

Building the risk culture for India Inc.: Harness the business potential

SECTORIAL RISK REPORT

BFSI - BANKING, FINANCIAL
SERVICES AND INSURANCE
SECTOR

MANUFACTURING &
DISTRIBUTION SECTOR

ENERGY & UTILITIES
SECTOR

PHARMACEUTICALS
SECTOR

TECHNOLOGY MEDIA & TELECOM SECTOR

ANNUAL EDITION

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INTRODUCTION

This appendix to India Risk Report 2023, developed jointly by ICICI Lombard and IRM India Affiliate, provides in-depth sectorial analysis of the risk survey, with focus on below listed, five sectors:

- A. Banking, Financial Banking, Financial Services and Insurance
- B. Manufacturing and Distribution Sector View
- C. Technology, Media and Telecommunication
- D. Energy and Utilities
- E. Pharmaceuticals

For each sector, in this appendix we have attempted to provide information on the lines of:

- How the global companies view their risks: this information has been derived from the regulatory filings of global organizations
- Overall risk level as perceived by the survey respondents from the sector
- The top risks as identified by the sector respondents

The sector specific appendix are to be read along with the main report which provides the full global and national background as well as analysis and synthesis from survey responses.

APPENDIX A. BFSI SECTOR RISK VIEW

A.1. Risks Identified by Global BFSI (Banking, Financial Services & Insurance) organizations

Risks by Global BFSI organizations		
Business Risks	Operational Risk	Legal & Regulatory Risk
Market, Liquidity, credit	Security, cyber-attacks	Legal liabilities
Geopolitical	Failure to satisfy obligations for residential mortgage securitisation	Govt action
Business operations	Inadequate risk management framework	Capital requirements
Regulatory		Accounting standards
Compliance & legal		
Reputation		

Table A.1: This table depicts various business, operational & legal risks, as identified by the global organizations for BFSI Sector.

