for Corporate Governance observed that companies did not reduce the number of pages dedicated to risk disclosures despite these changes.

The SEC is introducing new regulations regarding cybersecurity and climate-related risk disclosures. In September 2023, they mandated timely disclosures of material cybersecurity incidents, including the assessment and management of cybersecurity risks and the board's oversight.

In March 2024, the SEC adopted new rules for climate-related risk disclosure. These rules focus on greenhouse gas emissions, using the four-pillar framework of the Task Force on Climate-Related Financial Disclosures (TCFD), which covers governance, risk oversight, strategy, and goals.

In the coming years, these new regulations will begin to impact annual reports.

8.2.1.2 Risk Disclosure Regulations in Europe:

Both national initiatives and broader European Union directives aimed at enhancing transparency and investor protection have shaped the evolution of risk disclosure regulations in Europe.

Over the past two decades, European regulations for risk disclosures have become progressively stringent. Although standards vary across countries, companies listed on major stock exchanges, such as the London Stock Exchange (LSE) or Euronext, are required to adhere to comparable risk disclosure rules. According to the LSE, companies are required to report significant risks and maintain effective risk management systems. We outline some key EU-wide directives as below:

Directive	Description
Transparency Directive (2004, amended in 2013)	A framework for harmonizing transparency requirements across EU member states, including periodic financial reporting and the disclosure of material risks by publicly traded companies.
Non-Financial Reporting Directive (NFRD, 2014)	NFRD mandates that large companies disclose information on environmental, social, and governance (ESG) risks, reflecting the increasing significance of non-financial risks in corporate reporting.
Corporate Sustainability Reporting Directive (CSRD, 2021)	Built on the NFRD. The CSRD expanded the scope and detail of non-financial reporting, requiring companies to provide more comprehensive and standardized disclosures on sustainability-related risks.

8.2.2 Analysis of Risk Disclosures in Annual Reports of Global Companies

8.2.2.1 Companies Considered

We have reviewed risk disclosures of 64 companies selected from top 500 global companies based on revenue. Risk disclosures in the annual reports for the financial year 2022 and 2023 were analysed for all these companies.

The selected companies encompass a broad range of revenues and span across multiple sectors.

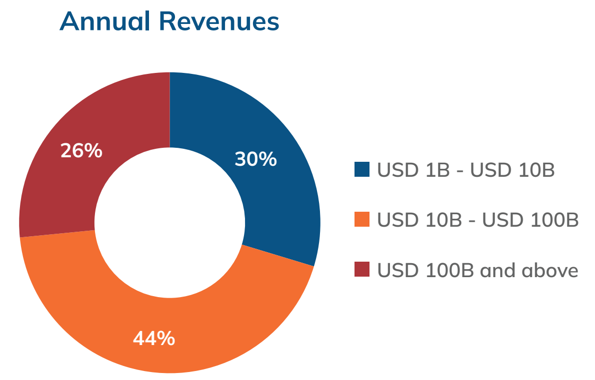


Figure 8.1: The pie depicts the revenue demographics of the global companies which were analysed.

In terms of industry sectors, the companies span various sectors as shown in the graph 8.2 below :

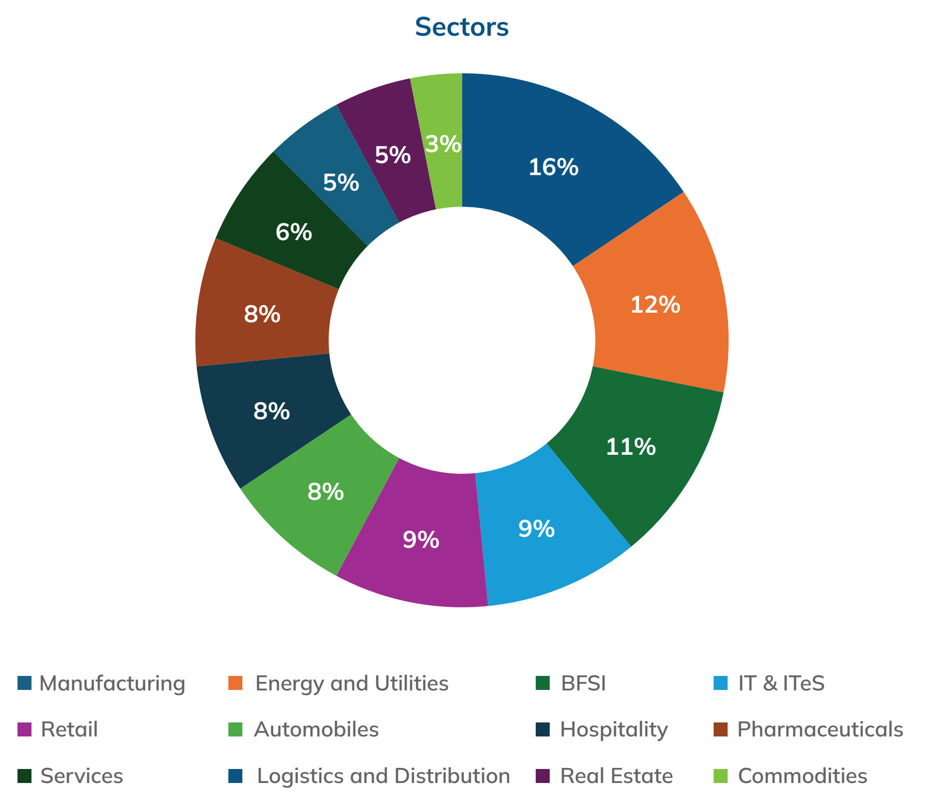
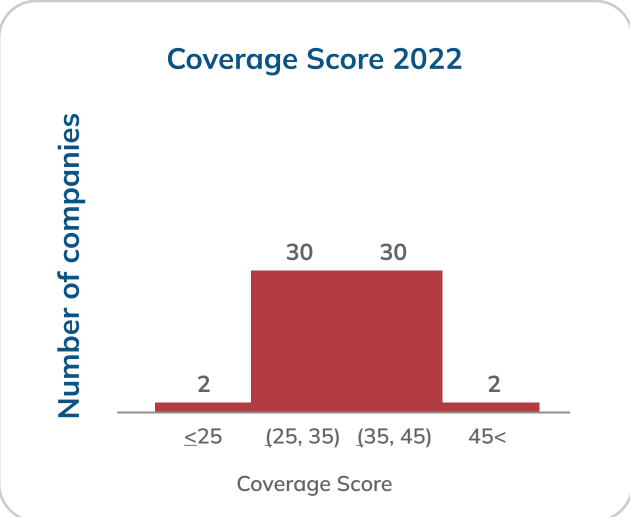


Figure 8.2: The above pie depicts the Industry sector demographics of global companies which were analysed

8.2.2.2 Analysis of the risk coverage

We analysed risk coverage for various categories using the methodology described in section 8.1. Figure 8.3 provides histograms illustrating how companies' scores are spread across different ranges in 2022 and 2023.



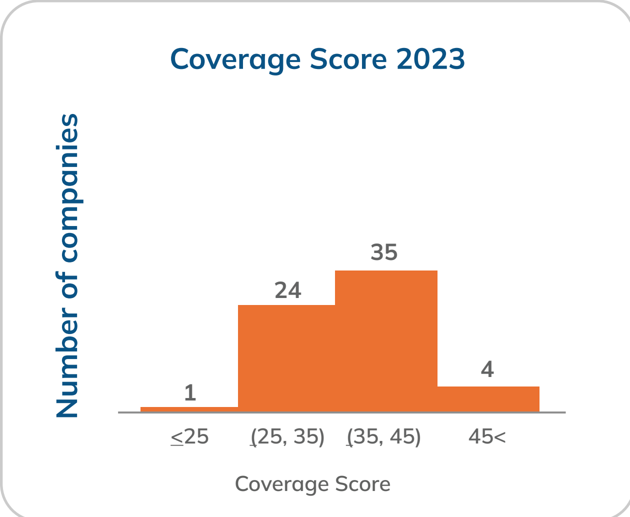


Figure 8.3: Histogram depicting Risk Description Coverage Scores for global companies for 2022 and 2023

Key Observations on Coverage Scores:

- Scores have improved from 2022 to 2023, with a noticeable increase in the number of companies achieving scores above 35.
- Only a limited number of companies have achieved a coverage score exceeding 45, indicating that most organizations do not provide comprehensive impact statements for the risks.
- The highest average scores for both years are 53, suggesting that mitigation measures are not widely discussed by most organisations
- Very few companies have a score below 25, indicating that almost all organizations mention and describe most of the risks.

Score ranges:

- One organisation in Energy and Utilities sector has been rated at 100 for Macroeconomic Risk in each year. No other organisation achieved a score of 100 for any risks category.
- For the 2023 reports, four organisations described Cybersecurity and Climate Change risks with impact and mitigation, achieving a score of 75.
- Conversely, the lowest coverage score is 24, implying a good level of risk awareness, with organizations mentioning and describing majority of the risks.

Number of pages in risk disclosures:

The U.S. SEC mandates that if risk disclosures exceed 15 pages, companies must provide a summary. In our sample, we found 9 reports from companies listed on the US Stock Exchange with risk disclosures exceeding 15 pages, including one that was 40 pages long. Of these, only one organization received a coverage score above 50. This suggests that while the number of pages reflects the volume of risk disclosures, there is no correlation between the length and the quality of the disclosures. Organizations should strive to provide adequate risk disclosures about all material risks affecting their businesses in a concise manner, so that the information is readable and usable by relevant stakeholders.

Summary

While regulations have ensured that organisations spend a considerable number of pages disclosing risks, the quality of risk disclosure needs to improve a lot. In 2023, the correlation coefficient between revenue and coverage score is 0.21, indicating a minimal connection between company size and coverage score. Furthermore, the average scores fall within the narrow range of 34-38, indicating a need for improvement in all sectors.

8.3 Risk Disclosures of Indian Enterprises

8.3.1 Risk Disclosure Regulations in India

The LODR (Listing Obligations and Disclosure Requirements) Regulations, issued by SEBI in 2015 and last amended on 17 May 2024, outline the regulations governing risk disclosures by listed companies.

