Developing risk professionals

INDIA RISK REPORT

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

A comprehensive study of risk culture and best risk management practices in organisations.

ANNUAL EDITION

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PREFACE

In an era marked by what the World Economic Forum's Risk Report 2023 has aptly dubbed "poly-crises," the global landscape is rife with uncertainties. Yet, amidst this turbulence, India stands at the threshold of an extraordinary decade of growth. Forecasts predict that India's GDP will double from USD 3.5 trillion in 2022, to a staggering USD 7.5 trillion by 2031, positioning it as the world's third-largest economy in the near future.

This extraordinary trajectory sets the stage for a profound transformation in India's business landscape. As we navigate a complex terrain of evolving risks, it is imperative that we steer our course toward sustainable growth. This journey demands: identifying and comprehending potential risks, proactively preparing to face these challenges, and deftly manoeuvring through the dynamic economic landscape to unlock our full potential.

Hence, this risk report takes on the formidable task of conducting an exhaustive analysis of both global and India-specific risks. Its purpose is to offer valuable insights into the prevailing economic environment, to explore industry perceptions of risk, and to evaluate our readiness as an industry to embrace this transformative journey – seizing the opportunities that beckon us.

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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 21 years, ICICI Lombard is committed to customer centricity with its brand philosophy of 'Nibhaaye Vaade'. The company has issued over 32.7 million policies, settled 3.6 million claims and has a Gross Written Premium (GWP) of ₹217.72 billion for the year ended March 31, 2023. With 305 branches and a dedicated team of 12,865 employees as of the same date, ICICI Lombard is unwavering in its commitment to customer-centricity.

About IRM (Institute of Risk Management):

Founded in 1986 and headquartered in the UK, the **Institute of Risk Management (IRM)** stands as the global leader in Enterprise Risk Management (ERM) examinations, qualifications, and thought leadership. With a presence spanning 143 countries and over 35 years of driving excellence, IRM has consistently upheld the highest standards in risk management. The IRM India Affiliate, committed to expanding the global enterprise risk management ecosystem in India, brings forth top-tier education through the 5-level certification track and knowledge to elevate organizational outcomes.

Renowned as trailblazers in the field of Risk Management, we, ICICI Lombard and IRM, have united in the creation of this report, with a shared objective of enhancing risk awareness and preparedness across sectors.

About the Report:

This report emerges from our collaborative effort, aimed at augmenting risk knowledge and readiness levels across sectors. It takes a deep dive into the most pressing risks affecting various industrial segments in India, both in the short term and the long term.

Specifically, it offers a detailed analysis of risk trends in ten key sectors: BFSI, Energy & Utilities, FMCG, Pharma, Hospitality, Infrastructure & Real Estate, Logistics, Manufacturing & Distribution, Services, and Media & Technology.

The report's primary focus is threefold:

1. **Maturity of Enterprise Risk Management Practices in India Inc.:** This segment evaluates the maturity of the industry's risk management practices based on five critical criteria, shedding light on areas that require improvement.

2. **Risk Preparedness of India Inc.:** Here, we assess the industry's readiness to manage inherent risks, evaluate its capacity to absorb risks, and analyse the adequacy of investments made to address unforeseen circumstances.

3. **Insurance Practices:** Through a comprehensive survey, the report evaluates the parameters considered when purchasing insurance for specific risks. It also provides recommendations for enhancing the client experience and minimizing risk through improvements in insurance products.

Drawing from insights shared by risk leaders across sectors and risk experts from the realms of insurance (including Claims and Underwriting teams), this report unveils emerging threats in the long term. It serves as a valuable tool for charting the course of improvement in our collective understanding and management of risks. We extend our gratitude to industry leaders who have contributed to this report, both by responding to the survey and by sharing their perspectives on our findings.

As we prepare to embark on this defining decade, let this report be your compass, guiding you through the uncharted territories of risk and opportunity. Together, we shall navigate the ever-evolving landscape of risk, unlocking the full potential of India's growth opportunities.

“ This report emerges from our collaborative effort, aimed at augmenting risk knowledge and readiness levels across sectors. It takes a deep dive into the most pressing risks affecting various industrial segments in India, both in the short term and the long term.

2. FOREWORDS

Mr. Sanjeev Mantri
MD & CEO
ICICI Lombard GIC Limited

Dear Readers,

I hope this letter finds you and your family safe and in great health! In this ever-evolving world where risks are multiplying and evolving rapidly, we feel that a progressive and socially responsible enterprise needs to be committed to ensuring holistic development for a better tomorrow.

Having a well-defined governance practice and a sound Enterprise Risk Management framework in place can help establish a strong work ethic that will anchor all of our operations. Recent years of uncertainty have taught us that prioritizing long-term resilience is a more prudent choice than pursuing short-term profitability.

India's vast and diverse industrial landscape is standing on a cliff of unparalleled opportunities. The winds of change are sweeping across our nation, ushering in a new era of growth and transformation for India. As the MD & CEO of ICICI Lombard, it is with great pleasure that I introduce this Annual Risk Report, which explores the evolving landscape of risks, their impact on India Inc., the prevailing capability and culture in the field of risk.

Being a top player in the private general insurance sector, we seek to address issues that have an impact on both our local communities and the global community. While insurance has a crucial role in acting as a safety net for businesses, it is equally vital to revisit the fundamentals of risk management. This report is a testament to our commitment to fostering the growth of India Inc. It delves deep into the multifaceted risks that our industries face and the transformative potential of a strong risk culture.

With our vision of becoming the "*most value-creating and admired risk solutions company in India, with a global footprint*", and leveraging our expertise in risk management, we embarked on this journey into risk management a few years ago with the release of the Corporate Risk Index Report and the organization of the India Risk Management Awards on an annual basis.

As a step further in that direction, we have developed the Annual Risk Report in collaboration with the Institute of Risk Management (IRM), which is a globally recognised leader in the field of risk management. In this report, we examine the impact of economic, political, social, climate change, and unforeseen market disruptions. Client companies will gain valuable insights into expense management, risk minimization, and the establishment of a focused and innovative environment.

At the core of ICICI Lombard lies our unwavering commitment through our slogan, "Nibhaye Vaade", which is a promise to work towards a better tomorrow, stimulating positive and long-lasting changes in our clients' organizations. This risk report goes beyond mere awareness; it is about making a substantial impact and empowering industries to effectively navigate the complex risk landscape.

I invite you to explore the contents of this report, and in doing so, join us in our mission to safeguard what matters most and uphold the trust our clients place in us. With this promise in mind, we undertake this expedition of exploration, reflection, and strategy building. Together, we can harness the immense potential that lies within the evolving risk landscape to secure a prosperous future for India Inc.

Thank you for being a part of this wonderful journey!

Mr. Hersh Shah
CEO, IRM India Affiliate

As we stand at the dawn of a new decade, the nature of risk continues to evolve at an unprecedented pace. The entwined destinies of technology, environment, and society are charting new territories of uncertainty, demanding our renewed attention and adaptation. Recognizing the imperative of understanding these shifting paradigms, IRM India Affiliate and ICICI Lombard are proud to unveil the first issue in our Master The Risks series – titled Building The Risk Culture for India Inc: Harnessing the Future.

The symbiotic relationship between professional expertise and insurance intelligence allows for a comprehensive exploration of the multifaceted nature of risks on the horizon. This report delves into future risk themes that are set to shape our world, ranging from the intangible landscapes of cyber threats and technology disruptions, to the tangible realities of climate change, geopolitical tensions, and societal shifts.

But understanding risk is only half the battle. Mastering it – turning potential threats into opportunities for growth, resilience, and innovation – is the true challenge and necessity. Our aim is to empower businesses, governments, and individuals with the knowledge and tools to navigate these uncertain waters with confidence and foresight.

This collaboration between IRM India Affiliate and ICICI Lombard is not merely a thought leadership exercise, but a call to action. As the world's leading professional body for ERM qualifications, we hope that by shedding light on the risks of the future, we can inspire proactive strategies, foster collaborations, and cultivate a culture of preparedness and resilience.

This Risk Report seeks to provide an illuminating beacon amidst these uncertainties, synthesizing data, expertise, and foresight to unravel the myriad risks that shape our present and future. Prepared with meticulous research, analysis of survey results and interaction with the industry, the report not only delineates potential threats but also underscores opportunities inherent in these challenges. Here's to mastering the risks of the coming decade.

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Mr. Sandeep Goradia
Chief – Corporate Solutions Group
ICICI Lombard GIC Limited

In the dynamic landscape of risk management, the role of an insurer has evolved significantly. Our primary focus today is to empower and educate our customers on effectively navigating through challenges on their path to success. Hence, it is critical that businesses recognise risk management as an essential component of their operations.

At ICICI Lombard, we recognise the pivotal role we play in not just providing insurance but in fostering a culture of risk awareness and resilience. Our commitment to this ethos is mirrored in numerous initiatives aimed at forging partnerships with our customers. This includes various annual events such as – publication of the Corporate India Risk Index (CIRI) report, Risk Master Class by Industry experts, India Risk Management Awards (IRMA), etc.

It is essential to channelise the abundance of information in an appropriate manner, and our goal is to convert "Explicit-to-Tacit knowledge". This report focuses on enterprise risk Maturity, preparedness of organisations, focus areas to improve risk maturity to face specific risks, etc.

In the spirit of partnership and our commitment to empower our clients, we are proud to present this distinctive report, developed in collaboration with the Institute of Risk Management (IRM). Our collective efforts have culminated in a resource that offers insights which will help fortify risk management practices. This report is a testament to our commitment to equip organisations with the knowledge and risk minimising advisory necessary to mitigate and thrive amidst challenges.

I am sure that this report will prove to be valuable not just for the Risk leaders of the industry but for all stakeholders of Indian enterprises.

Happy reading!

Looking forward to your feedback and comments.

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Mr. Paul Sobel
Former Chairman
Committee of Sponsoring Organisations (COSO)
Strategic Advisory Board – IRM India Affiliate

Many people talk about how the world changes at the "speed of risk," which means business decisions can no longer be measured according to the calendar but rather by keeping one's finger on the pulse of the changing risk environment. The India Risk Report 2023 is a very important and timely report from ICICI Lombard and IRM India that will help business leaders in India better understand what is changing in their risk environment. With its focus on both short-term and long-term risks, it will help decision makers better deal with the uncertainties of today's world. The value comes not just from the extensive data cited in the report, but more so from the expert analysis that will help readers understand the implications of the changing risk landscape.

In addition to the perspectives on the risk landscape, the report provides valuable information about risk management maturity. The data on risk management maturity illustrates the wide array of opportunities to improve risk management in India. It's notable that only a little more than 10% of respondents believe they are at the Transforming stage of risk maturity. And clearly there are pervasive opportunities to improve the level of risk talent in organizations and integrate ESG risks into the organizational risk management programs. The discussion of current and desirable risk management practices will provide risk leaders and decision makers with a better foundation for making future risk decisions. It also provides insights on how to leverage insurance products and services to manage a wide array of risks across all industries.

This report leverages both ISO 31000: 2018 Risk management – Guidelines and COSO's 2017 framework titled Enterprise Risk Management – Integrating with Strategy and Performance, thus demonstrating the report's worldwide applicability. I found it to be both valuable and interesting to read. It should be required reading for all risk leaders and decision makers in India.

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3. EXECUTIVE SUMMARY

Establishing a strategic risk culture within an organization necessitates development of dynamic, and continuously improving processes, technologies, and a cultural ethos.

This will enable an organization to:

– Identify applicable risks within an environment characterized by Brittleness, Anxiety, Non-linearity, and Incomprehensibility, commonly referred to as BANI.
– Proactively address these risks in a thorough and holistic manner.
– Effectively mitigate these risks as they materialize into tangible events or incidents.