A.2. Top Risks

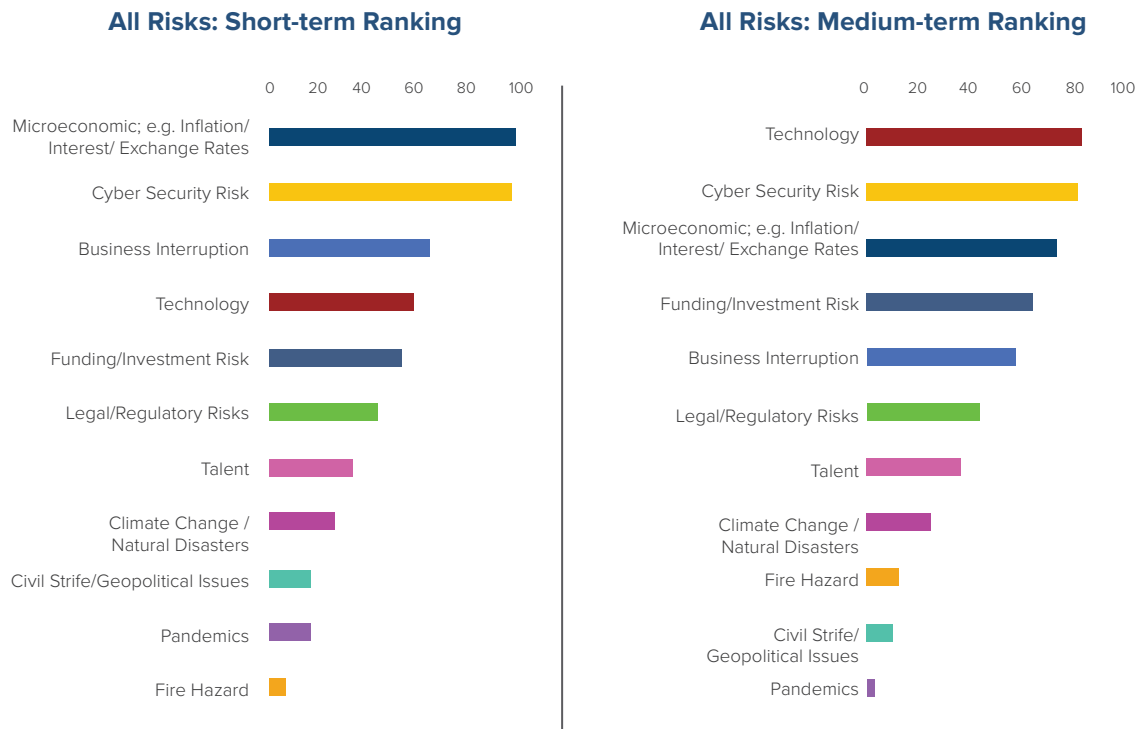


Figure A.2: Figure depicting short term and medium term perception for all risks, in BFSI Sector.

In the short term, BFSI sector sees **Macroeconomic** and **Cyber risks** at a disproportionately higher level compared to other risks, with their scores being almost 60% higher than the next rank.

Funding Risk in top 5 needs to be seen in combination with Macroeconomic factors, also being perceived as the top risk. Higher levels of inflationary pressures are

causing higher interest rates, making funding more expensive. If we look at organizations with revenues less than Rs 10,000 Cr, Funding risk increases and is placed at a higher rank.

Another interesting factor is that there is a relatively low score for **Business Interruption**. This could be due to processes, practices and technologies put in place during COVID to improve business resilience.

In long-term risks, **Technology risk** is at the top with differences between ranks narrowing down. Technology risks are seen at the top reflecting the fact that technology is continuing to make deep inroads into BFSI sector. Many departments in a

bank would appear to function like technology companies. This is further weighed in by rapid technology evolution around AI.

Technology evolution could have multiple implications such as continuing rise of new services / business models / competitors, need for renewed investments in technology and its effect on financial and people related parameters.

Connected with Technology and the on-going digital transformation, Cyber Security risks are seen as continuing at a high level in the next 2-4 years' timeframe.

Next to Cyber Security are the **Macroeconomic risks**, expected to continue at a high level for the next 2-4 years, showing no significant let up in inflationary or interest rate pressures. This seems to be factor in the rise of Funding and Investment risks to rank 4.

A surprising laggard is the **Climate Change risk** in the bottom 4, indicating that the awareness around Climate Risks is low, but on contrary in the long term.

A.3. Overall Risk Level Perceived



The survey Respondents were asked to rate the total risk in current environment on a scale 0 (minimum risk) to 10 (maximum risk).

Overall risk level as perceived by BFSI Sector on a scale 0 (no risk) to 10 (maximum risk) shows a perception of a medium risk environment

APPENDIX B. MANUFACTURING AND DISTRIBUTION SECTOR VIEW

B.1. Risks reported by Global organizations in the sector

Risks Identified by Global Manufacturing and Distribution Companies		
Business Risks	Operational Risk	Legal & Regulatory Risk
Macroeconomic	Operations (production and technology, purchasing, sales network, IT security, data)	Legal liabilities
Strategic/sector specific Legal	Financial (foreign currency)	Govt action
	Raw material	Capital requirements
	Liquidity	Accounting standards
	Pension obligations	

Table B.1: This table depicts various business, operational & legal risks, as identified by the global organizations for Manufacturing and Distribution Sector.