The LODR regulations specify Risk Management as a primary responsibility of the Board of Directors. This includes establishing a Risk Management Committee, which will formulate and ensure the execution of Risk Management policies and inform the Board appropriately. The LODR regulations also outline broad topics for the Management Discussion & Analysis section of an annual report. ***However, they do not provide detailed guidelines on how listed companies should disclose risks.*** While the regulations have introduced the requirement that the top 1000 companies (by market capitalization) must include a section on "Business Responsibility and Sustainability Report" in their annual report, the template provided allows for considerable variations in interpretation by companies.

The Securities and Exchange Board of India (SEBI) issued the ICDR (Issue of Capital and Disclosure Requirements) Regulations in 2018, and they underwent an amendment on 14 January 2022. The ICDR Regulations require companies planning to undertake an IPO (Initial Public Offering) to disclose Risk Factors across 32 categories. These disclosures must identify whether the risk source is internal or external, provide a detailed description of the risk, and outline measures proposed to address it.

8.3.2 Analysis of Risk Disclosures by Indian enterprises

8.3.2.1 Companies analysed

As part of the analysis, we examined the annual reports for **521 Indian companies** listed on the National Stock Exchange. We reviewed their annual reports for the financial years ending 31 March 2022 and 31 March 2023[3]. The distribution of the companies studied, based on their revenue for FY 2023, is as follows :

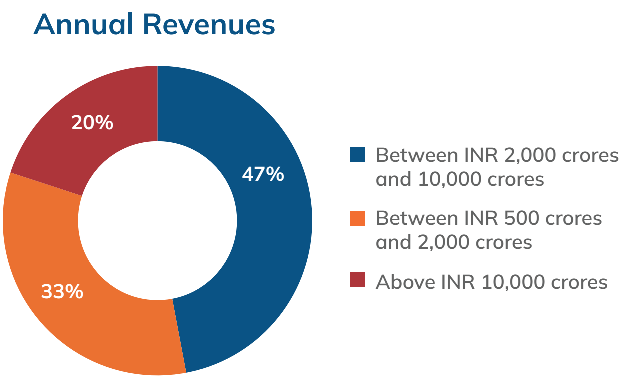


Figure 8.4: The above pie depicts revenue demographics of Indian companies which were analysed

[3]Some companies only had their annual report available for the financial year ending 31 March 2023 as these companies had their IPO in FY 2023 or afterwards.

The sectoral demographics of the companies is as follows :

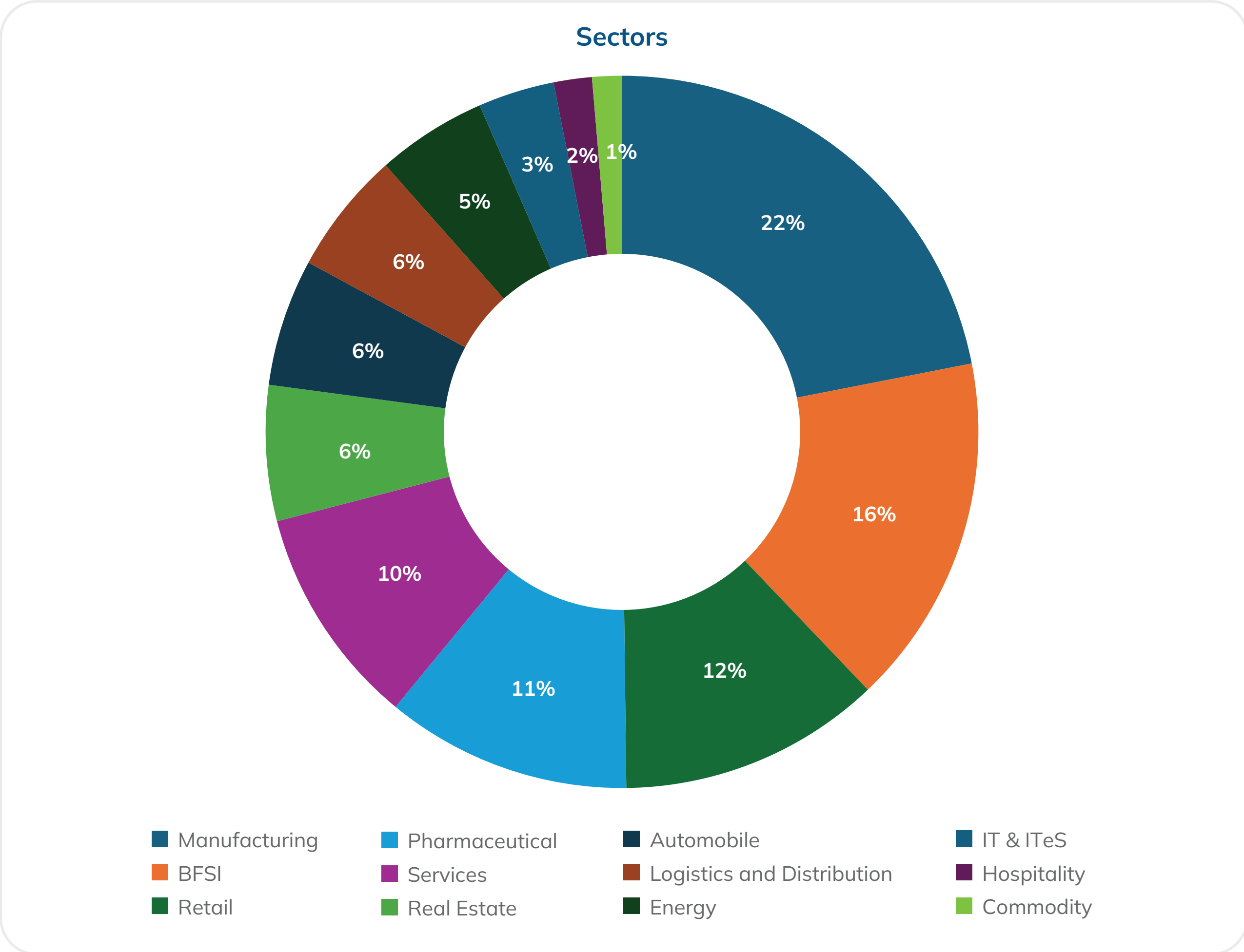


Figure 8.5: The above pie depicts the Industry Sector demographics of Indian companies which were analysed

8.3.2.2 Analysis of risk coverage

We analysed Risk Coverage across various categories using the methodology outlined in Section 8.1. The histograms below illustrate how scores for 521 companies are spread across different ranges for financial years ending March 31, 2022, and March 31, 2023.

Figure 8.6: Histogram depicting Risk Description Coverage Scores for Indian companies for financial years 2021-22 and 2022-23

Key Observations on Coverage Scores:

- An improvement in the quality of risk disclosures is evident in the 2022–23 annual reports compared to the previous year. This improvement is evident across the sectors, with the most significant improvements seen in the IT and ITES, Energy and Utilities, Pharmaceuticals, and Real Estate sectors.
- Many companies across sectors have zero scores, indicating no risk disclosure. On a positive note, the number of companies with a zero score decreased from 109 in 2022 to 45 in 2023.
- Around 350 companies have scored less than 25, indicating that many risks were either not described or, in some cases, not mentioned at all.
- Less than 5% of the annual reports reviewed discuss the impact of risk. Furthermore, only a few reports addressed mitigation or provided comprehensive descriptions.

Score ranges:

- The highest overall score for 2022–23 is 75, with three organizations scoring above 70. All three organisations are in the revenue range above Rs 100,000 Cr. and are highly successful in the market
- Organisations scoring zero coverage score do not belong to any specific revenue range or industry
- There are several occurrences of coverage scores of 100 for each risk category, with maximum 17 organisations scoring a 100 for Cybersecurity.

Number of Pages:

Since Indian regulations do not mention the number of pages on risk disclosures, we did not consider this aspect while analyzing Indian enterprises' annual reports.

Summary

Similar to global corporations, only 5% of the annual reports analysed had an average score of more than 45. We also found that 17 companies had identical or almost identical risk disclosures for 2022 and 2023.

However, unlike international companies, 15 Indian companies achieved average scores greater than 50, with the highest score being 75. This indicates that several Indian companies effectively discussed risk mitigation measures, with some companies (in manufacturing, energy, automobiles, IT & ITES, pharmaceuticals, hospitality, retail, and services) even receiving a score of 100 in multiple categories.

While India has regulations related to risk disclosures and risk management practices, the actual disclosure quality leaves much to be desired, with most companies having coverage scores of below 35. This indicates that either organisations are not fully aware of the risks being faced by them, or they are not disclosing them to the market. In any case, these scores are a call for action for the Indian enterprises.

8.4 Global vs Indian Risk Disclosure Practices

A comparison of scores awarded to global organisations and Indian companies reveals that while stringent regulation can lead to more extensive risk disclosures, regulation alone can ensure quantity but not necessarily the quality of the disclosures.