This report comprises three key chapters that offer an overview of the industry's progress in advancing risk culture. These aspects are discussed in the context of evolution of global and India specific risk landscapes.

Preparedness to Face the Risks

The respondents were asked to rank short- and medium-term risks from the list of 11 potential risks. Based on their responses, we have categorized these risks into five priority areas. The detailed chapter on Top Risks also provides insights on how the priorities differ across various industry sectors.

The table below shows a synthesis of three components of the survey data – risk rankings, organizational preparedness levels, and the utilization of insurance or non-insurance solutions for managing risks. The goal is to assess industry's readiness to confront identified risks.

Risk	Short-Term Priority	Medium-Term Priority	% of organizations fully prepared to face a risk	% of organizations not deploying Insurance or non-Insurance solution for a risk
Cybersecurity Risks	1	1	33%	28%
Macroeconomic	2	1	18%	–
Business Interruption	3	2	29%	19%
Technology	4	1	26%	36%
Legal / Regulatory Risks	4	3	26%	27%
Climate change / Natural Disasters	5	4	14%	34%
Funding / Investment Risks	5	3	16%	–
Talent	–	4	19%	41%
Civil Strife / Geopolitical issues	–	5	9%	38%
Pandemics	–	5	9%	39%
Fire Hazard	–	5	18%	25%

Table 3.1: Depicting the risk priorities in short and long term, with preparedness through Insurance as a solution.

Full preparedness includes having a strategy, relevant skills and making investments in managing the specific risk. However, less than 33% respondents indicated full preparedness even for the top risk.

Deployment of insurance or non-insurance solutions is the other side of the coin. Even for the top ranked Cyber Security risks, 28% of respondents indicated having neither an insurance nor a non-insurance solution in place to manage the risk.

This underscores the need for organizations to view insurance as an integral part of risk management process while strengthening processes related to managing events/incidents. Detailed chapters in this report offer insights into how the industry uses insurance as a solution and how it measures the costs of insuring risks.

Another crucial insight pertains to maturity of Enterprise Risk Management within organizations, emphasizing the necessity of making risk management systems organization-wide and consistent across departments.

Insight from Industry Wide Claims Trends

We analysed industry claims over the past five years based on NL-37 (Claims Data) forms filed by major general insurance companies with Insurance Regulatory and Development Authority of India (IRDAI).

The key conclusions are:

- Climate and environmental factors have led to significant increases in categories such as Fire, Marine Cargo claims, highlighting the complex and non-linear impact of environmental and climate – related risk on organizational risks.
- Factors such as the growth in e-Commerce, borders opening within India through the introduction of GST, and increased export business due to geopolitical factors have resulted in both increased claims and greater usage of insurance.
- Various liability claims have increased indicating need for robust management of liabilities risks

As an integral component of strategic risk intelligence, regular review of global risks, contextual risks, incidents/events and near-misses is essential to identify and effectively manage new risks.

Cultivating a Risk Culture

Building a culture oriented towards delivering strategic risk intelligence is a journey that involves enhancing processes, technology and organizational and human aspects. The decisions on the extent and timing of these improvements depend on each organization's unique context.

While this executive summary synthesizes the main findings, the report's detailed chapters provide deeper insights into the industry's current status. Individual practitioners can use this information to guide their own improvement journeys or benchmark their efforts against the overall industry-wide response.

Fostering a mature Risk Culture serves not only to enhance an organisation's readiness to confront challenges but also empowers them to judiciously embrace risk as a means to seize future opportunities.

4. GLOBAL RISKS LANDSCAPE

This section dives into the evolving landscape of global risks, comparing perspectives from both a global and business viewpoint. To provide a detailed analysis, we have consulted various reputable sources:

- Overall Risk perspectives are based on well accepted risk reports and articles from the World Economic Forum and Eurasia Group
- For the Enterprise view we have referred to IRM Risk Trends reports and research information from Journal of Risk and Financial Management
- For individual enterprise and sector views, we have referred to annual reports and US SEC 10K filings of 20 global organizations.

Global Risks: Environmental and Social Factors, Poly Crises

For nearly two decades, the World Economic Forum (WEF) Global Risk Reports have consistently offered an extensive and inclusive perspective on global risk perceptions. These reports capture the insights and perspectives of experts from diverse sectors such as academia, business, government, international organizations, and civil society.

Similarly, Eurasia Group has been producing its renowned Top Risks reports since 2016. While their primary focus is on political factors, they go beyond that to provide a broader understanding of the prevailing risks worldwide.

Environmental and Social Risks have moved to the top of the agenda:

The WEF Perspective:

- Between 2007 and 2015, economic risks consistently occupied approximately 50% of the top 5 rankings in both likelihood and impact.
- However, from 2016 to 2020, no economic risk made it to the top 5 rankings. Economic risks made a comeback in 2021 and 2022 but disappeared again in 2023.
- In the latest 2023 report, only one risk each from the technology and geopolitical categories appeared in the top 10 risks for both the short and long term. All other top risks fell under the environmental and social categories.

The Eurasia Group Outlook:

- Apart from geopolitical risks, the Eurasia Top Risks reports have observed the rise of topics such as energy prices, cyber security, technology, climate, and green energy to the top positions.
- Since 2020, various forms of Covid-19 have consistently been identified as top risks.
- The 2023 report also highlights the emergence of Gen Z, the first generation to have grown up entirely in the internet age, as a key topic. Other prominent risks include the stalling of global development, inflation, and water stress.

The Current State: Poly-crises, Geopolitical Recession

According to the WEF 2023 report, the global landscape has undergone a series of crises, leading to a state of Poly-Crisis at present. Poly Crisis was a term coined by French philosopher Edgar Morin in 1999 and became a buzzword in 2023 Davos conference of WEF.

The complexities of our modern world mean that risks may generate cascading effects, giving rise to numerous additional risks. This, in turn, can result in multiple crises in critical areas such as energy supply, cost of living, inflation, food supply, and cyber-attacks targeting vital infrastructure.

Each of these crises can significantly alter the trajectory of businesses for years to come. It is imperative for organizations to comprehend and effectively navigate these challenges to ensure their long-term success.

Conversely, the Eurasia Group's 2023 report places emphasis on the notion of a Geopolitical Recession as its primary message. Moreover, it explores the profound influence of social media and emerging technologies on the socio-political fabric of our world. These factors introduce additional complexities that demand careful consideration and strategic planning.

Heightened Uncertainties

According to the 2023 WEF survey, an astounding 69% of respondents anticipate a turbulent landscape characterized by ongoing volatilities across economies and industries, accompanied by numerous shocks in the next two years.

Looking towards the longer-term horizon of ten years, the number of respondents expressing similar concerns reduces to 34%. Nonetheless, it is noteworthy that a significant 20% of respondents foresee the possibility of enduring crises and catastrophic shocks that could have far-reaching implications over the long term.

Thus, on an overall basis, the emerging perspective is that of a high risk environment.

The global enterprise view

Against this backdrop of global uncertainties, it is interesting to note how enterprises view the environment.

A noteworthy study, featured in the prestigious Journal of Risk and Financial Management (JRFM) in January 2023, depicts evolution of risk perceptions of industry across a decade based on 10 years risk surveys conducted by NC State University in collaboration with Protiviti, a leading global consulting firm.

The Overall Risk Perception has stayed around same levels

The surveys measured the 'perception of severity and magnitude of total risks faced' on the scale from 1 (Extremely Low) to 10 (Extremely High). During the 5 years period 2018-2022, answers to this question have ranged between 5.7 and 6.8, narrowing to between 5.9 and 6.4 in 2022.

Intentions of investments in ERM has improved

Despite the reduction in overall risk score, organizations expect to increase their time and resources allocated to risk management activities, with highest increase coming from Financial Services sector.

Top Risks over the past 5 years

The top risks as derived from reports from 2018–2022 are:

- Macro Risks

  Government Policies, Economic Conditions, New Digital Technologies, Increasing Expectations regarding Social Issues and Diversity, Increasing Labour Costs

- Strategic Risks

  Regulatory Scrutiny, Pandemic Effects, Disruptive technology innovations, Changes in Customer Preferences, Operational Risks, Attracting and Retaining Talent, Resistance to Change, Cyber Threats, Legacy IT and lack of Digital Expertise, Data Privacy, Risk Culture

Across the years, Operational segment risks have been receiving high scores. Efficiency and effectiveness of operations have remained a key concern of enterprises around the world.

Risks identified by individual enterprises

While the previous section discussed the enterprise view as a whole, it is expected that risks faced by a business will depend upon the sector in which it operates, as well as its own context and realities.

The table on page 13 shows key risks as described by organizations from various sectors in their latest (2021 or 2022) annual report or the SEC 10-K filing. We have referred to reports of around 20 companies across the sectors.

> **According to the 2023 WEF survey, an astounding 69% of respondents anticipate a turbulent landscape characterized by ongoing volatilities across economies and industries, accompanied by numerous shocks in the next two years.**

Sector	Business Risks	Operational Risks	Legal and Regulatory Risks
eCommerce	• Intense competition, new business models • International operations • Variability of retail business • Fraud • IPR • Foreign exchange	• Strain due to expansion • Fluctuations in growth rates • Optimization of fulfilment network • Data, security, systems interruption • Suppliers, Inventory • Investments • Payment	• Legal and regulatory, • Liability • Government contracts
Energy	• Green energy • Pandemic • Energy / Fuel Prices • Resource development • Climate Change • Failure to re-negotiate contracts / concessions	• Cyber-attacks • Commodity Prices • Estimation Risks • Business Interruption • Geo-political and Civil Strife • Multi-country operations risk • Energy delivery systems resilience	• Political / Regulatory Changes • Design of power market, permits and licensing • Liability from litigation or government actions • Increasing stakeholder attention to ESG
Financial Services	• Market, Liquidity, credit • Geopolitical • Business operations • Regulatory, Compliance and legal • Reputation	• Security, cyber-attacks • Failure to satisfy obligations for residential mortgage securitisation • Inadequate risk management framework	• Legal liabilities • Govt action • Capital requirements • Accounting
FMCG	• Macroeconomic conditions • Social conditions • Disruptions in credit market • Global and local competitors • Customer relationships, Demand • Reputation	• Geopolitical • Supply chain disruptions • Cost fluctuations • Reliance on third parties • Information security/operational technology	• Regulatory
Pharma	• Trends in managed care • Competitive products • Revenue concentration in a few products • R&D • Global operations • Counterfeit products	• Pricing control • Development, regulatory approval and marketing of products • Post-authorization approval data • Supply chain • Manufacturing and distribution	• Intellectual property protection • Third party IP claims • IT and security • Business development activities • Changes in laws and accounting standards, Healthcare Regulation
Technology	• Impact of Economy on client budgets • Failure of innovation projects • Competitive offerings • Meeting growth objectives • Talent • Supplier relationship • Govt business	• Acquisitions and Alliances • Predictability of financial results • Reliance on third parties • Cyber security and data privacy • Financing, Stock Price • Ineffective internal controls • Meeting productivity objectives	• Local legal, economic, political conditions • Increased scrutiny on regulations
Manufacturing	• Macroeconomic, • Strategic/sector specific (legal/ regulatory, market developments), legal	• Operations (production and technology, purchasing, sales network, IT security, data) • Financial (Foreign Currency, raw material, liquidity, pension)	• Legal, Regulatory

Table 4.1: Enterprise risks in 20 global companies of the specified sectors as reported by them in their annual report/ SEC filings.