B.2. Top Risks

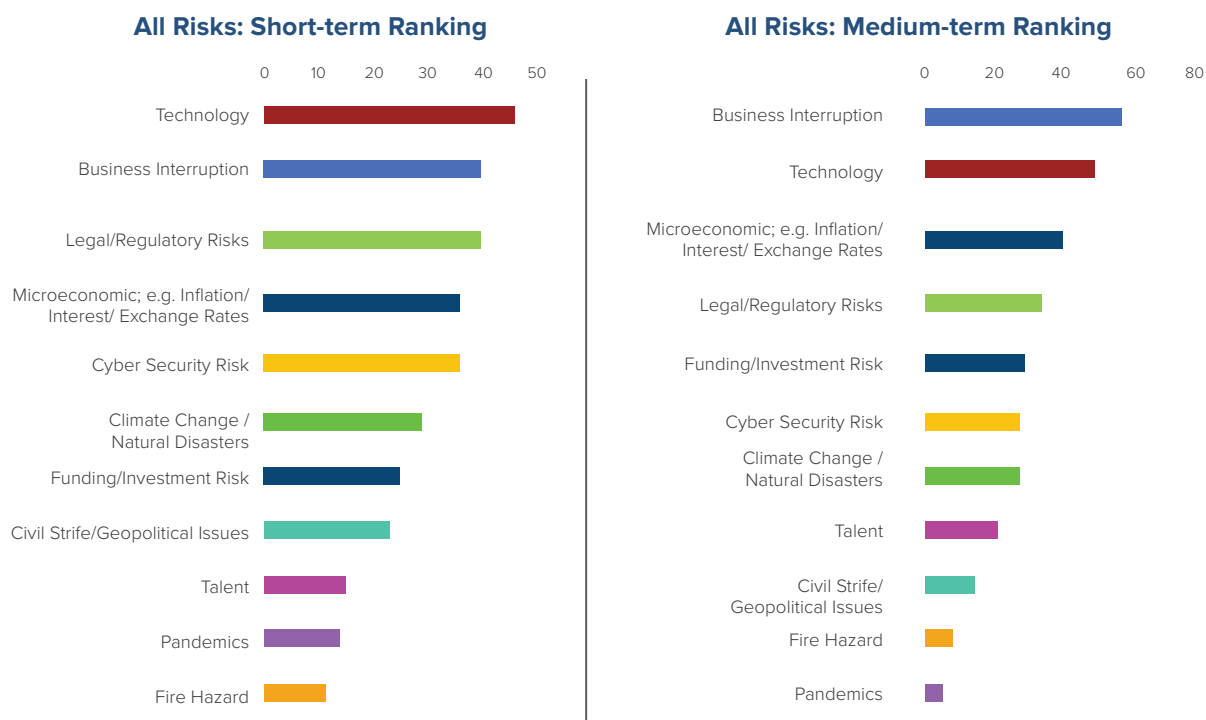


Figure B.2.: Figure depicting short term and medium term perception for all risks, in manufacturing and distribution Sector.

The **Manufacturing Industry** is impacted at multiple levels due to technological evolution. Changes in product, manufacturing, distribution and service technologies can occur at the same time. The changes may be independent or inter-related, impacting different parts of

the organization in different ways. This brings technology risks at the top for Manufacturing and Distribution sector. Business interruptions could impact production process as well as distribution and sales processes.

Legal and Regulatory concerns are high amongst companies who have operations overseas. Several new laws, such as Carbon Border Adjustment Measures (CBAM), Regulation on De-forestation Free Supply Chains have come into force in EU. Similar regulations will come in place in other countries as well. In addition, trade regulations and Inter-country agreements also add to regulatory concerns.

Technology risk increase is also due to focus on green options, where industries must find green source of energy – moving away from fossil fuels. This involves a wide range of new sources of energy ranging from ethanol blended petrol/ diesel to having captive green sources energy,

each having its own technical challenges and risks.

Expanded **IT and technology** footprint makes the sector vulnerable to cyber security. Macroeconomic trends could result in price rise, profit erosion and increase in funding costs. The industry also demonstrated heightened awareness of climate risks.

In long-term risks, Business Interruption and Technology continue to be at the top with Macroeconomic concerns taking the third place. This indicates that the industry expects inflationary and interest rate pressures to continue in the 2-4 years' timeframe.

B.3. Overall Risk Level Perceived



Survey Respondents were asked to rate the total risk in current environment on a scale 0 (minimum risk) to 10 (maximum risk).

The response of the sector indicated a perception of medium risks environment.

APPENDIX C. TECHNOLOGY, MEDIA AND TELECOM SECTOR VIEW

C.1. Risks Identified by Global Tech, Media and Telecom (TMT) organizations

Risks Identified by Global Manufacturing and Distribution Companies		
Business Risks	Operational Risk	Legal & Regulatory Risk
Economic downturn impacting client budgets	Acquisition, Alliances and Disposition	Local legal, economic, political conditions
Failure of innovation projects	Predictability of financial results	Increased scrutiny on regulations
Reputation	Reliance on third parties	
Competitive offerings despite IP protection	Cyber security and data privacy	
Meeting growth/productivity objectives	Financing and markets	
Talent	stock price	
Supplier relationship	Frauds	
Govt business		
Pension and post-retirement obligations		

Table C.1.: This table depicts various business, operational & legal risks, as identified by the global organizations for Technology, Media and Telecom Sector.