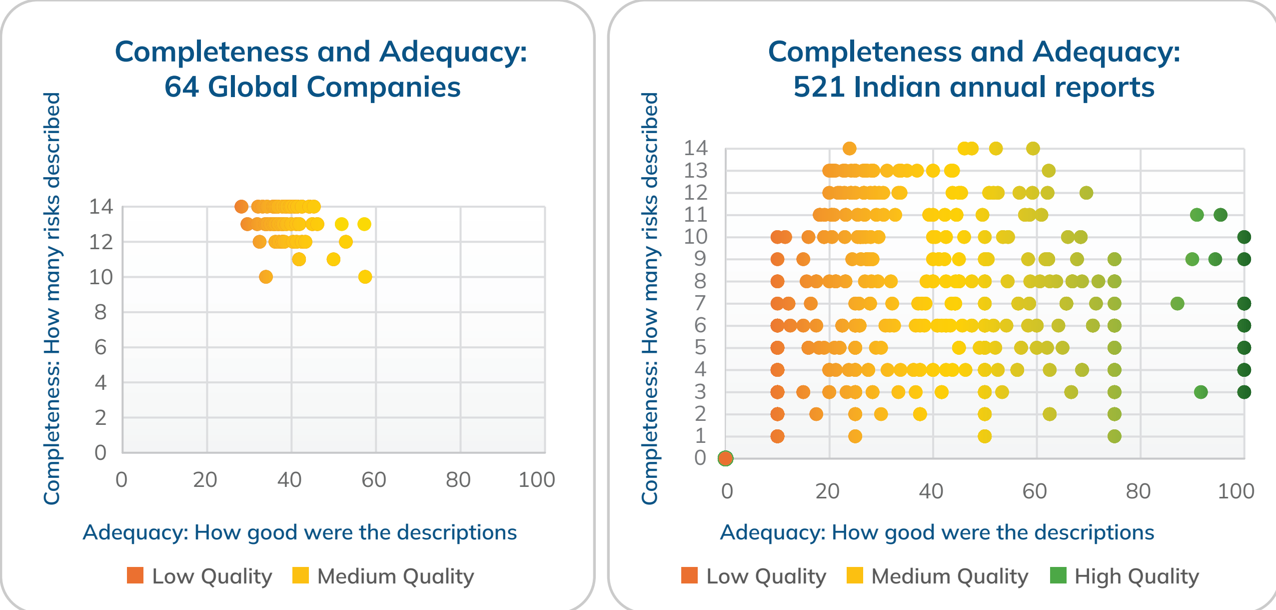


Figure 8.7: Comparison of Risk description quality and Risk description completeness for Global and Indian enterprises

The scatter diagrams illustrate the performance of global and Indian annual reports in terms of completeness and adequacy. The x-axis represents the adequacy score, which measures the quality of the risk descriptions provided ranging from 0 to 100. The y-axis indicates the number of risk categories covered in the annual reports, ranging from 0 to 14. Each dot represents a company (or multiple companies in the case of identical scores), illustrating the number of risks addressed and the thoroughness of their disclosures.

The adequacy and coverage scores for global corporations fall within a narrow range:

- The coverage scores range from 28 to 58
- The number of risks covered ranges from 10 to 14

Stringent regulation combined with the risk of litigation drives global organizations to mention a larger number of risks, but they often lack adequacy.

In contrast, Indian companies scores cover a very wide range. Coverage scores vary from 0 to 100, and the number of risks covered ranges from 0 to 14.

- As many as 45 listed companies in India published annual reports with no risks disclosed for FY 2022–23. Organisations have routinely omitted risks identified as top risks in our perception survey across sectors and revenue demographics. ***Notably, 447 out of 521 studied companies omitted fire risk, an unexpected finding given the increased fire-related risks due to longer and more intense heat waves in India.***
- There are 14 Indian organisations with highly mature risk disclosures, achieving adequacy scores of 100 in 2023, although they addressed only 3–10 risks. This high adequacy score reflects a strong risk culture that ensures high-quality risk processes and disclosures.

Despite some organizations achieving top adequacy scores, Indian companies in general need to examine their risk disclosures for adequacy and completeness to ensure proper transparency with stakeholders.

9 RISK CULTURE

Previous year's report highlighted two important aspects of Risk Culture: The autonomy of the Risk Management function and How organisations view risks. While these characteristics lay the groundwork for developing a strong risk culture, a variety of other factors influence the efficacy of defining and executing it.

This year, our survey included questions about additional cultural aspects. This chapter discusses the responses to these questions and compares the culture self-assessment with the analysis of Risk disclosures in annual reports.

9.1 Risk Culture

An organization's Risk Culture embodies the shared values, beliefs, knowledge, and understanding of risk. It ensures that individuals and groups can make informed decisions, take appropriate Risks to achieve common goals, and manage all hazard risks effectively.

The Institute of Risk Management has defined a simple **A-B-C approach** for understanding Risk Culture.

The **A**ttitudes of individuals and groups shape their **B**ehaviours. Repeated behaviours create the **C**ulture, which in turn influences the attitudes and behaviours within the organization.

The IRM Risk Culture Model has four key aspects:

Aspects of IRM Risk Culture Model	
Tone at the Top	Leadership and handling adverse news
Governance	Accountability and Transparency
Competency	The availability of high-quality skills and resources is crucial
Decision making	Making informed decisions and rewarding appropriate risk-taking is crucial

A positive risk culture in the organisation will foster a sense of ownership where everyone feels responsible for risk management, resulting in a tone at the bottom aligned with the tone from the top. Risk culture is a subset of broader corporate culture.

Advantages of a Robust Risk Culture

- Enhanced resistance to external threats
- Improved methods for decision-making process
- Higher credibility and confidence among stakeholders

Strong risk culture allows an organisation to grow with confidence while effectively managing various threats and black swan events, such as the global IT outage of July 2024.

9.2 Measuring Risk Culture

Measuring culture is challenging because it is intangible, complex, and largely subjective. Additionally, culture evolves as people join and leave the organization, as the environment and context change, and as the organization gains new experiences.

Nonetheless, we have attempted to assign a score to culture to create a benchmark for planning improvements.

To gauge the prevailing risk culture, we asked respondents to assess their organizations using IRM's Risk Aspect Model outlined earlier:

IRM Risk Model Aspects	Self-Assessment Question	Category of the factor
Tone at the top	The organisations point of view on Risk	Organisational
Governance	Who is responsible for driving Risk Culture	Organisational
	Autonomy of the Risk Management Function	Organisational
	If Risk Culture assessment is being done	Implementation
Competency	Aligning KPI's to promote appropriate Risk Behaviour	Implementation
Decision making	Transparent discussions on Risk Incidents and near-misses	Implementation

The table above categorizes the assessment questions into Organizational and Implementation factors.

We scored the responses from various organizations and calculated an overall risk culture score on a scale of 0 to 100 using the following logic:

- We summed up the scores for implementation aspects.
- The scores for organizational factors then multiplied the total implementation score.
- Implementation scores reflect the execution of activities, while organizational factors determine the effectiveness of that implementation.

Based on the scores attained, we placed the organizations at a Risk Culture Evolution stage:

Score	Stage	Description
0 – 20	Potential	Initial signs of risk culture are visible.
21 – 40	Initiating	Partial signs of a risk culture exist and require significant effort to develop.
41 – 60	Forming	Risk culture is present and can be improved further.
61 – 80	Prolife rating	Indicates a strong risk management culture.
81 – 100	Flourishing	A proactive, organization-wide approach to resilience

- Institute of Risk Management has defined a simple **A-B-C approach** for understanding Risk Culture.

- The **A**ttitudes of individuals and groups shape their **B**ehaviours. Repeated behaviours create the **C**ulture, which in turn influences the attitudes and behaviours within the organization

The graph below shows distribution of Risk Culture scores among the respondents:

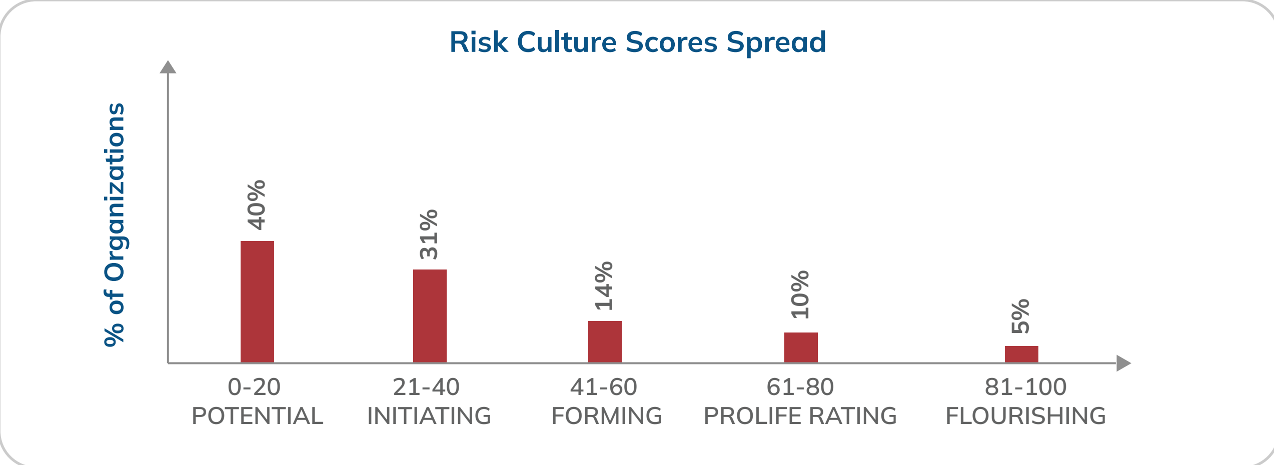


Figure 9.1: The above graph shows the Risk Culture scores amongst the respondent organizations , from the least to the most mature perspective.

Around 40% organisations have Risk Culte scores between 0 and 20, which denotes there are limited signs of Risk Culture are present; while another 30% score between 20 and 40. Around 16% of businesses score above 60, with only 6% scoring between 80 and 100.

By measuring risk culture, organizations can prioritize initiatives to strengthen their risk management practices, leading to a more resilient and sustainable business.

Regular monitoring and measurement of a company's risk culture are essential to identify strengths and weaknesses. This can include using surveys, focus groups, and other tools to gather feedback from employees. The following subsections will detail the individual scores that contribute to the overall culture score.

9.3 Organisational Aspects

Organizational aspects of risk culture encompass various factors, including the perspective and the tone regarding risk, and the autonomy of the risk function. These elements directly influence the effectiveness of the organization's risk management actions.