The risk profiles of the organizations are obviously shaped by the business they are in. For example:

- The e-Commerce sector faces risks reflecting the complex nature of its business, rapid growth, international operations, complex IT setups, suppliers, distributors and impacts of multiple local and global regulations.
- Energy organizations' risk profiles are highly influenced by concerns over replacing fossil fuels, either by new supplies of fossil fuels or by the supply of alternate fuels, along with related regulations.
- B2C FMCG organizations are concerned about market forces, local competition, customer relationships, and demand and supply chain disruptions.
- Pharmaceutical companies' risks reflect the complexities of development, approval, production, and distribution of formulations in a global market, with intellectual property being a key concern.

Poly-Crises or Moderate Risk Environment?

The events that have unfolded since the beginning of 2023 are demonstrating that we are indeed living in a Volatile, Uncertain, Complex and Ambiguous (VUCA) world:

- Increase in geopolitical tensions with possible impacts on oil prices and supply chains.
- Rise in number of extreme weather events all around the world resulting in infrastructure damage and loss of lives.
- Collapse of Silicon Valley Bank (SVB) and Credit Suisse have sent shockwaves through economies with divergent views on severity of impact.
- The Rise of Generative Artificial Intelligence is expected to drive dramatic productivity gains, and raise concerns regarding regulating AI.
- Post Covid-19, many economies are battling inflation with increased interest rates which may result in reduced growth.
- Tech sector layoffs have created a large pool of technical talent, which is a risk for economy but may also be an opportunity for companies wanting to digitalize.

Bodies like the WEF are having strong focus on environmental and social risks. Businesses are also paying attention to environmental, climate and social risks. Environmental, Social and Governance (ESG) Factors remain a separate topic in various management reports and still not integrated into Risk Management discussions in enterprises. Some recent annual reports have talked about Audit Committee discussions on integration of ESG into Risk Management framework as well as focusing on the education of large number of employees in ESG.

On the other hand, the severity of risks as rated by enterprises are not as high as those expressed by WEF report which talks about poly-crises and severe conditions continuing even in a 10-year horizon. At the same time, enterprises intend to continue or increase their investments in ERM.

Business and Risk leaders need to evaluate the differences in severity ratings between WEF surveys and enterprise surveys and decide whether any re-calibration is needed.

> **The complexities of our modern world mean that risks may generate cascading effects, giving rise to numerous additional risks. This, in turn, can result in multiple crises in critical areas such as energy supply, cost of living, inflation, food supply, and cyber-attacks targeting vital infrastructure.**

5. INDIA RISK LANDSCAPE

This section highlights the risk landscape for businesses in India., As the Indian economy holds significant global importance, certain risks discussed here may also have a global impact. Throughout our examination of various risks in the India Risk Landscape, we will explore their linkages and potential implications for businesses.

India Risk Perceptions

The analysis has been drawn from reputed sources, including – the Risk Survey of the Reserve Bank of India (RBI), Global Economic Prospects published by The World Bank, World Economic Outlook published by IMF, Purchasing Managers' Index from S & P Global Ratings and The World Bank report on India's Climate Risk Profile.

Some of the major risks as identified by experts researchers, and businesses are shown in the figure 5.1 depicting perceptions about severity of risks and changes expected therein. These risks are analysed in various reports published by the Reserve Bank of India, The World Bank, IMF, and S&P Global Ratings.

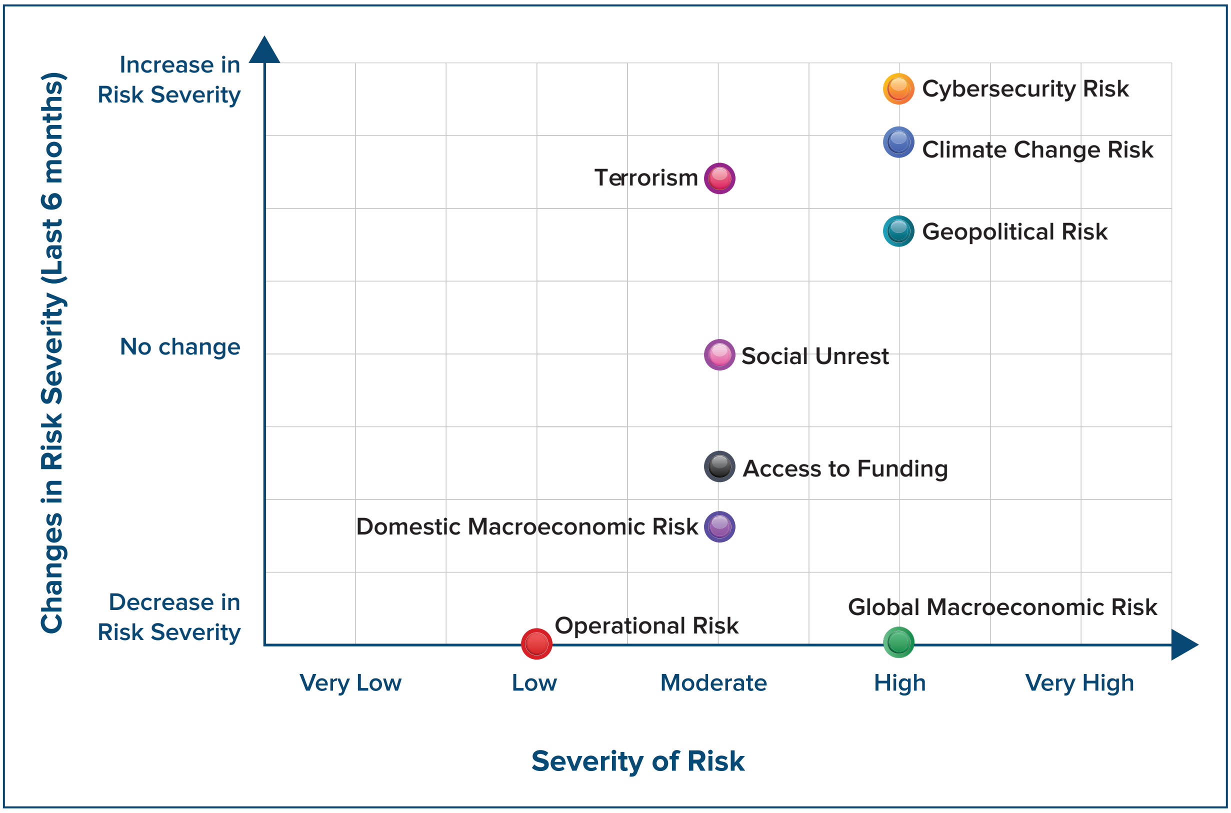


Figure 5.1: Movement of risk measures as calculated by different studies.

Macroeconomic Risk

Domestic macroeconomic risks are seen at moderate severity with a decreasing trend.

However, businesses need to be cognizant of global factors as they can impact their business aspirations in India.

The World Bank's Global Economic Prospects report suggests a decline in global growth, with the potential for a recession if negative shocks occur. RBI's Systemic Risk Survey confirms this view and expresses concerns regarding the worsening global macroeconomic outlook. However, the outlook for India remains positive, with strong annual growth driven by robust consumption and investment. Although India's growth rate may be affected by global trends, it is projected to be one of the strongest performers among emerging economies.

Operational Risk

The operational risk for India is low and the outlook is for the risk to further reduce.

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 leading up to May 2023. The Reports indicates favourable conditions, with robust demand for goods and services and increased purchasing activity. Input costs improved, and companies and vendors demonstrated ample spare capacity.

Access to funding

The risk associated with Access to funding for organizations is moderate and may slightly decrease in future.

This risk has remained relatively stable over the last three rounds of the Systemic Risk Survey. Additionally, the risk perception regarding the need for additional capital by banks, which serves as an indicator of asset quality, has improved. The risk perception associated with credit growth by banks has also significantly improved. This indicates that businesses with robust plans and operations have ample funding opportunities available to them.

Cyber Risk

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

As per data disclosed in the Indian Parliament, India witnessed 13.91 lakh cybersecurity incidents in 2022, and it is increasingly evident that enterprises must take proactive measures to strengthen network infrastructure and information systems to prevent potential operational, financial, and reputational losses.. However, the real number is likely to be higher, as these figures only represent incidents reported to the Indian Computer Emergency Response Team (CERT-In). While the reported incidents in 2022

were slightly lower than those in 2021 (14.02 lakh incidents), they were significantly higher compared to 2020 (11.58 lakh incidents).

MIT Technology Review has published The Cyber Defense Index (CDI) for 2022/23. It is the first annual comparative ranking of the world's 20 largest and most digitally forward economies on their preparation against, and response and recovery from, cybersecurity threat. It's a comprehensive insight report based on secondary research, survey, data analysis and interviews of experts around the world. India struggles at #17, despite a digitally forward government and world's largest IT-enabled services sector.

It is increasingly evident that the enterprises must take proactive measures to strengthen network infrastructure and information systems to prevent potential operational, financial, and reputational losses.

Geopolitical Risk

Geopolitical risk faced by companies is seen to be of high severity with moderate increase expected in coming years.

Constant tension and conflict between countries, some of which are going through major debt crises, pose significant risk, especially for companies directly or indirectly impacted by these events. Russia–Ukraine conflict and the recent Israel–Hamas war have shown us that geopolitical tensions could erupt anytime and can exist for a prolonged period of time causing major disruption.

Continued tensions between Ukraine and Russia, as well as emerging tensions in the Taiwan Strait add to the Geopolitical risks. However, changes in the geopolitical landscape also provide additional opportunities to Indian businesses. While Indian economy has been resilient in the face of global events, businesses need to closely monitor and assess impact of geopolitical risks on global supply chains.

On the other hand, changes in geopolitical landscape also provide additional opportunities to Indian businesses. Many companies adopting China plus one policy have chosen India as a manufacturing hub. Recent agreements between USA and India will also fuel this opportunity in various sectors.

Climate Change Risk

Climate change is categorized as a high level risk, with a moderate increase in risk perception.

India ranks 127th out of 182 countries on the ND-GAIN index, which measures vulnerability to climate change and readiness to improve resilience. Its vulnerability to climate change is influenced by its social vulnerability and climate variability. India is home to different climate regions, from tropical in South India to alpine climate in the Himalayan regions. Combined with the vulnerability of a large portion of the urban population not having access to well-ventilated

housing, India could become one of the first countries where heat waves could cross the survivability limit of humans.

Terrorism and Social Unrest Risks

Both these risks are classified as moderate risks with terrorism showing a moderate increase in risk while social unrest shows no change in its risk profile.

Terrorism and social unrest share similarities in their nature, as both can have localized immediate impacts but also significant downstream effects on the economy and business environment. These events disrupt operations, damage physical assets, and pose risks to supply chains. However, the most significant damage arises from their impact on consumer confidence, reputational damage to regions or countries, and uncertainty for businesses and investors. Situated in a geopolitically fluid zone, there is a moderate risk from terrorism in India. Additionally, as India transitions from a developing to a developed economy, there is also a moderate risk from social unrest as different social groups navigate the changing landscape.

Enterprise Risk Perceptions – India

In this section, we analyse a sample of marquee companies from key industrial sectors. Management Discussion and Analysis sections of companies' annual reports discuss risks faced by the organizations and their plans to tackle these risks. Our examination includes companies from multiple sectors, offering a broader understanding of the risk landscape from an industry-specific perspective.