C.2. Top Risks

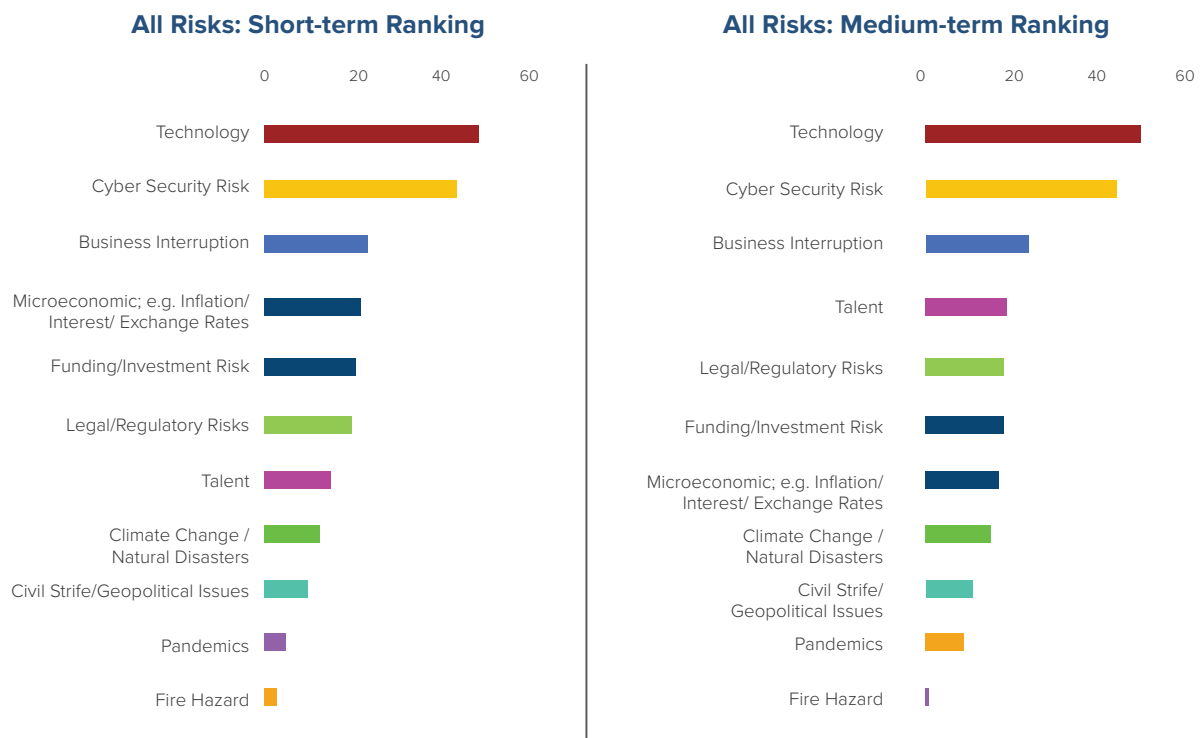


Figure C.2.: Figure depicting short term and medium term perception for all risks, in Technology, Media and Telecom Sector

The **Technology, Media and Telecom (TMT)** sector has a broad mix of technology, IT services and Media companies. The sector sees Technology and Cyber Security risks as sharply elevated from other risks both in short term as well as in the long term.

While **Business Interruption** has a high rank, it may be noted that most business interruptions are due to Cyber Security incidents.

Funding risks comes at top 5 due to investor expectations of return on capital. Due to several reasons, services companies in this sector have seen decreasing margins which means investors looking for higher returns are looking elsewhere. Further, the investment decision

makers, now mostly Millennials, believe in investing in companies which work for a cause. They may not find tech companies fitting that criterion easily.