9.3.1 Perspective Towards Risk

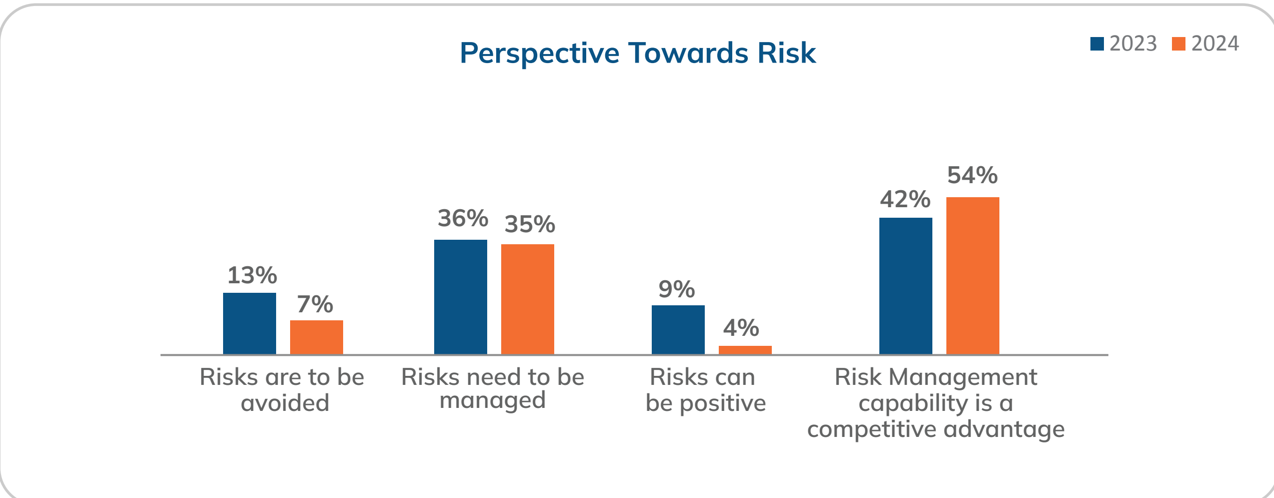


Figure 9.2: The above graph is a year-to-year comparison of how organisations perceive risk, from the least to the most mature perspective.

An organization's perspective on risk influences employee behaviour, which in turn shapes the organization's overall culture. Since we also assessed this characteristic last year, we can draw conclusions about progress made over the year.

Responses indicating higher maturity levels have increased slightly, from around 51% last year to 58% this year. Over half of the respondents see risk management capability as a competitive advantage, reflecting the most mature risk perspective.

For this parameter, a score of 1 was awarded to the choice of "Risks are to be avoided," increasing up to 4 for considering risk management as a competitive advantage.

9.3.2 Who Drives Risk Culture

Figure 9.3: The above graph shows the % of respondents who drives risk culture in their organizations, from the least to the most mature perspective.

The board is expected to drive a strong risk culture within an organization from the top. This approach ensures that all stakeholders receive a consistent message and that all initiatives and investments receive appropriate support throughout the organization. Therefore, the tone from the top is crucial.

Responses to the question indicate that only around 20% of organizations have the board driving risk culture. In contrast, the largest number of organizations, over 44%, have this responsibility allocated to the CRO/Risk Department level. While the CRO may report to the Risk Management committee of the board, it still means that the ultimate accountability for the Risk Culture is diluted.

For this parameter, a score of 1 was awarded when the responsibility was not assigned, increasing up to 4 for when it was assigned to "The Board".

9.3.3 Autonomy of the Risk Management Function

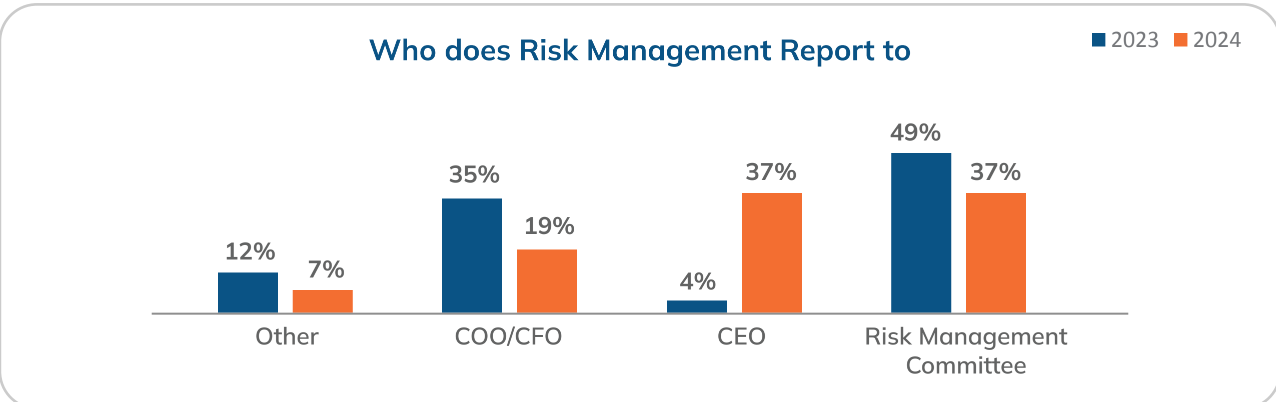


Figure 9.4: The above graph is a year-to-year comparison of risk management function reporting in respondent organisations, from the least to the most mature perspective.

The independence of the Risk Management function, determined by organizational reporting lines, is crucial for aligning with the organization's target Risk Management maturity and effectively implementing all initiatives and policies.

Such independence ensures proper identification, assessment, and management of all risks without conflicts of interest. While maintaining impartiality, all areas of the organization must engage with the risk management function in identifying, evaluating, and mitigating risks. To effectively carry out its duties, the risk management function must be regarded as an independent entity within the company.

The survey question on reporting line of the risk management department shows that number of respondents identifying CEO as the reporting role has gone up from 4% last year to around 37% this year. Percentage of respondents identifying Risk Management Committee has gone down.

For this parameter, a score of 4 was awarded when the risk function reports to the Risk Management Committee of the board, 3 for reporting to the CEO, 2 for reporting to the CFO/COO, and 1 for all other answers.

9.4 Implementation Aspects

While organizational aspects determine the effectiveness of actions, the intent must be actualized through a series of measures. Respondents were queried about specific implementation aspects within their own organisations.

9.4.1 Assessment of Risk Culture

Figure 9.5: The above pie shows the percentage of respondents who have evaluated their risk culture in the previous year.

Assessing existing risk culture is an important step in improving risk capability of an organisation as the organisation can then focus on planning and executing improvements to its risk culture.

In response to a question on whether Risk Culture was assessed, 90% of respondents indicated that they had conducted an assessment.

9.4.2 Communicating Incidents and Near-misses

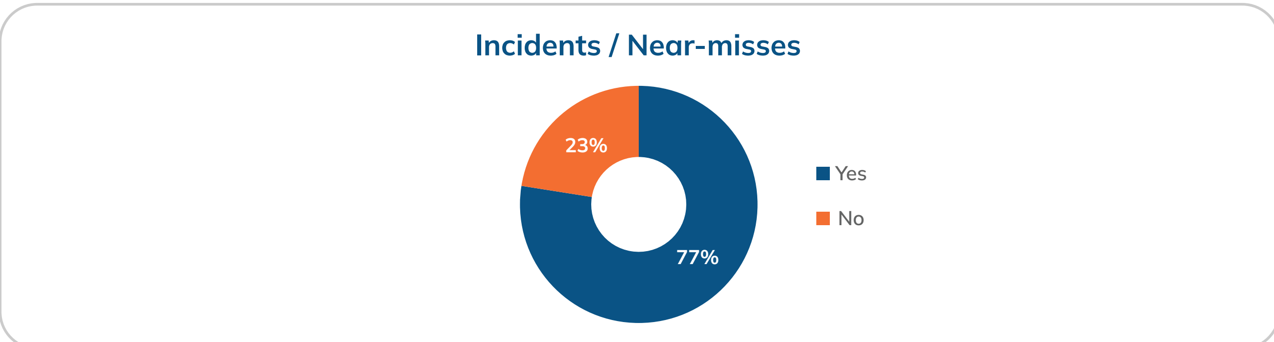


Figure 9.6: The pie depicts the percentage of respondents who discuss their incidents and near-misses in their organisations

Real-time flow of risk management information is crucial for effective risk management. However, an important aspect of the culture is whether knowledge is shared.

It is important to share information about incidents and near misses with relevant stakeholders in the organisation, discuss them and continuously adopt the risk management system based on learnings. Around 77% respondents tend to share information about incidents and near misses.

9.4.3 Aligning KPI's to Risk Culture

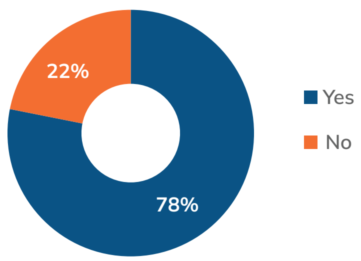


Figure 9.7: The pie depicts the percentage of respondents who regularly review their employees' KPIs to promote appropriate risk behaviour

KPI's drive behaviours of people, which then go on to create the organisational culture.

Around 78% of the respondents indicated that they review their KPI's to promote appropriate risk-taking behaviour. This would help in creating a strong risk culture.

9.5 Conclusion: Risk Culture and Risk Disclosures

Despite high scores for implementation aspects, overall risk culture scores indicate a need for improvement across organizations. While most implementation aspects are well managed, attitudes and organizational factors are contributing to lower overall scores.

The distribution of scores for risk disclosure analysis reflects those for risk culture. Even if organizations are implementing risk-related actions, ensuring that this information reaches the top and receives appropriate attention in disclosures requires a proper organizational setup and attitude.

To fully benefit from implementation efforts, organizations need to ensure:

- The right tone from the top, with the board responsible for driving risk culture.
- Organizational independence for the risk management function.
- The establishment and communication of the right attitude across the organization.

Effective risk management requires enhancing both risk management capabilities and organizational culture. These improvements are complex and demand investment and time from management. To achieve the most effective results, organizations can develop annual improvement plans targeting specific aspects each year.

Unlock the Quiz - Scan to Challenge Yourself!

10 RISK MANAGEMENT & INSURANCE

10.1 Risk Insurance Survey

10.1.1 What kind of Risk Management solutions do organizations deploy?

To mitigate risks, organizations can adopt the following categories of solutions:

- Accepting the risks as it is
- Loss control solutions must be designed, implemented, and monitored
- Take appropriate measures to minimise both the likelihood of a risk event and its potential impact
- Procure an insurance policy for the residual risk that remains after implementing loss control solutions.