Sector	Risks
Automobile	Supply chain disruption, Pandemic, Data privacy and cybersecurity, Geopolitical and macro-economic risks, Intensifying competition, Exchange rate and interest rate fluctuations, Downgrade in credit ratings, Semi-conductor shortage, Climate change
Energy (Oil and Gas)	Climate change and energy transition, Data privacy and cybersecurity, Environmental risks, Climate change, Air quality, Biodiversity and Ecosystem Conservation, Human resource risk
Financial Services	Macro-economic risks, Geopolitical situation, Global commodity prices, Cyber-security risk, Climate Change, Credit risk, Liquidity risk, Policy and regulatory risk
FMCG	Supply chain risk, Pandemic, Macro-economic risks, Information security, Exchange rate fluctuation, Shortages of key staff, Climate change, Brand preference risk
Pharmaceutical and Healthcare	Geopolitical volatility, Supply chain disruption, Data privacy and cybersecurity, Climate Change, Environmental risk, Product responsibility, Pandemic, Economic and geopolitical risks, Pricing risks, Statutory and legal compliance, Patent protection risks
Real Estate	Macroeconomic factors, Climate change, Geopolitical risks, Cybersecurity, Foreign exchange rate fluctuations, Interest rate fluctuations
Retail	Pandemic, Cybersecurity risks, Inventory levels, Workforce management, Adapting to market trends and buying behaviour, Information risks, ESG risks, Inadequate availability of retail spaces, Intense competition, Ecommerce, Supply side constraints
Software and Services	Pandemic, Intense competition, Macroeconomic risks, Geopolitical risks, Information security and cybersecurity, M&A integration risk, Currency volatility, Employee health and safety risk, Hybrid working model, Litigations, Sustainability risks
Telecom	Regulatory and political uncertainties; Market competition; Economic uncertainties; Network infrastructure; Data privacy
Transportation	Pandemic, Competition, Workforce management, Movement to remote location, Exceptional variation in fuel prices, Liquidity management and profitability

Table 5.2: Identified risks in various sector specific Indian companies, based on their respective annual reports.

We analysed companies across traditional and new-age sectors. Like we discussed in the Global risks section and as expected, the risks identified by these companies as their biggest challenges are quite diverse. They reflect the industries the companies operate in and the markets they operate in. The key observation from studying company filings and annual reports is that there are several risks affecting companies beyond the ones identified by experts and researchers Often these risks are sector specific. Some of the key risks that belong to this category are Intensifying Competition, Talent Shortage, Availability of space, M&A integration and Input material price volatility.

The sector wise top risks are similar for India based companies and global organizations with following observations:

- Litigation is a concern appearing more frequently in global companies as compared to Indian companies, possibly indicating that Indian markets are still not highly litigious.
- Macro-economic risks appear with a higher frequency in global companies' annual reports. This indicates increased fears of recessionary environment at a global level and relatively lower inflationary pressures as well as fears of recession in India.
- Almost all the Global companies' disclosures mention cybersecurity risk as one their top concerns. However, this risk is conspicuous by its absence in the disclosures of almost half the Indian companies studied. This shows that Indian businesses aren't yet placing as much importance on managing data privacy, IT and cyber security risks.
- Workforce management related risks appear with a higher frequency in global companies' annual report. This could be due to the demographic dividend being enjoyed by India and the relatively higher availability of staff in India across most educational backgrounds.
- Regulatory risk is a concern that companies both Indian and Global share. This is an expected challenge as changes being made to regulations and compliance requirements could affect the operations of businesses.

Key Takeaways

The global events that have unfolded since the beginning of 2023 demonstrate this to be a volatile, uncertain and risky environment. In contrast to the global environment, the Indian environment appears to be less risky, with an economy poised for rapid growth in the coming decade.

Risks facing India, as highlighted in reports of the Reserve Bank of India, The World Bank, IMF, lead us to the conclusion that the highest severity risks facing Indian companies are Global Macroeconomic Risk, Cybersecurity Risk, Climate Change Risk and Geopolitical Risk. When we study annual reports of Indian companies, they also identify several other risks to their businesses like talent/workforce management, input price volatility, M&A integration, and competition risk.

The study of annual reports also reveals that there is a considerable variation in the number and nature of risks identified by companies belonging to the same sector. Additionally, the number of risks identified by global companies in their annual / SEC 10-K reports is much larger compared to the number of risks reported by Indian companies.

Combined with the vulnerability of a large portion of the urban population not having access to well-ventilated housing, India could become one of the first countries where heat waves could cross the survivability limit of humans.

RISK EXPERT COMMENTS

Ms. Jyoti Ruparel, CMIRM

Certified Member of the Institute of Risk Management

Senior Advisor – Digital Risk Transformation, PwC India

Risk Identification is a crucial step for organisations in the short term for operational stability and building resilience, as well as in the long term to align strategic objectives to emerging risks and prepare for uncertainties ahead. Integrating Enterprise Risk Management (ERM) into the organizational culture is key to a sustainable enterprise, as it not only highlights the negative aspects of risks, but also highlights opportunities for value creation. Proactive measures can mitigate many risks if Corporate India joins hands with the Government and influences policy decisions. We need strong leadership to understand the impact of interconnected risks to organisational stability.

In addition to the much talked about cyber security risks, geopolitical tensions and technological disruptions for India, some risks I see lurking around the horizon are:

- population growth and scarcity of resources, balancing needs vs. availability
- Industrial development that can have hurdles around funding, regulations etc
- India's diverse society and politics play can lead to polarisation and hence tensions affecting businesses and individuals alike

My pet peeve is that organisations appear to be avoiding addressing environmental issues such as pollution, deforestation, and insufficient measures for waste management, which have adverse effects on public health and overall quality of life. Proactive measures can mitigate many of these risks if Corporate India joins hands with the Government and influences policy decisions.

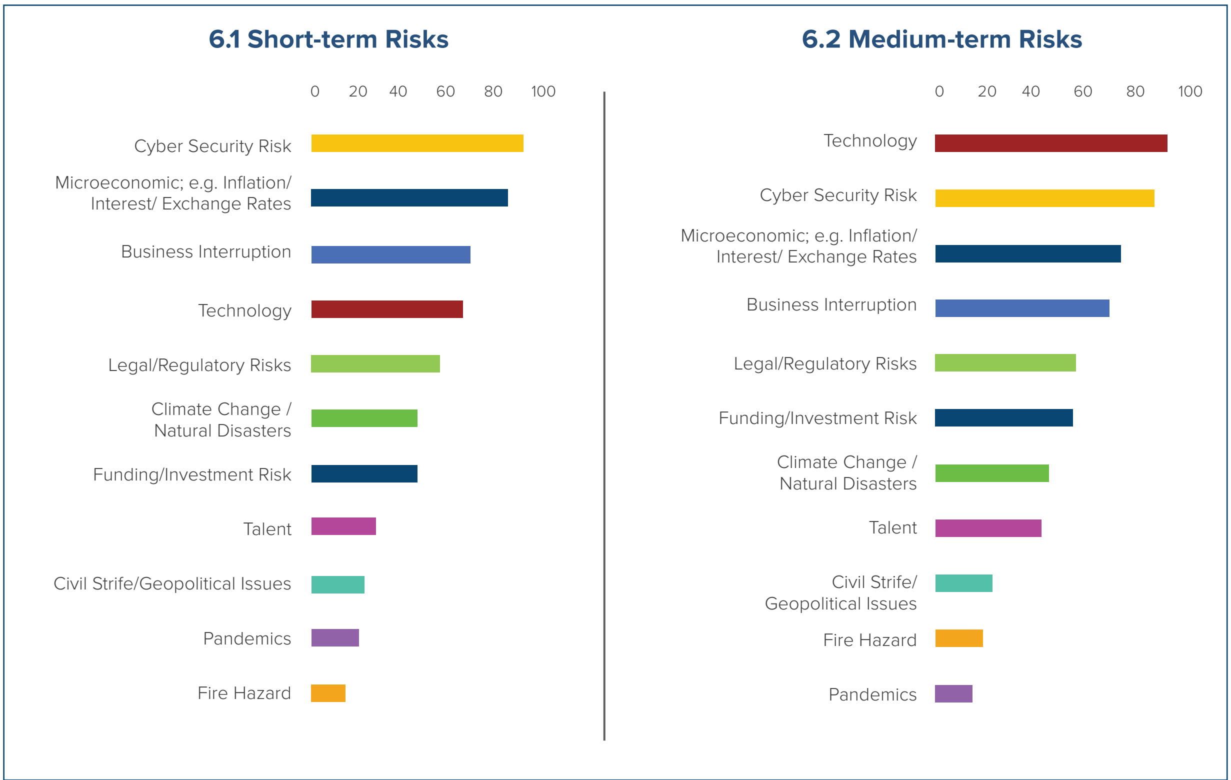
Incorporating ERM into the board agenda ensures that risk management is a strategic priority and integral to decision-making processes, enhancing the board's ability to navigate uncertainties, capitalize on opportunities, and steer the organization toward sustainable growth.

> **Building a Risk intelligent organisation by investing in the right Risk talent and integrating ERM, ESG, and strategy can pave the way for a resilient and sustainable organisation. The Board plays a crucial role in this decision-making process.**

6. RISK PERCEPTIONS OF INDIA INC

Top Risks

The respondents were asked to rank a total of 11 risks in the short- and medium-terms, with medium term being specified as a 2-4 years' timeframe.



Figures 6.1 and 6.2 show rankings of all risks as rated for short and medium-term, respectively.

The short-term rankings show clear demarcations between the scores of top 3 risks and the scoring differences blur later on.

The short and medium-term risks can be clustered in to five priorities:

	Short Term	Medium Term
Priority 1	Cyber Security Risks	Technology, Cyber Security, Macroeconomic
Priority 2	Macro-economic Risks	Business Interruption
Priority 3	Business Interruption	Legal/Regulatory Funding
Priority 4	Technology and Legal / Regulatory Risks	Climate Change Talent
Priority 5	Climate Change/Natural Disasters Funding/ Investments	Civil Strife, Fire Hazard, Pandemics

Table 6.3: Table depicting top 5 overall short and medium-term risk priorities.

If we consider organizations who have overseas presence or JV's abroad, Climate Risks appear at rank #5, both in short- and long-term rankings, clearly indicating the visibility of Climate Risks abroad – given various new regulations in Europe.

The overall risk priorities are derived from perceptions across all participating industry sectors. However, it is interesting to note sectors which have different priorities when compared with the overall industry average:

Sector	Deviations in Short Term Top 3 priorities	Deviations in Medium Term Top 3 priorities
Energy and Utilities	Climate Change	Fire Climate Change / Natural Disasters
FMCG	Climate Change / Natural Disasters	Climate Change / Natural Disasters
Hospitality	Climate Change / Natural Disasters Civil Strife	Fire Climate Change / Natural Disasters
Infrastructure & Real Estate	Climate Change / Natural Disasters	Funding and Investments
Logistics	Civil Strife	Talent, Civil Strife
Services	No Deviation	Funding and Investments Climate Change / Natural Disasters, Talent

Table 6.4: Sector-wise deviations in risk priorities.

BFSI, Manufacturing, Pharmaceuticals and **Technology, Media and Telecommunication** sectors top risks are same as the overall top risks.

Energy and Utilities sector sees Climate Change / Natural Disasters and Fire Hazard in the top risks for obvious reasons:

- Climate Change and Natural disasters can lead to severe weather events which can create physical disruptions for Energy and Utility companies
- Weather events can also impact actual energy generation – both positively and negatively
- Governments are pursuing green energy initiatives which can be a risk for companies dependent upon fossil fuels as well as an opportunity to open new markets

FMCG sector also sees Climate Change / Natural Disasters in top risks due to:

- Supply Chain disruptions can be caused by weather events
- Water supply issues can impact cost and quality of goods
- Transportation and Distribution networks can get disrupted due to catastrophic events
- Regulatory pressures as some FMCG companies are seen to be contributing to environmental deterioration

Hospitality sector sees Fire as top risk followed by Climate Change / Natural Disasters for reasons:

- Fire is a major threat owing to increased use of electrical appliances and flammable materials
- Climate change can cause business interruptions, property damage, changes in tourism patterns and regulatory pressures

Logistics sector sees Civil Strife in top risks followed by Talent as it can impact businesses:

- Issues like – Transportation Disruptions, Border / Customs issues, Labor issues, Infrastructure Damage etc
- Talent requires a diverse range of skills, they need to quickly get trained in digital ways of working – and companies must also cope up with competition from say e-Commerce companies for the same talent pool

Services organizations see Funding and Investments, Climate Change and Talent in long term top risks.