Legal risks come into top 5 if we focus on enterprises which are subsidiaries of global companies or which have subsidiaries or JVs overseas. This could be due to the requirements to handle compliances at a multi-national level as well as more litigious nature of US businesses.

For **Talent Risk**, the picture changes if we look at companies with more than 20 years of existence. These organizations also tend to be larger, and they rank Talent at third rank in Short-term along with Macroeconomic risks.

C.3. Overall Risk Level Perceived



Survey Respondents were asked to rate the total risk in current environment on a scale 0 (minimum

risk) to 10 (maximum risk). The overall perception shows a medium risk environment.

APPENDIX D. ENERGY AND UTILITIES SECTOR VIEW

D.1. Global Risk Landscape

Risks Identified by Global Manufacturing and Distribution Companies		
Business Risks	Operational Risk	Legal & Regulatory Risk
Non availability of desired tech for green energy	Cyber-attacks	Political / Regulatory Changes
Pandemic	Commodity Prices	Design of power market, permits and licensing
Energy / Fuel Prices	Estimation Risks	Liability from litigation or government actions
Resource development	Business Interruption	Increasing stakeholder attention to Environment, Social and Governance
Climate Change	Geo-political and Civil Strife	Changes in incentive policies
Failure to re-negotiate contracts / concessions	Multi-country operations risk	
	Resilience of energy delivery systems	
	Under-insurance	

Table D.1: This table depicts various business, operational & legal risks, as identified by the global organizations for Energy & utilities Sector.

D.2. Top Risks

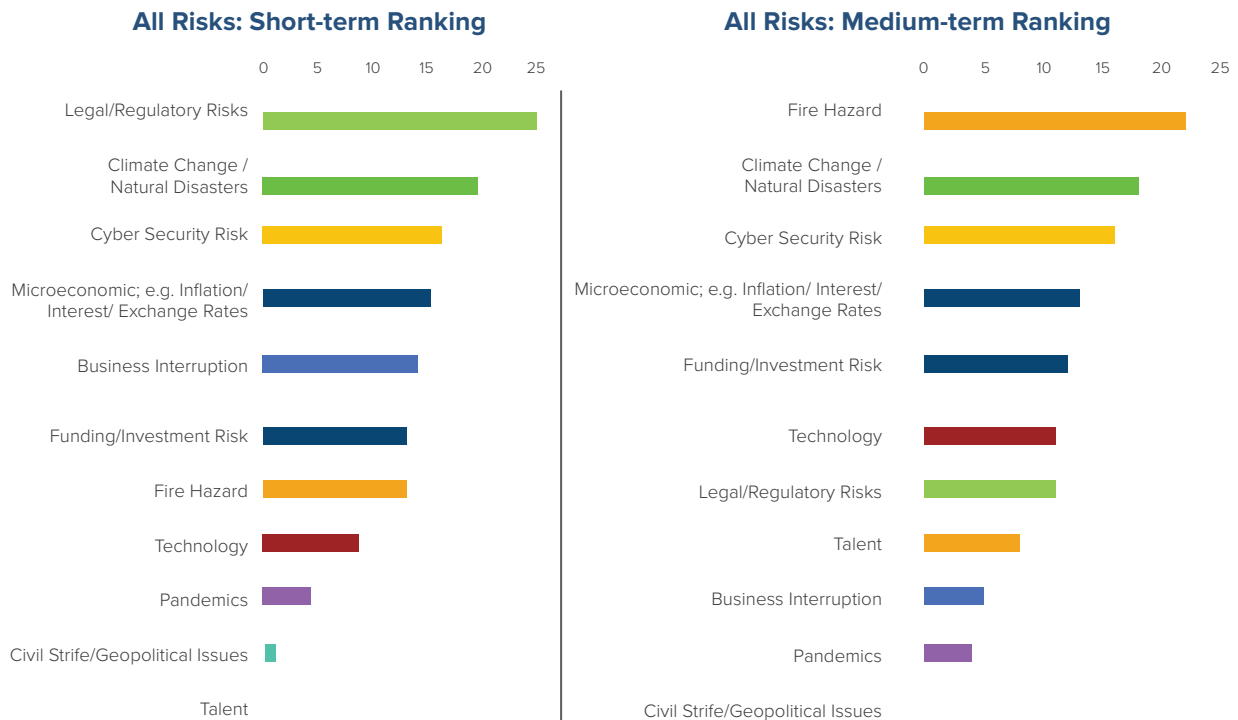


Figure D.2.: Depicts short term and medium term perception for all risks, in Energy and Utilities Sector.