We asked respondents to choose the risk management solutions they would use for different risks from the options- **loss control, insurance, or none.** The table below summarises the results:

Risk	Insurance	Loss Control	No Solution
Cybersecurity	46.9%	47.5%	5.6%
Talent	2.5%	82.5%	15.0%
Legal / Regulatory	21.3%	66.9%	11.9%
Technology	10.0%	71.3%	18.8%
Business Interruption	41.9%	48.8%	9.4%
Climate Change	17.5%	45.0%	37.5%
Civil Strife / Geopolitical issues	31.3%	45.6%	23.1%
Natural Catastrophes	53.8%	26.9%	19.4%
Pandemic	21.3%	58.8%	20.0%
Fire Hazard/Explosion	70.0%	21.9%	8.1%

Figure 10.1: The table depicts the risk management solutions deployed to manage the risks

Cybersecurity Risk

Over 47% have implemented loss control solutions, while around 47% have opted for Insurance. Business Interruption risks show similar trends.

Talent Risk

More than 82% of respondents have implemented loss control solutions. These measures may include strategies such as succession planning, attrition management, and knowledge management.

Technology Risk

Over 71% of respondents have implemented loss control solutions, followed by over 66% for Legal/Regulatory risks.

Fire Hazard

Around 70% of respondents reported having Insurance cover as a risk mitigation solution, the highest amongst other risks. This suggests that organisations have ranked fire risk lower in terms of urgency due to the implementation of appropriate measures.

Climate Change Risk

A maximum of 37.5% of respondents reported having 'no solution' in place, which is consistent with last year's findings, where around 34% of organizations did not have a solution for this risk.

FROM THE DESK OF ICICI LOMBARD'S MARINE INSURANCE EXPERT

Vinod Dangwal

Vice President , Claims - Marine

- Major drivers behind the marine claim Increase have been accidents of goods carrying vehicles and mishandling of cargo during transit.
- There is an increasing trend of ship fires causing huge losses to export / import shipments due to the general average, apart from cargo damage losses.
- Theft and pilferage losses from small shipments are still a challenge.
- While the country's logistics infrastructure has significantly improved, resulting in shorter transportation times, the persistent issue of negligent driving and driver fatigue continues to lead to frequent accidents.
- Despite organisations' ongoing efforts to enhance their risk management, minor mistakes can still result in significant losses during transportation; therefore, it's crucial to establish a rigorous Standard Operating Procedure (SOP) that assesses each risk prior to the start of transportation and implements proactive risk mitigation measures.

For detailed information, please reach out to us at **vinod.dangwal@icicilombard.com**

10.1.2 Decision factors for selecting insurance as a solution

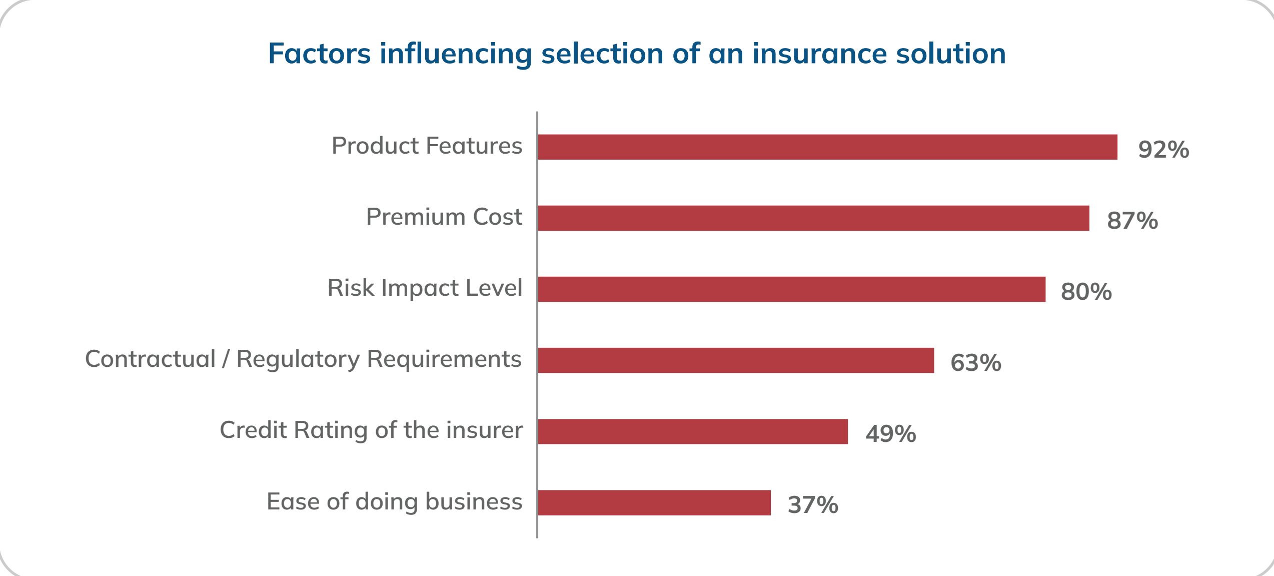


Figure 10.2: Factors Influencing the Selection of Insurance as a Solution

Respondents were asked to rank the importance of various factors influencing their decision to select Insurance as a risk management solution.

Product Features are mentioned by the highest number of respondents, followed by Premium Cost. The survey reveals that product features are the most significant factor, cited by 92% of respondents, followed closely by premium cost at 87%. Organisations prioritise insurance products that meet their specific needs and offer comprehensive coverage.

In contrast, the credit rating of the insurer (49%) and ease of doing business (37%) are considered less critical. While these factors are important, they are not the primary determinants in the decision-making process.

10.1.3 Measuring Total Cost of Insuring Risk

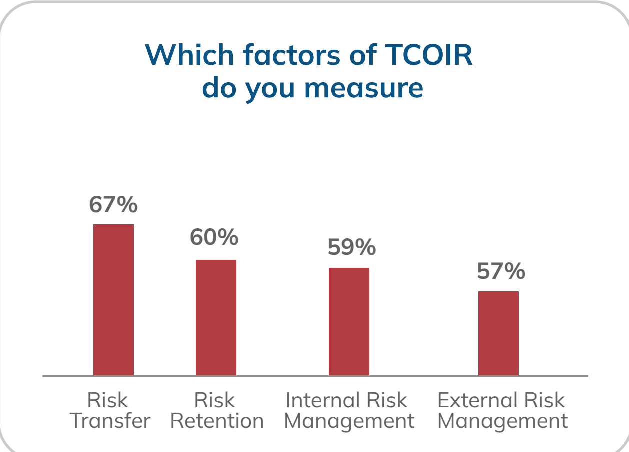


Figure 10.3: Depicts top parameters factored when measuring the total cost of insuring risks.

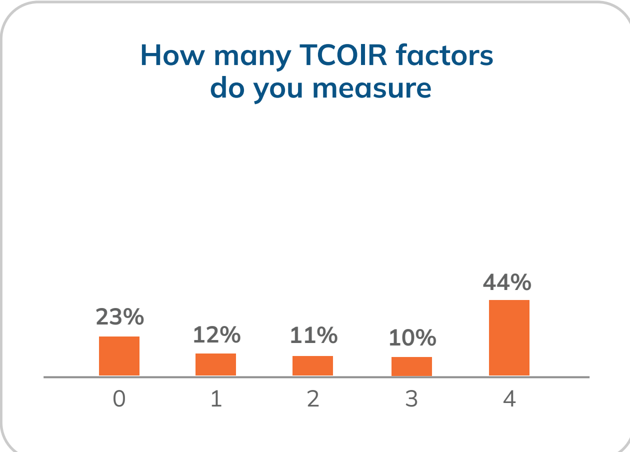


Figure 10.4: Depicts the total number of parameters evaluated while measuring the cost of insuring the risk

The Total Cost of Insuring Risk (TCOIR) encompasses both internal and external costs associated with managing risk, including the cost of retaining and transferring the risk. We asked respondents whether they measure the costs of insuring risks, and if so, which specific aspects they track.

The majority of respondents (65%) measure the costs associated with risk transfer, including premiums and expenses related to managing the insurance procedure. Approximately 57%–60% of respondents assess the cost associated with risk retention, as well as both internal and external risk management.

Interestingly, about 23% of respondents do not measure any TCOIR-related factors, consistent with last year's findings. However, there has been a notable improvement in the comprehensive assessment of TCOIR-related parameters, with over 44% now evaluating all aspects-up significantly from just 6% the previous year.

10.1.4 Additional Services

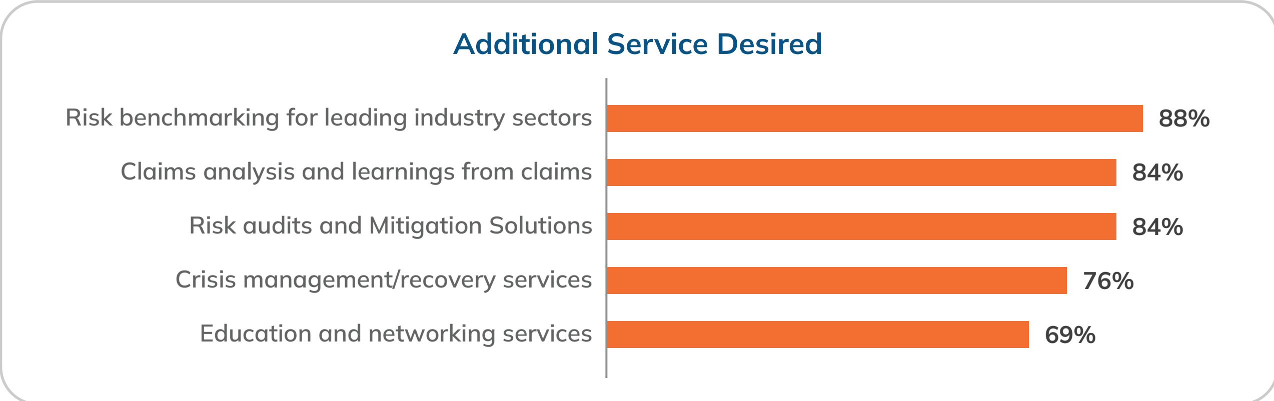


Figure 10.5: Depicts the top additional services expected from Insurance providers by the survey respondents.

The majority of respondents expressed interest in benchmarking their Risk Management processes and gaining insights from claim analysis. These services would help organizations enhance their risk management strategies and improve insurance outcomes through more effective claims settlements.