- Funding risks may arise due to economic downturns which may also impact cash-flows again adversely impacting investments
- Climate change / Natural Disasters can cause physical infrastructure damage
- Complex talent requirements mean Services sector has to continuously invest in building skills and at the same time ensure retention of skills and client knowledge
- Supply chain disruptions and Operational difficulties to Services organizations
- Services environment is continuously being digitalised and challenged for higher and higher efficiency requiring continuous investments and complex talent requirements

The Individual Risks

Cyber security Risk:

The survey indicates cyber security as a major risk by BFSI, logistics and Pharma sectors. An increase in work-from-home or hybrid models during and post-pandemic exposes the data to potential threats and data breaches. Organisational systems are facing a significant jump in cyber threats, including ransomware, extortion ware, malware, phishing attacks, cloud-focused attacks, business email compromise etc. Customers are also vulnerable to threats by clicking on malicious links and not using strong passwords though suggested. There is a significant rise in data breaches and respondents continue to see it as a big threat.

Not only Cyber Security threats but responses to such threats can also cause business interruptions – for example when an organization decides to shut down its Information Technology (IT) or Operations

FROM THE DESK OF ICICI LOMBARD'S CYBER INSURANCE EXPERT

Trends in Cyber Claims

Ramneek Goyal
Vice President – Liability
Underwriting & Claims

Cyber Claims have seen an increasing trend in the past year. A large number of claims are related to ransomware attacks. These attacks are getting expensive to deal with:

- Costs incurred in managing the attack, forensics, data re-construction and restoration of systems and services
- Business interruption costs
- Legal costs

With increasing digital transformation across enterprises across the entire value chain, it is expected that cyber threats will continue to be a top risk for many years to come. Given the continuously evolving nature of technology, Enterprises need to regularly assess their own businesses, processes, technologies, threats and preparedness. Use of strong processes with latest technology seems to be the most logical approach to fight cyber threats.

Best practices in Cyber Security:

- Clients strengthening backup and recovery systems: with many companies going for traditional backup methods like off-site tape storage or alternate data centres.
- Behaviour-based EDR (Endpoint threat Detection and Response solutions).
- Stronger professional indemnity and limitation of liability clauses.
- Managing relationships with large clients.

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Technology (OT) servers / networks due to a cyber-attack, most of its services may also shut down. A successful response strategy requires that Cyber Risk management plan should be an integral part of the Business Resilience Plan of an organization.

Business Interruption Risk

Loss of business income that businesses sustain due to the necessary suspension of "operations" during the period of "restoration" is business interruption risk. Some significant risks that result in business interruption and lost income for months include equipment failure, structure fires, supply chain disruptions, unplanned power outages, the crime of vandalism, natural disasters like hurricanes, winter storms.

Infrastructure and Real estate, manufacturing and distribution consider Business interruption as the top long-term risk while Hospitality sector considers it as major short-term risk and long term risk. Business Interruption risk emerged as top five risks both in short term and long term.

FROM THE DESK OF ICICI LOMBARD'S PROPERTY INSURANCE EXPERT

Trends in Property Claims

Mukesh Bansal
Head –
Corporate & SME UW

Property Claims comprising fire, engineering, and miscellaneous, have always seen many small amount claims: around 90% of the frequency claims account for 7%–8% of the total claim value in a year, whereas about 4% of severity claims account for 85% of the total claim value.

Another noteworthy aspect of this category is that Enterprises prefer to transfer entire risk to the Insurance Company with minimal deductibles. As against that, the insurance market in the West sees most insurances with large deductibles – implying self-insurance up to a certain value of the risk.

Catastrophic events, or Nat Cat events, have played a major role in escalating both the number of claims as well as the value of the claims. Earlier, Nat Cat events were specific to geographic zone – but now they seem to be occurring in all zones.

Risk events for enterprises

While enterprises are seen to be learning from risk events and there are fewer repeat events in this category, some of the best practices can help enterprises minimize risk events as well as losses from such events:

- Proper planning and identification of all possible risks by doing a thorough end-to-end technical analysis
- Set up of Standard Operating Procedures for assessment of equipment health, ensuring timely maintenance and overhauling, ensuring availability of spares
- Designing and implementing testing strategies for the commissioning phase so that any initial losses can be identified quickly and their impact can be contained
- Realising that Nat Cat events can happen without warning, understanding the risks they pose, and planning ahead – even for locations outside of the usual cat event zones—are all important reminders.

A successful claim outcome can be driven by

- Correct declaration of value at risk (sum insured)
- Well-designed systems and processes for identifying and managing risks ensure the availability of accurate information as and when required
- In the immediate aftermath of any risk event giving rise to a claim, involving the surveyors in the various decision-making scenarios (like going in for repair or replacement, the specific mode of repair, etc.) will help the insured in appreciate the coverage's and limitations of the policy of insurance with regard to their preferred mode of reinstatement. It is to be noted that not all reinstatement expenses are covered, only expenses incurred in accordance with policy terms are indemnified.

For detailed information, please reach out to us at mukesh.bansal@icicilombard.com

Macroeconomic risk

Weak macroeconomic fundamentals adversely affect institutions due to their exposure to business cycle conditions. An increase in inflation, interest rates, geopolitical tensions, and currency fluctuations will continue to impact the industries across sectors.

A rise in inflation and decrease in the growth rate, especially in Europe and United states will impact the rest of the world. Russians' invasion of Ukraine and three years of Covid-19 will further add to slow growth. BFSI perceives macro-economic as top long-term risk while the respondents from Infrastructure and real estate and logistics perceived it as a major short-term risk.

Legal and Regulatory Risks

Energy and Utilities sector considered legal and regulatory as the top short-term risk and Pharma sector considers the same as the top long-term risk.

Noncompliance with labour, environmental, intellectual property, tax, safety laws can lead to significant problems. Results of the survey indicate that Legal and regulatory risk among the top five risks both in terms of short term and long term. The rise in conscious consumerism and greater awareness of product safety and ingredients forces manufacturers to present their products as sustainable, ethical, environment friendly, green, cruelty-free, and more. Failure to disclose the alleged risks and false advertising further increases the legal risk.

Technology Risk

Technology risks relate to non-adoption of the latest technology. Manufacturing and distribution sector, Technology sector consider the risk as the top short-term risk. According to the survey, Services sectors consider the risk as the major long-term risk. Technology emerged as one of the top five risks both in short term and long term.

Digital transformation and the industry 4.0 vision is the requirement across sectors. Companies must adapt to new transformation technologies and work on end user device integration, cloud or edge-based application delivery, high security options, automation, AI and innovative network services. Failing to adapt to new technology requirements can be a significant threat to companies. Technology is the top long term risk as per this survey.

Funding / Investment Risk

Funding risk impacts the company's ability to raise capital under acceptable terms and conditions and its inability to meet cash flow obligations. Funding risk, if ignored can lead to individual firm failure and systemic credit risk.

According to the respondents to this survey, funding and investment risk are one of the top five long term risks for BFSI, Manufacturing and distribution, Infrastructure and Real Estate, Energy and Utilities and Services.

Climate Change/Natural Disaster

The direct impact of these risks is the loss of property and infrastructure caused by natural calamities and any consequential losses that may result from these. The indirect costs include compliance and non-compliance costs since countries are designing and implementing policies in line with global treaties. The compliance cost is an additional cost and non-compliance has more costs in terms of international investments, penalties, loss of goodwill and brand, etc.

FMCG sector considered Climate Changes/Natural Disasters as the top long-term risk.

Fire Hazard

National Building Code, State fire prevention and fire safety act & Rules, Factories Act and State Factories Rules Oil Industry Safety Directorate, and IS Code are a few important regulations and codes in India related to fire safety and prevention. These regulations have contributed to fire risk reduction.

The survey responses mirror this understanding with Fire Hazard getting a low rank both in Short- and Long-Term rankings. The claim settlement reports of insurance companies show that the value of fire claims reported is 3.42% of the total value of claims, and the percentage of the number of claims for fire is just 0.104% of the total number of claims in the general insurance, of the major players in the insurance sector in India, in the year 2023.

Energy and Utilities sector expressed Fire hazards as the major long term risk.

FROM THE DESK OF ICICI LOMBARD'S PROPERTY UNDERWRITING EXPERT

Trends in Property Underwriting

Jitendra Singh
Vice President –
Property Underwriting

- Earlier, "Global Warming" was a phenomenon and a major risk; now it is "Climate Change" because the change can manifest as extremes in heat, cold rain, or any other factor of the climate.
- Natural catastrophes are having an increasing impact on the property insurance market. The frequency of extreme events such as cyclones, flash floods, and heat waves is increasing. These events are occurring in unexpected places.
- Organizations are realizing that any premises can get flooded, and business interruptions can occur at any location. As a result, more and more organizations are opting for property insurance.
- Formerly claims from plants could cover mechanical damage; now they also cover technical issues resulting from a cyber-attack or ransomware, as more and more plants are being automated and integrated.
- Changes in workplace design and the use of materials have resulted in fire coverage being purchased by all industry sectors, including those that were not previously prone to fire risks.
- Supply chain risks must be recognized by insurance providers. Issues with one supplier could result in issues at multiple organizations that are part of the supply chain.
- Risk management in Indian companies have improved. Organizations no longer regard risk management as merely, a regulatory obligation.

Anticipated Trends

- Increasing insurance penetration
- MSME organisations will also go for extensive insurance coverage
- More companies will opt for loss-of-profit coverage
- Regulatory changes will ensure that more insurance products are introduced that meet diverse requirements
- Risk mitigation practices can help clients better manage their risks
- Technology will play a bigger role in the sales and servicing of insurance

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

Talent

Defining effective talent management as having the right people in place at the right time to drive current and future business growth.

Risks associated with skill building are capability risk, risk around the retention of capable people, risk of top talent getting disengaged, unaffordable workforce, risk around compliance related to employee appointment, retention, and exit.

Talent is expressed among the top five risks in short term by Pharma and FMCG whereas Pharma, Logistics, Hospitality and Technology sectors mentioned Talent as one of the top 5 long-term risks.

Civil Strife/Geopolitical issues

Geopolitical risk is now seen as the top threat to growth and stability. It is a risk associated with wars, terrorist acts, and tension. The Geopolitical Risk Index measures the occurrence of impactful geopolitical events/threats/conflicts by counting the keywords used in the press. A higher geopolitical risk index is associated with economic disasters and a fall in employment. The current war between Russia and Ukraine will add to slow growth.

29% of the survey respondents found civil Strife or geopolitical issues to be a risk in the next 2 years. Hospitality, logistics and services sectors considered the civil and geopolitical risk among the top 5.

Pandemic

Pandemic risk is driven by the combined effects of spark risk (where a pandemic is likely to arise) and spread risk (how likely it is to diffuse broadly through human populations). The pandemic is perceived as a risk for which the world is least prepared. Constructive negotiations on the new global pandemic accord and the International Health Regulations is closely monitored.

Pandemic risk did not emerge among the top 5 short term and long-term risks. However, 22% of the respondents consider the pandemic as a risk. 11% of these have assigned it a rank 1 risk and 49% have assigned it a rank 5.