Legal and Regulatory risks are at the top because of changes in policy, lack of clarity in certain policies in areas like Renewable Energy, Green Hydrogen and sale of the generated power etc. Further, these policies may differ from state to state which further complicates the matter.

Climate Change impacts Energy sector in multiple ways. Concerns related to fossil fuels are causing tougher policy frameworks in terms of their pricing and taxation. On the other hand, Renewable Energy companies face uncertainties around asset life for solar and wind power plants due to changing patterns of Sun and Wind availability.

Cyber Attacks on Utilities can have big impact not only on operations of the organizations but also on consumers and may even affect energy / fuel prices and availability. In line with seriousness of the issue, Ministry of Power has issued comprehensive guidelines for Cyber Security in power sector.

Macroeconomic risks manifest in terms of commodity prices which can impact prices of fuels as well as costs of projects under implementation. For Indian organizations the impact is at two levels – prices of commodities themselves and the exchange rate variations.

Funding risks, has high expectations of return on capital by Indian investors makes it difficult to get funding – and may increase cost of capital. Enterprises are looking at foreign funding to ride over this issue which can bring in exchange risks.

Technology risks are increasing in long-term due to hybrid projects coming up in the renewable energy sector. To balance out risks of energy availability, organizations are putting up hybrid projects involving Solar and Wind power including Battery Storage which involves complex technologies.

While **Talent risk** appears at a lower rank, it remains a key risk for Renewable Energy Companies. This is a young and growing sector and every new organization entering the talent market brings in resource related upheavals in its wake.

Another key risk, specifically for Renewable Energy Companies is availability of land for putting up Solar or Wind projects. Placing projects in vulnerable areas can cause issues due to flooding or other climate related issues.

Lack of infrastructure is another risk which does not appear in the top ranks. Non-availability of advanced infrastructure is a hindrance to the growth of power companies.

D.3. Overall Risk Level Perceived



Respondents to the Survey were asked to rate the total risk in current environment on a scale 0 (minimum risk) to 10 (maximum risk). The

perception of the respondents is that of a mid-to-high risk environment.

APPENDIX E. PHARMACEUTICAL SECTOR VIEW

E.1. Global Risk View

Risks Identified by Global Manufacturing and Distribution Companies		
Business Risks	Operational Risk	Legal & Regulatory Risk
Trends in managed care	Pricing control	Intellectual property protection
Competitive products	Healthcare regulation	Third party intellectual property claims
Revenue concentration	Development, regulatory approval and marketing of products	IT and security
R&D	Post-authorization approval data	Business development activities
Global operations	Supply chain	Changes in laws and accounting standards
Counterfeit products	Manufacturing and distribution	
	Relationships with collaborators, service providers and JV partners	
	Pandemic	
	Climate and sustainability	
	Equity fluctuations	
	Ability to achieve cost control	
	Intangible assets	

Table E.1: This table depicts various business, operational & legal risks, as identified by the global organizations for Pharmaceutical Sector.