Risk audits and mitigation solutions are also highly valued, as they assist organisations in identifying areas for improvements in both processes and risk mitigation. Additionally, managing crises and recovering from them are among the most popular services requested.

Summary

A key takeaway from this chapter is the clear need for enhanced risk response design, as evidenced by the responses to the use of insurance and loss control solutions. This indicates the importance of achieving an optimal balance between implementing loss control measures and procuring insurance. Additionally, the feedback on insurance-related questions suggests that, although the industry places significant emphasis on product features, there remains considerable potential to improve the understanding and optimization of the total cost associated with insuring risks.

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11 FOCUS
MID-SIZE ENTERPRISES[4]

Mid-size enterprises (with revenue between ₹500 Cr and 2000 Cr per annum) form the backbone of the Indian economy. This segment includes scaled-up start-ups that have either issued or are planning to issue an IPO, as well as established and emerging entities with strong operational foundations. These businesses encompass both family-owned and privately held enterprises.

Indian mid-market enterprises are well-positioned to capitalise on growing global economic opportunities. According to the 2024 edition of the International Business Report by Grant Thornton, "68% of Indian mid-market enterprises expect increased revenue from international markets in the coming year. Additionally, 85% of Indian mid-market enterprises are optimistic about rising profits in the coming year compared to 62% of mid-market firms globally." This indicates that the Indian mid-market sector is enjoying positive prospects for the future, despite global macroeconomic headwinds. These enterprises are also investing in advanced technology and artificial intelligence.

This chapter analyses the risk perceptions, risk management capabilities and risk culture of mid-size companies. The responses are a subset of the overall risk survey.

11.1 Risk Perceptions

Respondents were asked to select their top five risks for both the short term (0-2 years) and long term (2-4 years). The risks were ranked based on the frequency of their inclusion in the top five. The graph below illustrates the risk perceptions of mid-size organizations for both short and long-term periods.

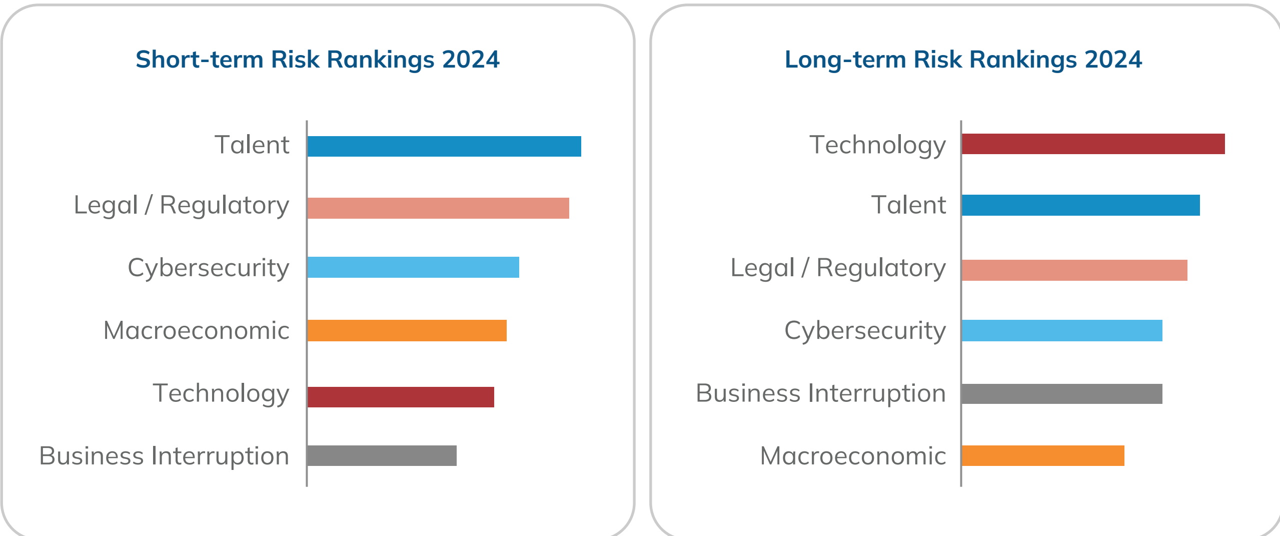

Figure 11.1: Short and Long-term risk rankings for mid-size companies

In the short term, Talent emerges as the primary risk, followed closely by Legal and Regulatory Risks. However, in the long term, both risks are ranked lower due to the emergence of Technology as the top concern.

Cybersecurity, Macroeconomic Factors, and Technology follow as the next significant risks. While these risks also feature prominently among the overall top risks, macroeconomic risks seem to be a slightly higher priority for the mid-size segment.

[4]*We have considered companies which are in the range of ₹500 Cr – 2000 Cr per revenue premium per annum*

11.2 Risk Management Maturity

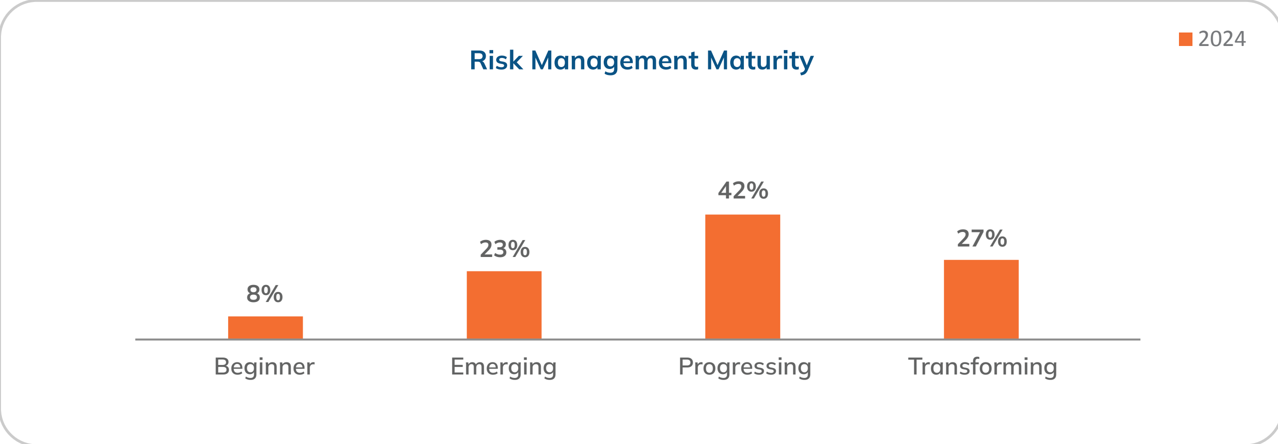

Figure 11.2: Risk Management Maturity (RMM) profile, depicting the organizational maturity of the mid-size respondent companies

Approximately 30% of mid-sized organizations are classified as either beginners or emerging in their risk management capabilities, compared to 22% for companies of all sizes. This highlights the need for mid-sized companies to invest more in strengthening their Risk Management capabilities.

11.2.1 Risk Identification practices

Figure 11.3: Risk identification practices shown by the Mid-size respondent companies, in increasing order of maturity.

Over 40% of midsize organizations believe that the Risk Management department should be responsible for Risk Identification processes. This highlights a need to enhance Risk Awareness, improve Risk Identification processes and develops skills within these organizations. Ideally, employees should be able to identify risks with the help of Risk Champions.

11.2.2 Risk Management Process Ownership

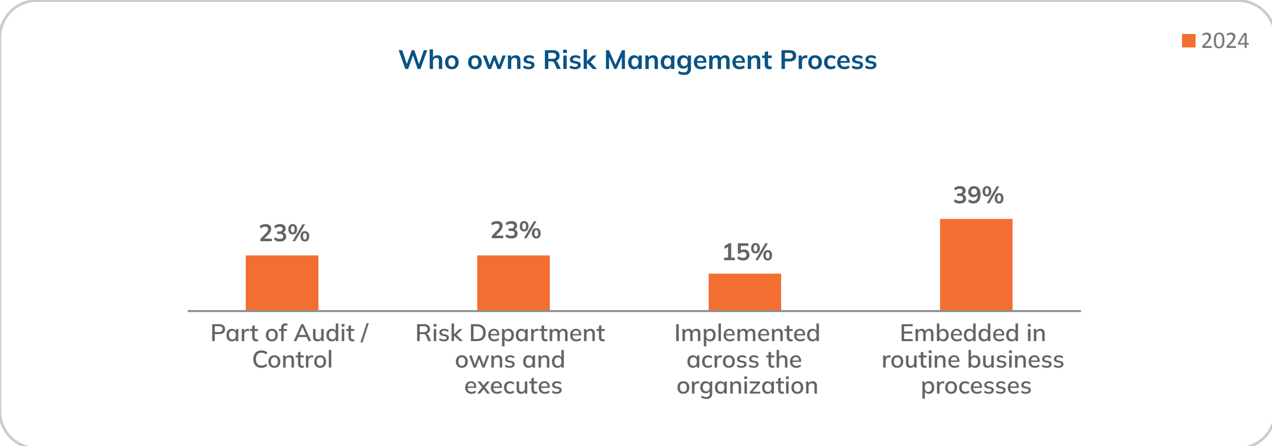

Figure 11.4: Risk Management Processes ownership adapted by the Mid-size respondent companies, in increasing order of maturity

The survey asked respondents to identify who is responsible for managing risk processes. Another relevant aspect in the implementation of these processes is the use of standards for defining and implementing them. We inquired about which standards, if any, were being used.