How risks impact business goals?

While ranking of risks tells us which risks businesses find important, it is crucial to understand impact of these risks on business goals. The IRM and ICICI Lombard survey captured perceptions of impact of various risks on five generic business goals, namely Customer satisfaction, Growth, Profitability, Innovation and Reputation.

Business Goal	Risks with Highest Impact	Risks with Medium Impact	Other Risks
Customer Satisfaction	Business Interruption Technology	Cybersecurity Macro-economic Climate Change	Talent Funding Legal
Growth	Macro-economic Business Interruption Funding	Technology Legal / Regulatory	Talent Cyber Security Civil Strife/Geo-political
Profitability	Macro-economic Business Interruption	Funding / Investment	Technology Cyber Security Civil Strife/Geo-political
Innovation	Technology	Talent Cyber Security	Business Interruption Legal / Regulatory Funding
Reputation	Legal / Regulatory Cyber Security	Business Interruption	Civil Strife / Geo-political Issues

Table 6.5: Risks and Business Goals.

Customer Satisfaction is impacted most by business interruptions followed by Technology and Cyber Security risks. FMCG sector polls that Macroeconomic risks can also impact customer satisfaction. In Services sector, Talent risks can also impact customer satisfaction which is natural given the people-oriented nature of the sector. Pharma sector also includes Legal/Regulatory risks in its customer satisfaction risks.

Growth and profitability are impacted by a combination of macroeconomic, funding and business interruption risks. Technology / Media / Telecom sector sees Legal / Regulatory risks impacting the Growth as new capacities and capabilities could be controlled by legal and regulatory factors. Hospitality and Energy sectors find Business Interruption risks can also impact Growth.

Innovation is impacted by Technology, Cyber and Talent risks which are the three key inputs to innovation. Pharma sector sees funding risks impacting innovation as new drug research and trials can be capital intensive activities.

Reputation is impacted by Legal / Regulatory, Cyber Security and Business Interruption risks.

Changes in the risk perception in last two years

Figure 6.6 captures perceptions of respondents on how the risks have changed over last 2 years. The question allowed respondents to select out of options Decreased a lot, Decreased somewhat, No Change, Increased somewhat and Increased a lot. The responses were analysed to determine how risks changed.

The senior professionals across industries perceive that cyber security risks increased the most during the last two years while Fire Hazards as a risk remained at the same level as it was earlier.

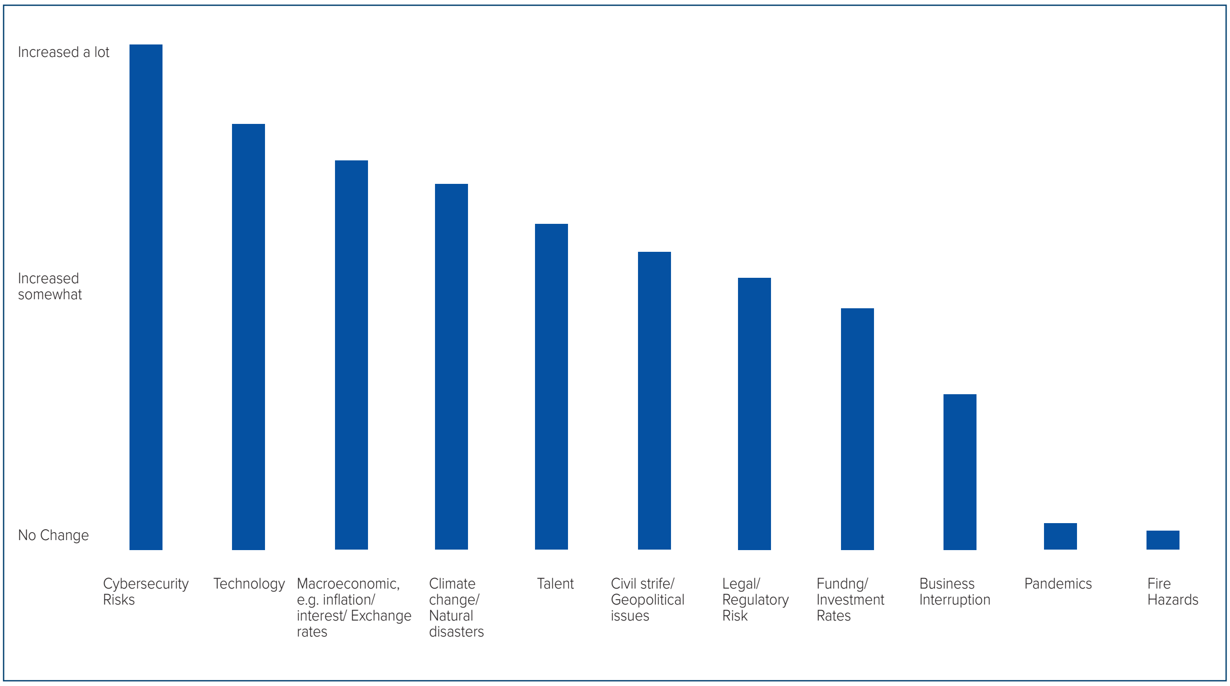


Figure 6.6: The above figure captures the changing risk perception over last two years.

Logistics sector perceives that all risks have increased, with Cyber Security and Macroeconomic risks having increased a lot.

Many respondents across the sectors perceive Pandemic and Business Interruption Risks have reduced. Several respondents also felt that Fire Hazard risks have reduced over the last two years. This could be attributed to better compliance with regulations and improved safety environments across organizations. There is also a surprising minority which feels that Climate Change risks have reduced some what over the last two years.

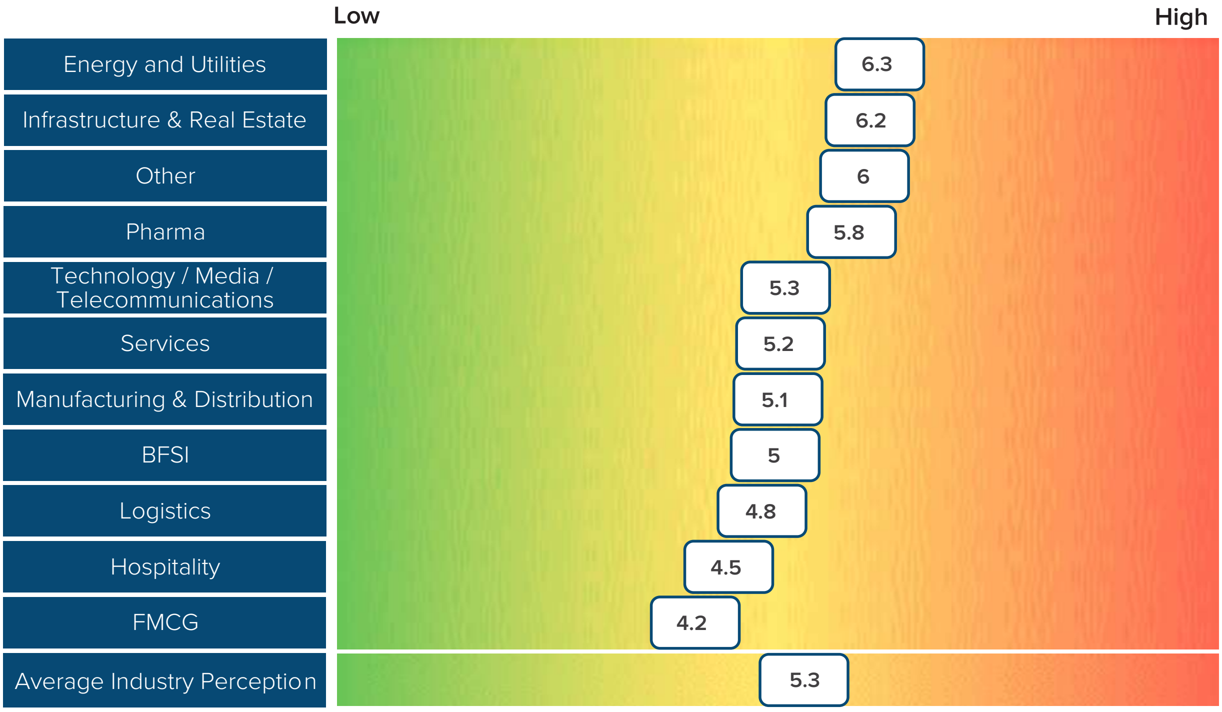


Figure 6.7: How risky is the overall environment.

Perception of Total Risk

While risk ranking and changes to risks tell us how respondents perceive individual risks, the survey had a question about "..perception of total risk your organisation will face over the next two years". The goal of asking this question was to get a qualitative idea of how risky the respondents perceive the overall business environment to be – 0 being low risk to 10 being high risk.

The overall perception seems to be of a moderately risky business environment.

On a sector basis, perception of the average risk level of Energy and Utilities is high compared to other sectors. India's domestic production of oil and gas is less than its consumption. A significant increase in demand of energy, oil, coal, residential energy usage, car ownership, two-wheeler owner ship and Co_2 emissions is witnessed because of the country's population.

FMCG sector has the least risk due to increase in consumption and the impact of rise in population on growth of the sector cannot be ignored.

> **Organizations are realizing that any premise can get flooded, business interruptions can occur at any location: as a result more and more organizations are opting for property insurance.**

THE JOURNEY AT RELIANCE JIO - EXPERIENCE SHARING

Mr. Sachin Mutha
Head Risk Management
Reliance Jio & Media Companies
Knowledge Partner –
IRM India Affiliate

About Reliance Jio

Reliance Jio has built a world- class all-IP data strong future proof network with 4G LTE technology. The network is 5G ready with no legacy infrastructure and indigenous 5G stack. It is the only network conceived as a Mobile Video Network from the ground up. It is future ready and can be easily upgraded to support even more data, as technologies advance on to 6G and beyond.

Jio has brought transformational changes in the Indian digital services space to enable the vision of Digital India for 1.3 billion Indians and propel India into global leadership in the digital economy. It has created an eco-system comprising of network, devices, applications and content, service experience and affordable tariffs for everyone to live the Jio Digital Life.

Risk Management

During the past few years, geo-political and pandemic risks have continued creating a negative impact on supply chain, inflation, currency, interest rates and health safety. In addition, climate related changes and natural calamities occurrences also has its impact on the operations and organizational assets. These challenges are faced by nearly every company, leading to a rethink of strategies to a new operating environment for mitigation of such risks.

Jio believes in proactive identification and mitigation of potential risks. These risks need to be managed to protect its customers, employees, shareholders, and other stakeholders in the society. Risk and opportunity management is therefore key element of Jio Risk Management Strategy.

Use of Insurance as a Risk Management Solution

Insurance is a common tool used for risk management across the world, and it plays a crucial role in Jio as well. Insurance is used to transfer some of the financial risks to the insurance companies. Here's broad note on the use of insurance in our risk mitigation strategy.

1. Property and Casualty Insurance: Jio has extensive critical infrastructure and network assets that is spread across India and abroad as well. These assets need to be safeguarded for loss due or physical damages due to perils such as riots, vandalism, natural disasters, and accidents. Jio has taken comprehensive coverage via Cellular Network Policy to manage such risks. This is a customized all risk policy for Telecommunication sector in India.

2. Employee Benefits: Jio has taken comprehensive employee benefits polices in the form of Health, Life Insurance and Personal Accident covering all its employees. This helps employees manage medical expenses and provides a safety net in case of health-related issues to self as well as family.

3. Supply Chain Insurance: Jio has comprehensive supply chain management requirements for domestic and international transits. These includes Imports and domestic movements of network assets and devices. Insurance coverage includes any losses such as accidents, theft, pilferage etc. during transit and storage.