E.2. Top Risks

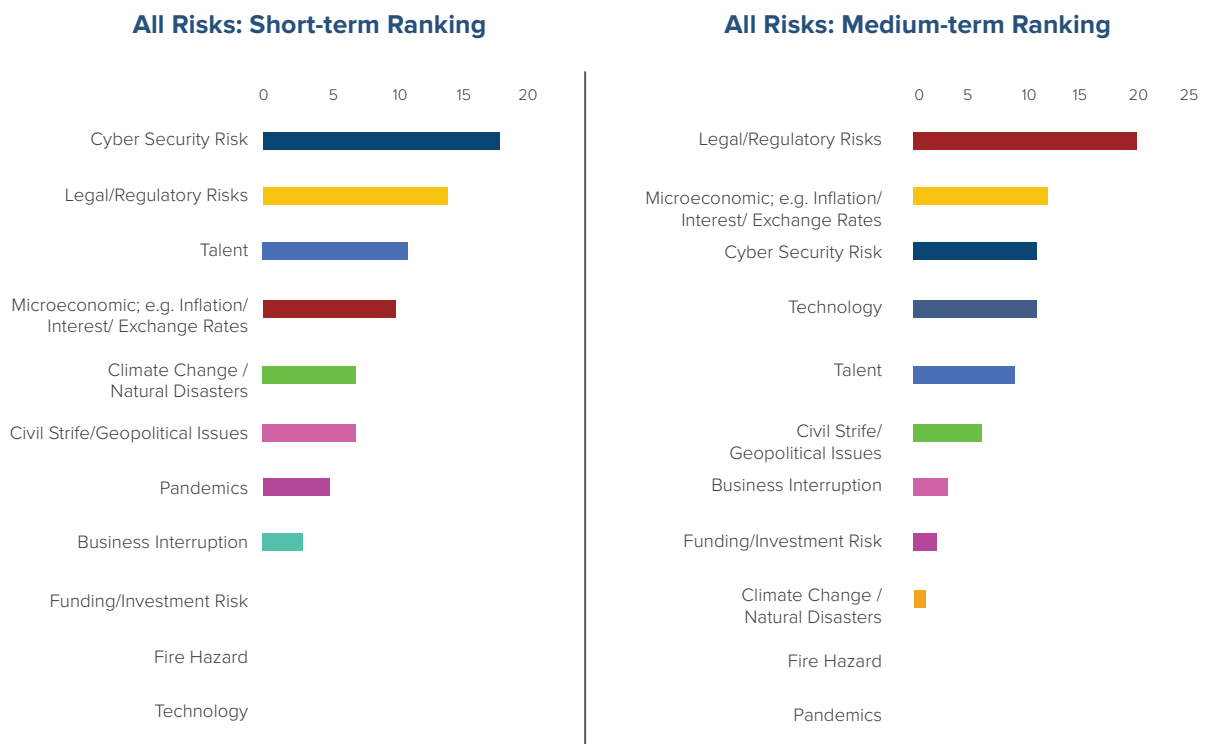


Figure E.2.: Depicts short term and medium term perception for all risks, in Pharmaceutical Sector.

With on-going digital transformation, it is not surprising that **Cyber Security** is a top risk for the Pharma sector. With cyber incidents involving the Pharma sector having come into public news recently, organizations do perceive it has a high risk and are preparing for the same.

Thus, while Cyber security gets the top rank in short-term, it moves down to third place in the long-term based on the awareness and investments being made into mitigation measures.

Legal/Regulatory risks, on the other hand, move from 2nd position in short-term to the top in long-term. US FDA inspections and audits have increased – and these may become stricter due to recent issues related to drugs exported from India being in limelight. Additionally, the regulatory regime in India may impact business models of Pharma companies in India. Pricing controls and

policy changes being implemented by the Indian Government also bring in a lot of uncertainties.

Technology is placed in the third position in the long-term along with Cyber-security. This reflects sector's concerns related to automation of all manufacturing and packaging plants and implementation of new technologies like AI and IOT.

Geopolitical risks weigh on the Pharma sector in short and long-term due to heavy dependence of the sector on China for API's (Active Product Ingredients) and KSM's (Key Starting Materials). To combat the demand and reliance on other countries, India is parallelly promoting Production Linked Incentive schemes for production of API's, lifesaving drugs and medical devices. The risks are indicative of the investments that Pharma companies need to make in developing the products and obtaining the approvals.

E.3. Overall Risk Level Perceived



The survey Respondents were asked to rate the total risk in current environment on a scale 0 (minimum risk) to 10 (maximum risk).

Overall risk level as perceived by the Pharma Sector on a scale 0 (no risk) to 10 (maximum

risk) shows a perception of an environment with a risk higher than the medium level. This is in line, or perhaps a bit optimistic, considering the overall risks being faced by the Pharma sector in India on Legal / Regulatory, Cyber Security and Geo-political fronts.



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