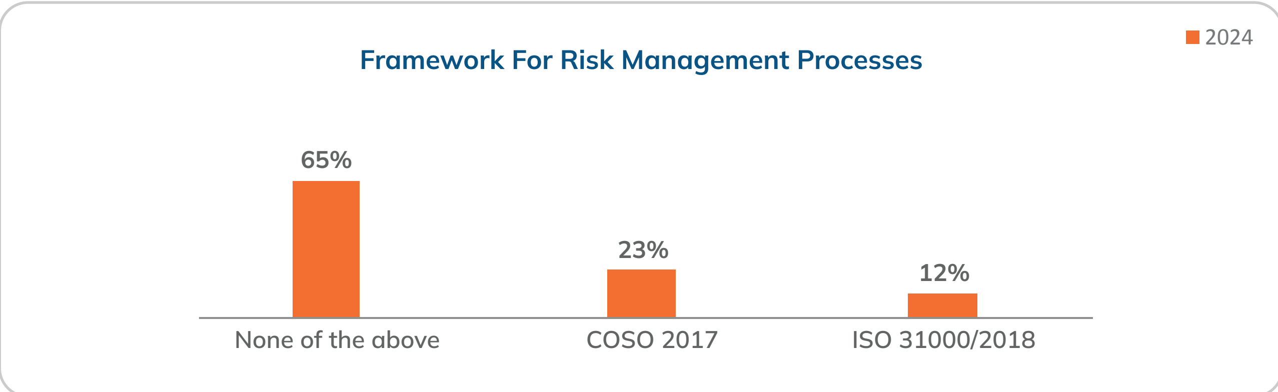

Figure 11.5: Risk Management Frameworks adapted by the Mid-size respondent companies

Among mid-size respondents, approximately 35% demonstrated lower maturity in implementing risk management process, and around 65% organisations need to adopt a standardized approach as a foundation for their processes.

11.2.3 Risk Management Information

The availability of Risk Management information across an organisation is crucial for effective Risk Management. We asked respondents how this information is shared within their organisations.

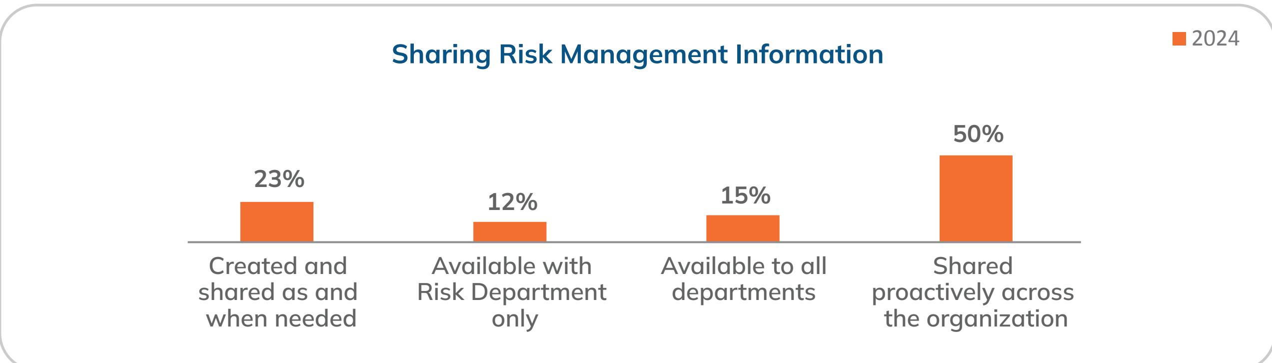

Figure 11.6: Risk Management Information sharing practices adapted by the Mid-size respondent companies in increasing order of maturity

Among companies with revenues between ₹500 Cr – ₹2000 Cr per annum:

- Around 50% demonstrate the highest level of maturity, implying sharing of information across the organisation
- However, 23% of the respondents create and distribute risk information only as needed. These organisations should work toward higher levels of maturity to improve Risk Response and reduce the impact of Risk Incidents.

11.2.4 Talent for Risk Management

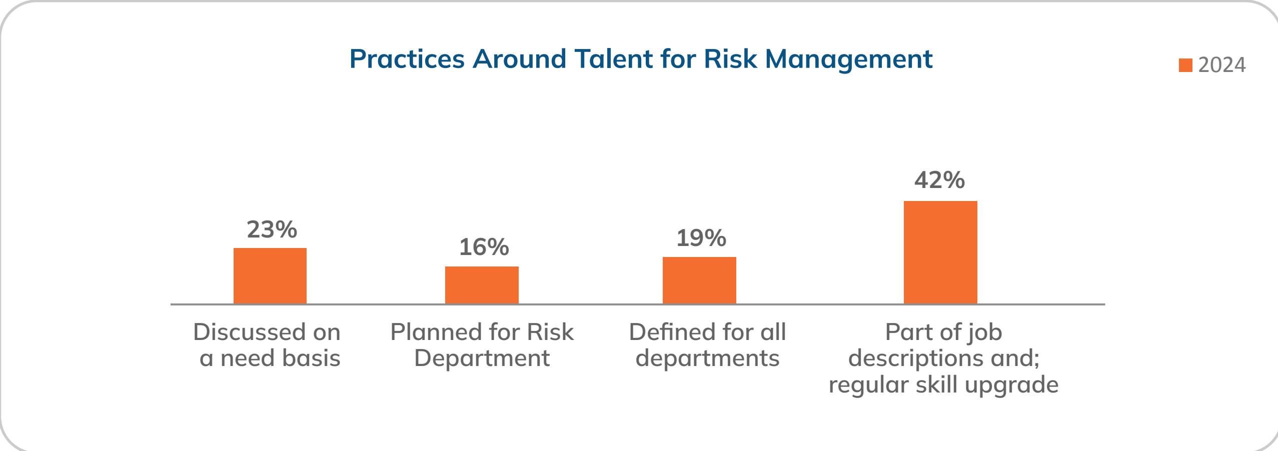

Figure 11.7: : Practices around Talent for Risk Management as selected by the Mid-size respondent companies, in increasing order of maturity

The right talent is essential for effectively carrying out risk management activities. We asked respondents how they plan and fulfil talent requirements for Risk Management. Approximately 61% of organizations with annual revenue between ₹500 Cr and ₹2000 Cr exhibit higher levels of maturity in this area.

11.3 Risk Culture

To gauge the prevailing risk culture, we asked respondents to evaluate their organisations using IRM's Risk Aspect Model, as outlined earlier[2]. Based on their scores, organisations were categorised into different stages of Risk Culture Evolution.

The analysis shows that the Risk Culture in mid-size companies is primarily aligned with that of the overall sample, as detailed in Chapter 9 with 54% mid-sized companies falling in the 'Potential' category (limited risk culture), and 27% falling in 'Initiating' category (some signs of culture are present but significant efforts are needed). Only 16% of overall companies fall in the 'Proliferating' and 'Flourishing' categories (highest maturity stages), with mid-size companies showing a similar trend-12% fall into the "Evolving" category, demonstrating a stronger Risk Culture and a broader approach to resilience.

Need for significant improvement in developing, promoting, and embedding a risk culture within these organizations is evident.

[5]Please refer to Chapter 9 (Page – 53) to understand the calculation matrix

11.3.1 Risk disclosures in annual reports

As another indicator of Risk Culture, we analysed risk disclosures in the annual reports of 15 mid-sized companies across diverse sectors including manufacturing, retail, real estate, automobile, pharmaceuticals, BFSI, services, and logistics & distribution.

Almost all companies listed only a few risks and described them in a generic manner. Business Interruption Risks, Operational Risks, Macroeconomic Risks and Cybersecurity Risks were the most frequently mentioned. However, the quality of these disclosures was neither high nor uniform. They lacked specificity to the individual companies and their contexts. Notably, only one out of the 15 companies mentioned and described five categories of risks comprehensively. Combined with the earlier Risk Culture scores, this indicates significant room for improvement in Risk Culture in mid-size companies.

11.4 Organisational Aspects of Risk Culture

11.4.1 Point of view towards Risk

How an organisation perceives risk is an important aspect of the risk culture of that organisation. It guides the overall approach towards not just management of threats but towards overall Success of the Organisation excessively risk averse.

Figure 11.8: How do midsize organisations perceive risk: percentage of companies shown from least mature to most mature perspective

About 42% organisations view Risk Management as a competitive advantage.

Around 46% of respondents indicate a maturity level of 2, where risks are acknowledged as something to be managed. Viewing risks solely as hazards or threats limits an organization's growth potential. In contrast, recognizing that risks can present new opportunities and managing them effectively, is essential for sustainable growth. However, about 12% of organizations believe that risks should be avoided, a perspective that can impede development and growth by fostering excessive risk aversion.

> Risk is not something to be avoided, but rather a challenge to be embraced with intelligence. In a world of constant change, organizations that cultivate a strong risk culture will emerge as leaders. As the nation strides towards its Viksit Bharat 2047 vision, businesses must navigate a complex and dynamic landscape. As technology reshapes industries and geopolitical tensions escalate, the need for robust risk management has never been more urgent. This report delves deep into the heart of Indian enterprises, assessing their risk culture and preparedness. It is a call to action for businesses to prioritize risk management as a strategic imperative. By fostering a strong risk culture, organizations can not only survive but thrive in this era of uncertainty.

Dr. S. Glory Swarupa
Director General,
National Institute for MSME

11.4.2 Who drives risk culture

Figure 11.9: Who drives risk culture in midsize organisations: Percentage of companies shown from least mature to most mature practice

Successful implementation of Risk culture requires that responsibility of driving risk culture be right at the top of the organisation. We asked respondents to identify who drives risk culture in their organisations. Compared to the overall response, a smaller percentage of mid-size companies have their board responsible for driving Risk Culture. Generally, the higher the level of responsibility, the better the outcomes.

11.4.3 Independence of Risk Management Function

Figure 11.10: Who does risk management report to: Percentage of companies shown from least mature to most mature practice

The Risk Management function needs to operate and be perceived as independent to effectively implement activities impartially. The reporting structure of the Risk Management department plays an important role in this aspect. In mid-size segment, 46% of organizations have the Risk Management department reporting directly to the CEO.