4. Directors and officers (D&O) insurance to protect the directors and officers from liabilities resulting from legal action against them for alleged wrongful acts in their managerial capacity including legal costs.

5. Commercial General Liability for coverage of third-party property damage or bodily injury including legal cost.

6. We also insist on all our vendor or partners to obtain Workmen Compensation policy as part of risk mitigation for any workplace related accidents.

7. Cyber Insurance : We are exploring Cyber insurance coverage considering our large digital ecosystem and introduction of the Digital Personal Data Protection Bill, 2023. It should help to manage the financial impact of data breaches, cyberattacks, and other cybersecurity incidents.

7. PREPAREDNESS TO FACE RISKS IN INDIA INC.

This section presents analysis of enterprise risk management Maturity and preparedness of organizations to face specific risks.

Risk Management Maturity

Maturity models are commonly used across disciplines to build a consensus on the terminology for maturity in a certain area and to help organizations chart out their improvement plans by assessing their own maturity and deciding target maturity levels for themselves.

We have combined several aspects of ERM practices to create a Risk Management Maturity (RMM) model.

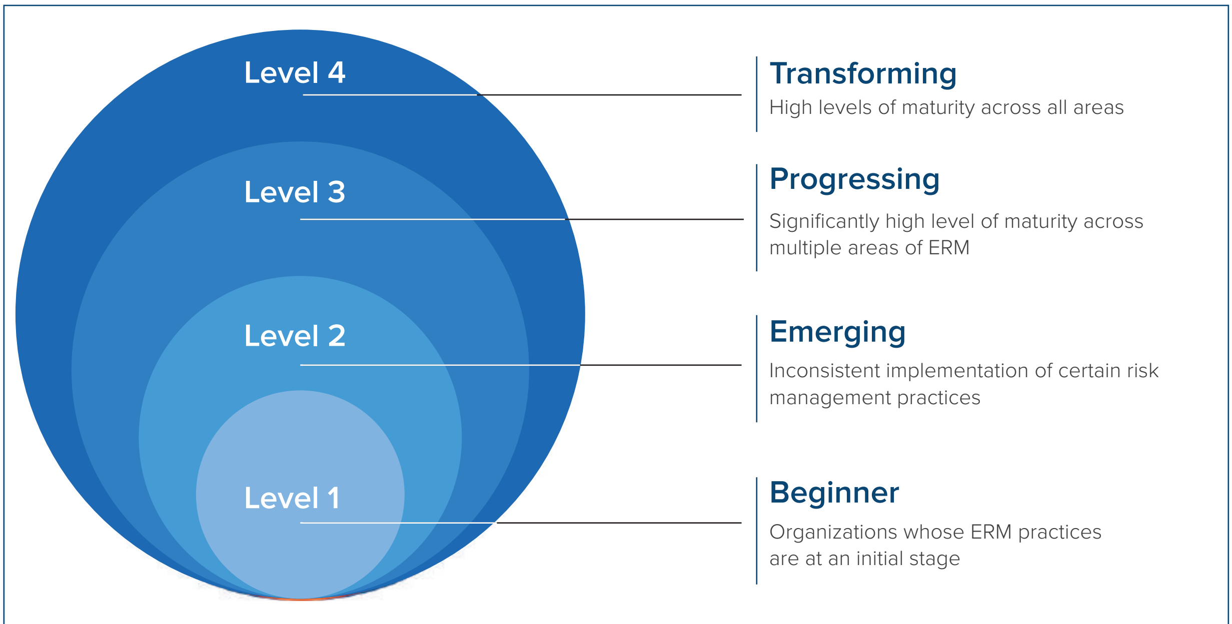


Figure 7.1. Risk Management Maturity (RMM) model.

Based on responses received, we have derived a RMM profile of the respondents. Organizational maturity has been assessed at four levels:

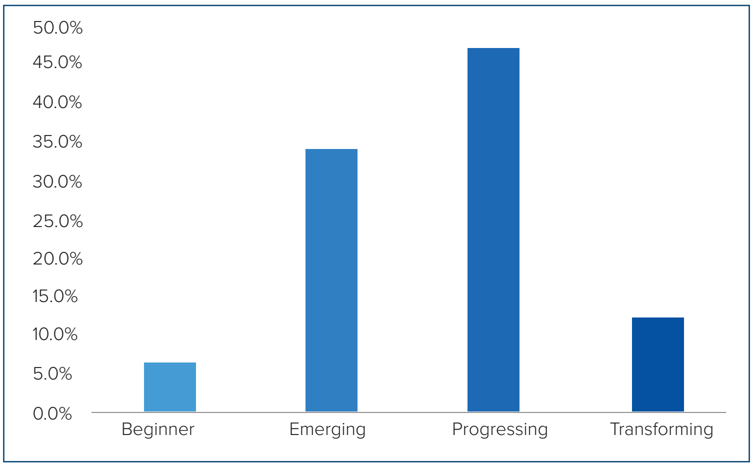


Figure 7.2. Risk Management Maturity (RMM) profile, depicting the organizational maturity of the survey respondents.

Companies with overseas subsidiaries show significantly higher levels of maturity with more than 25% responses indicating Transforming level.

The RMM assessment is based on various aspects such as organizational processes, practices and culture, discussed in detail in the following sub-sections. To be at Level 4 – Transforming, an organization needs to be at 3 or higher for most of the areas. While just over 10% organizations have reached this level, a lot of organizations have reached level 4 in one or more individual practices, as will be evident in the subsequent analysis. Organizations need to ensure uniformity and consistency of processes, technology and culture across all areas of risk management maturity.

Risk Identification Practices

Risk Identification skills, processes and practices are crucial for successful risk management effort. Mature organizations ensure wide and deep participation in Risk Identification endeavour. They deploy a combination of business knowledge, risk knowledge and context awareness to identify relevant risks in time. Ability to identify black swans and grey rhinos and treating them adequately plays a big role in sustained success of the organization.

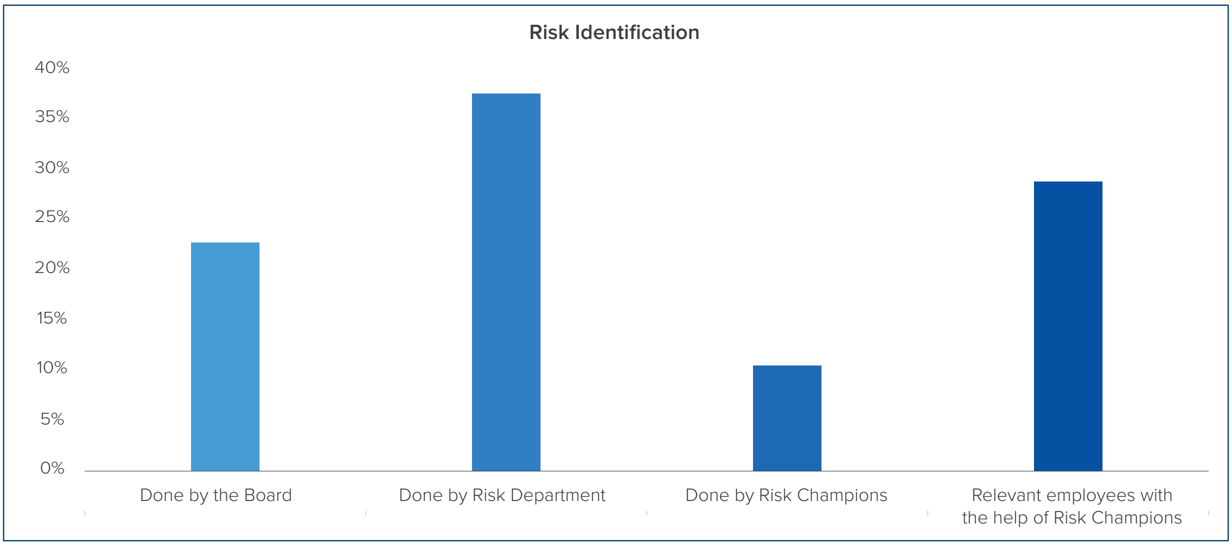


Figure 7.3. Risk identification practices shown by the respondent companies, in increasing order of maturity.

As per responses to the survey, about 40% organizations have a high maturity in this area with identification being done by relevant employees or by risk champions. However, around 60% respondents indicate risk identification being done either at the Board level or by the Risk Department.

It is interesting to note that smaller organizations show better response to this question. If we take organizations below Rs 10,000 Cr revenue, more than 30% companies respond to risk identification being done by relevant employees with the help of risk champions, which is a level identification being done by relevant employees with the help of risk champions, which is a level 4 practice. Amongst organizations with revenues above Rs 10,000 Cr, around 49% responses point to risk identification being done by Risk Department, which is a level 2 practice.

The overall results indicate a need for improving risk identification processes and skills across the organization.

Risk Management Processes

Properly designed processes, aligned with organizational goals and context, supported by appropriate information systems and leadership at all levels is the backbone of a successful risk management effort. The processes must be ingrained into the organization at all levels – possibly becoming components of all business processes. Apart from process definition, implementation of the processes is even more important and so is a continuous improvement cycle.

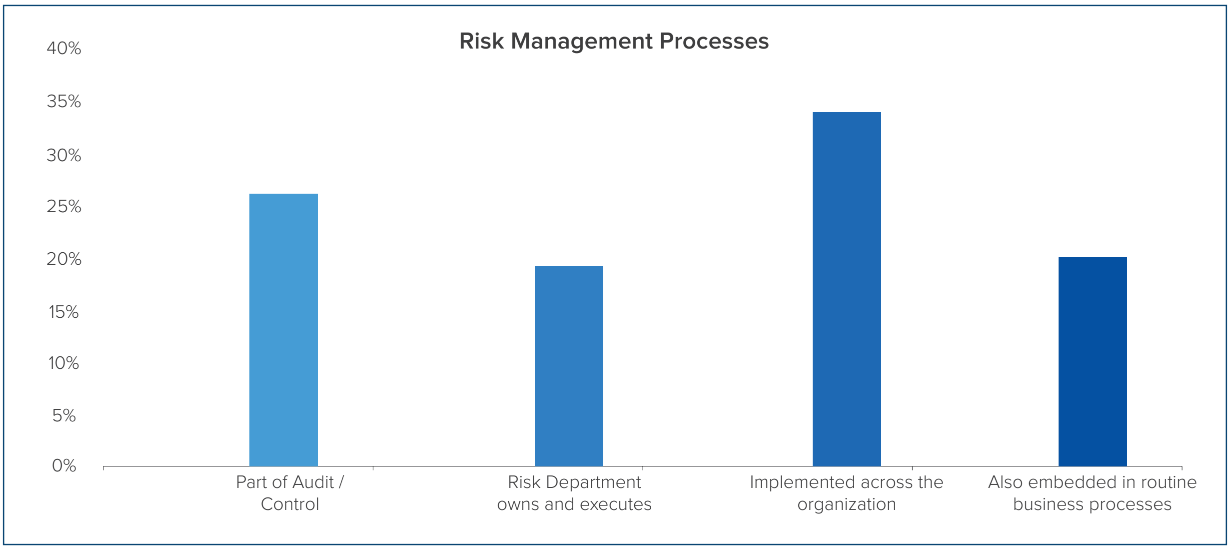


Figure 7.4. Risk Management Processes adapted by the respondent companies, in increasing order of maturity.

About 54% companies have a higher maturity in this area with risk management process either being implemented across the organization or it being embedded in routine business. However, there are 46% organizations who have restricted Risk Management process to Audit / Control / Risk Department. Larger organizations have shown higher maturity in this area.