11.5 Implementation Aspects of Risk Culture

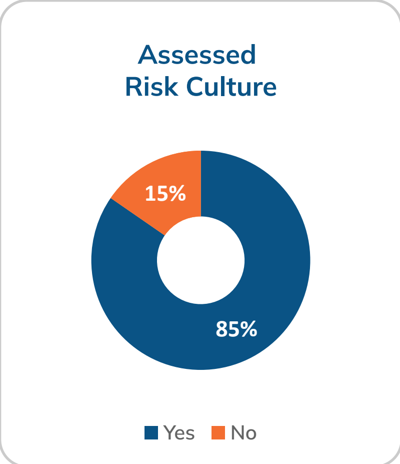

Figure 11.11: *Shows the percentage of Mid-size respondent companies who have evaluated their risk culture in the previous year*

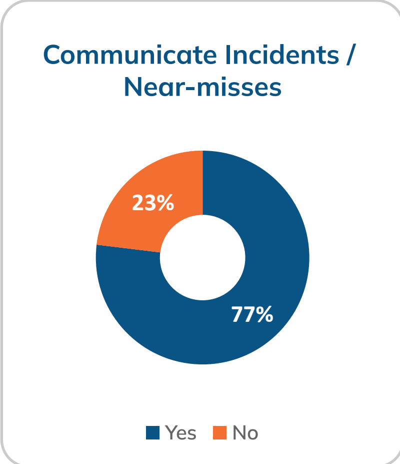

Figure 11.12: *Shows the percentage of Mid-size respondent companies who discuss their incidents and near-misses in their organisations*

Figure 11.13: *Shows the percentage of Mid-size respondents who regularly review their employees' KPIs to promote appropriate risk behaviour*

Assessment of Risk Culture:

We asked respondents whether they had assessed their Risk Culture in the past year.

Communicating Incidents / Near-Misses:

We inquired whether respondents communicate Risk incidents and near-misses within their organisations. Proactively sharing this information helps ensure appropriate controls are discussed and implemented promptly.

Reviewing KPI's to Promote Appropriate Risk Behaviour:

To cultivate the desired risk culture, it is essential to align HR policies with this culture. We asked respondents if they regularly review their KPIs to promote appropriate risk-taking behaviour.

A strong Risk Culture in a mid-size company transforms uncertainties into actionable insights and competitive advantages.

Ramgopal Seethepalli

Principal and Head, Portfolio Management,
Multiples Alternate Asset Management Pvt Ltd

Our portfolio encompasses a diverse array of entities, including regulated institutions such as Non-Banking Financial Companies (NBFCs), mid-market enterprises distinguished by robust product offerings and capable teams, as well as late-stage ventures poised for growth.

The fund requires that all portfolio companies achieve a minimum Risk Management Maturity level, which involves implementing a comprehensive risk management policy and conducting regular risk-related discussions at the promoter, board, and CXO levels.

Top Risks:

- Geopolitical risks impact mid-sized companies by disrupting supply chains, affecting operations, prices, and the availability of key inputs across industries.
- ESG related risks are leading to increasingly unpredictable and extreme weather patterns and events, which, in turn, disrupt supply chains, cause business interruptions, and adversely affect market conditions.

Current levels of Risk Management Maturity and Culture:

- **Risk Management Perspective:**

Organizations must shift from merely managing risks to viewing robust risk management as a competitive advantage. As a Private Equity Fund, we integrate risk management into our value creation plans for portfolio companies, driven by frameworks and led from the top down. Key stakeholders review market intelligence, and cybersecurity is now a crucial part of our risk management approach.

- **Risk Identification:**

Organizations must empower all employees, particularly those on the front lines, to actively identify Risks, by ensuring that Risk knowledge, expertise, and culture are ingrained at all levels of the organization.

- **Risk Management Process Ownership:**

In many mid-sized companies, Risk Management processes are typically owned and managed by the Risk Management department. While this department serves as the centre of competence, it is imperative that the ownership of these processes be shared across all stakeholders to ensure effective risk management.

- **Risk Management Maturity and Culture:**
  - Overall, mid-sized companies have shown significant evolution over the past few years:
  - Regulated entities generally exhibit higher levels of maturity and a more ingrained Risk Management culture.
  - Risk Awareness has increased markedly, with a growing emphasis on proactive Risk Identification.
  - In growth-phase companies, while risk management may occasionally take a back seat, it still garners serious attention from top management and is not merely a formality.

For detailed information, please reach out to us at **ramgopal.seethepalli@icicilombard.com**

APPENDIX 1

SURVEY METHODOLOGY AND RESPONDENT DEMOGRAPHICS

A1.1 Methodology

The Risk Perceptions, Risk Maturity and Risk Culture sections of this report are based on analysis of is a survey of senior industry representatives. The survey consisted of 21 questions spread across 4 sections:

- Section 1 Demographics: 6 questions
- Section 2 Top Risks: 5 questions
- Section 3 Enterprise Risk Management and Culture Practices: 6 questions
- Section 4 Risk Management and Insurance: 4 questions

The survey was launched in 1st May 2024 and responses collected by 30th June 2024.

A1.2 Participant Demographics

In order to obtain a balanced view of the perceptions and practices, the survey reached out to enterprises across industry sectors and revenue sizes.

Our respondents included BFSI, Manufacturing, Services, Pharmaceuticals and Chemicals, Energy and Utilities, Logistics and other sectors.

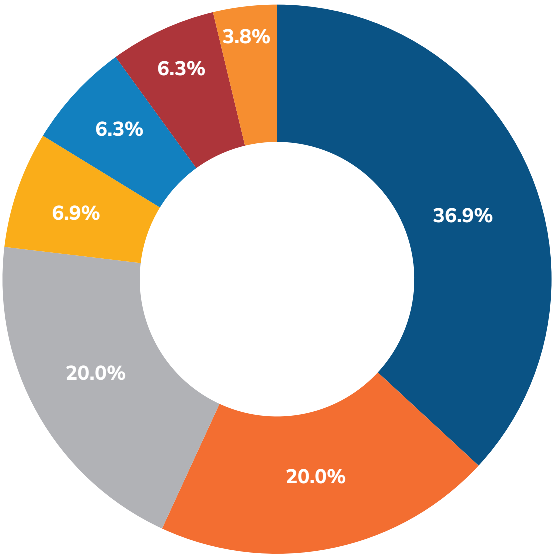

Figure A1.2.1 : The pie chart depicts the distribution of respondents across various industry sectors

Size of the firm by Revenue

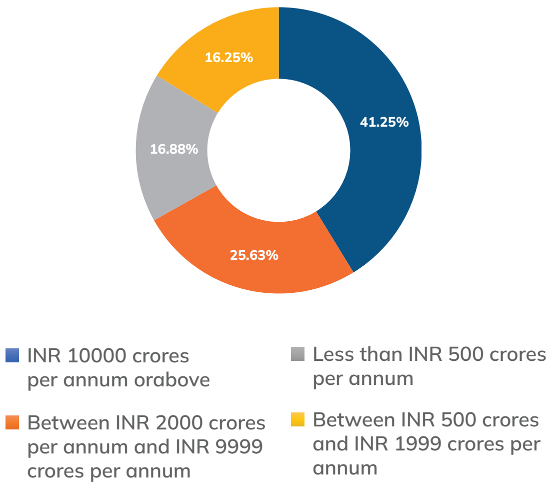

Figure A1.2.2 : The pie chart depicts the distribution of company sizes based on annual revenue.

Geographical Spread

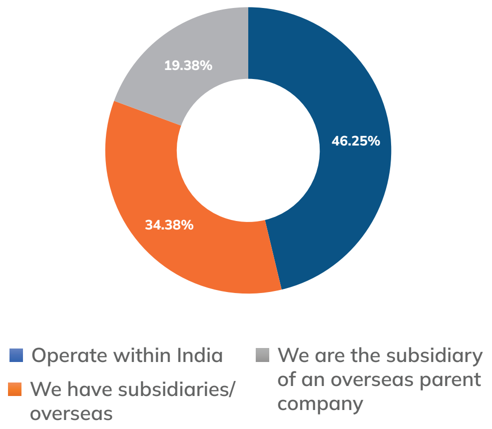

Figure A1.2.3 : The pie chart depicts the geographical spread of companies, indicating domestic operations and overseas subsidiaries.

Over 40% of the respondents represented companies with revenues of Rs 10,000 Crore or more per year. Rest of the categories were evenly represented in the rest of the sample size.

In terms of geographical spread, just over 45% companies operate only within India. About 34% respondents have subsidiaries overseas and around 19% are subsidiaries of overseas companies.

Respondent Organisations' Age in Years

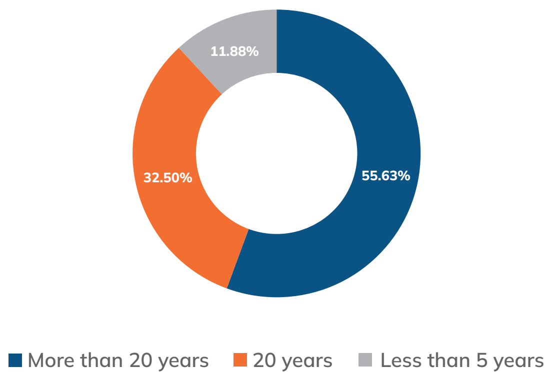

Figure A1.2.4: The pie chart represents the age of respondent organizations in terms of years in operation.

Respondent Designation

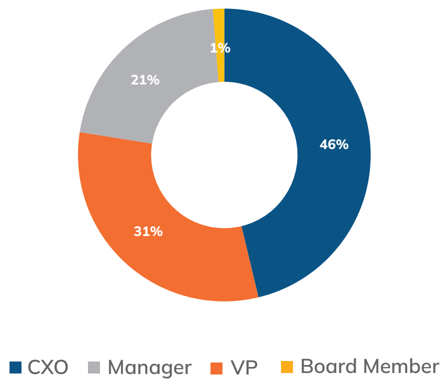

Figure A1.2.5: The pie chart illustrates the designation levels of respondents, including CXO, managers, and board members.

In terms of organizational lifespan, around 55% companies have been in business for 20 years or more and just under 12% are less than 5 years old.

In terms of seniority of respondents, we have a balanced mix representing managers, Vice Presidents, CXO and few board members.

APPENDIX 2

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APPENDIX 3

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Building on the foundation created in 2023, the India Risk Report 2024 strengthens India Inc.'s resilience by focussing on Risk Culture. This edition not only assesses corporate risks and risk management techniques but also leverages these assessments as a foundation for a thorough examination of risk culture. The investigation delves into the organisational and practical dimensions of risk culture, as well as its expression through risk disclosures in annual reports. By exploring these elements, the report provides organisations with critical insights to forge their own paths towards enhanced resilience in the current business landscape.

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