Risk Management Information:

High quality information is the lifeblood of any system and Risk Management is no exception. There needs to be a clear understanding of what information is needed, when, by whom and at what accuracy. This then needs to be implemented across the organization to ensure that the right people get the right information at the right time. In the digital world, real time online information with ease of access to all relevant stakeholders is the need of the hour.

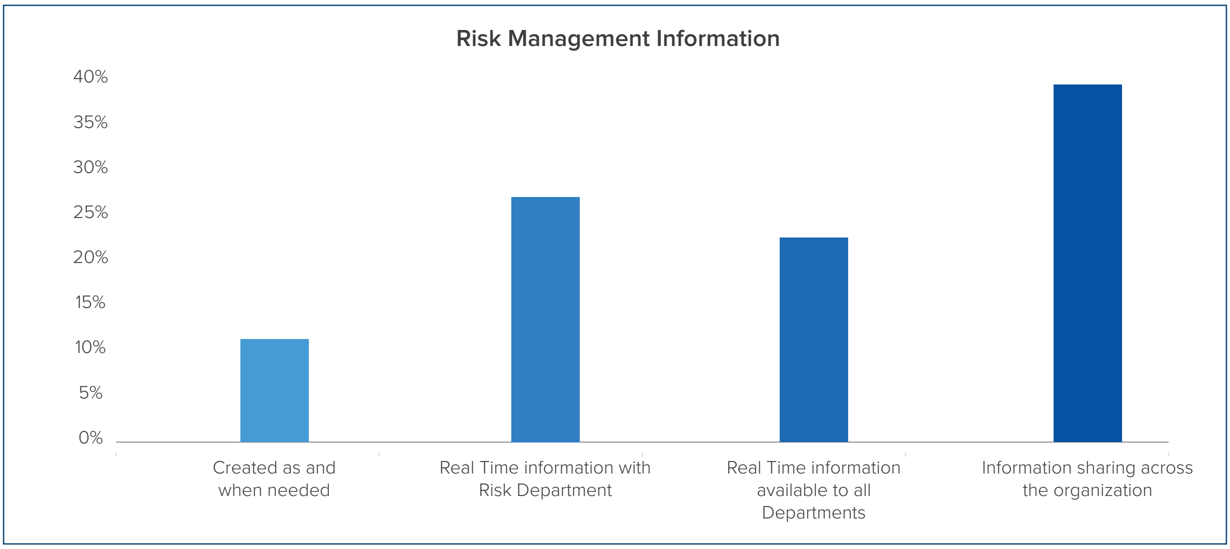


Figure 7.5. Risk Management information preference, by the respondent companies in increasing order of maturity.

More than 60% respondents have shown higher levels of maturity with either real time information being available to all departments or sharing of information across the organization. This would indicate the status of defining which information is useful, capturing the information and then analysing and sharing it across the organization so that people have access to relevant real time information.

In this area as well, companies with subsidiaries overseas have slightly high maturity, with about 50% of responses pointing to Level 4- or Information sharing across the organization.

Talent for Risk Management

Availability of Risk skills across the organization is essential for establishing and executing the processes in the right spirit. Investing in the right level of skills for Risk Management department is the starting point. Risk skills need to be available right from the board level to the front-line staff. Best way to do this is to make sure risk skills are covered in every job description and are diligently used while recruiting, training and promoting people across the organization.

Figure 7.6. Talent for Risk Management, as defined by the respondent companies, in increasing order of maturity.

About 55% responses show higher levels of maturity with talent requirements defined across all departments and risk skills being part of job descriptions. About 45% respondents have a tactical approach towards Risk talent. In organizations with revenues over Rs 10,000 Cr, around 35% responses point to risk skills being part of job descriptions which is the highest maturity level.

Risk Attitude:

Apart from the tangible characteristics like skills, processes and technology, culture plays an important role in successful management of risks. Attitudes of people influence their behaviours and behaviours influence the culture. Thus organization risk attitude is a good pointer towards the resultant culture.

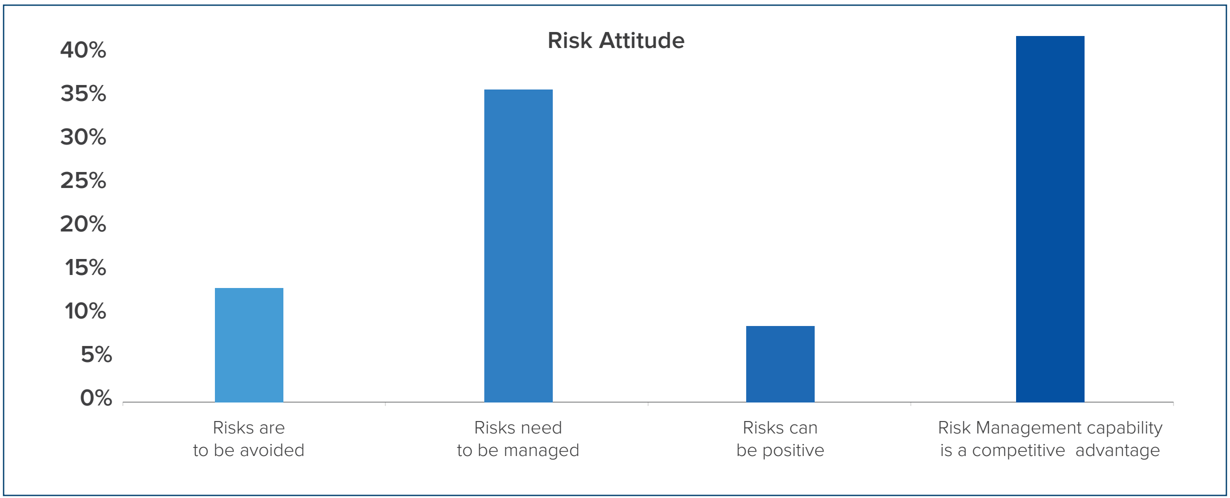


Figure 7.7. Risk Attitude of the respondent companies, in increasing order of maturity.

Over 50% responses show high maturity levels in this area. Over 40% consider risk management capability to be competitive advantage, the highest maturity for Risk Attitude. On the other hand, around 49% respondents consider risk as something negative, only to be avoided or just to be managed. Improvement of Risk Attitude is a crucial exercise that has to begin at the top.

Improving Risk Management Maturity

Highest number of respondents chose improving Risk Identification skills among employees as an investment area. Effective Risk Identification requires not only a 360-degree view of business and context but also creativity, teamwork and a proper culture that encourages flow of risk information.

The next largest improvement area is risk management processes and consistency across the organization. This is extremely important as a risk may involve multiple business processes across multiple departments. Inconsistent risk process definitions or implementation could result in increasing the risk severity and probability.

Risk Technology plays an important part. In today's digital world appropriate technology can be deployed not just in managing risk information in the organization but also in risk identification and controls design.

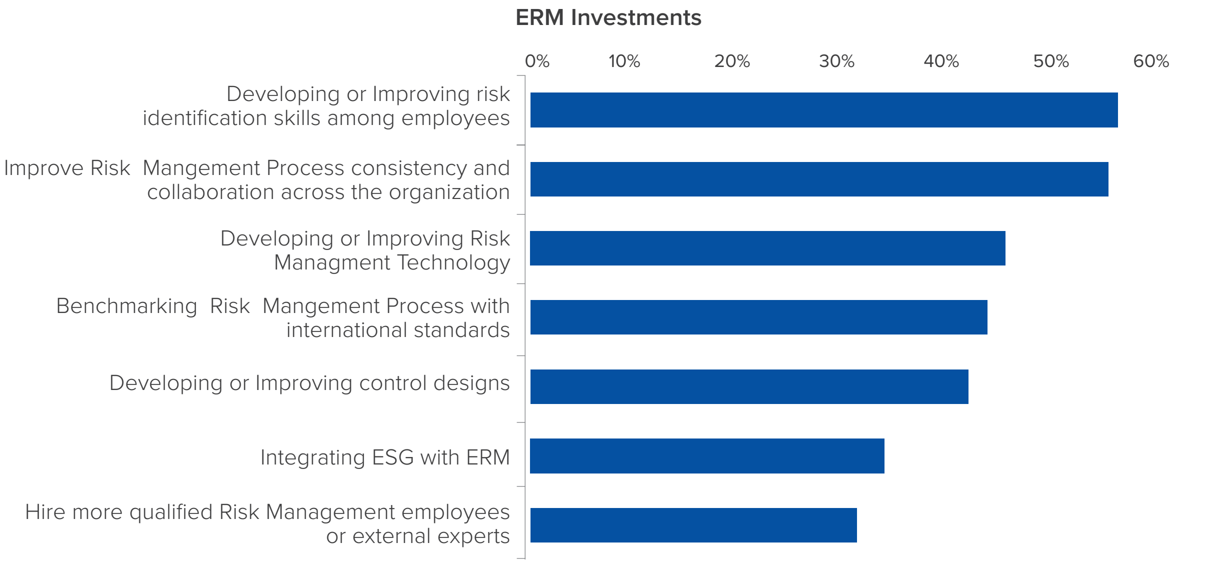


Figure 7.8. ERM Investments made by the respondent companies, in increasing order of maturity.

Around 43% percentage of respondents intend to benchmark their ERM Practices against international standards. This goes up to 50% if we focus on organizations with subsidiaries outside India. Over 33% organizations plan on integrating ERM with ESG (Environment, Social and Governance) efforts – which will help organizations have a unified and consistent approach towards all risks. This goes up to 45% if we focus on organizations with subsidiaries overseas.

Factors enhancing the risk performance

While a higher risk management maturity builds the organization capability, there are several other factors which help in sustaining the maturity and translating the capability to performance. These factors are:

> Effective Risk Identification requires not only a 360-degree view of business and context but also creativity, teamwork and a proper culture that encourages flow of risk information.

Risk Management Standards Used

ISO 31000 – 2018 and COSO-2017 Risk Management Standards provide a basis for establishing risk management practices in an organization. These standards cover the entire business cycle – from strategy to execution and the entire risk management cycle within the business cycle. Following a standard would ensure a robust risk management system covering all areas. These standards are also updated from time to time – and keeping in line with the updated standards is the easiest way to keep the risk management processes relevant.

Over 57% responses indicate that risk management processes are not based on any specific standard like ISO 31000 or COSO 2017. This goes down to 33% if we consider organizations which are subsidiaries of overseas companies or which have JV's overseas.

Organizations which do not use a standard for their Risk Management system may miss out on crucial aspects of risk management process or its implementation.

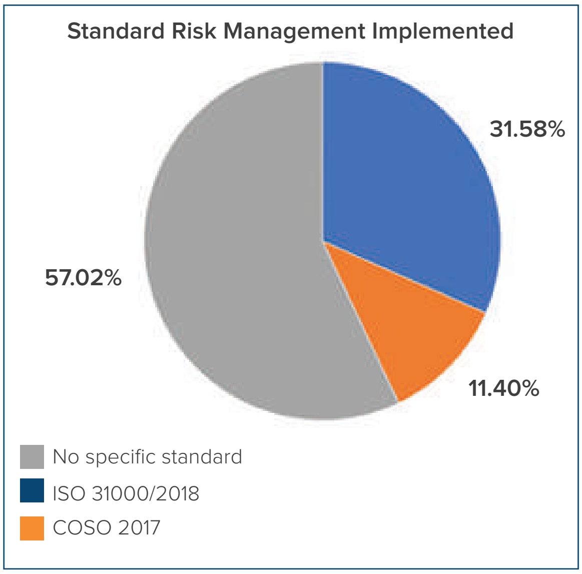


Figure 7.9. A chart showing implementation of standard risk management practice.

Independence of Risk Management Function

Another interesting question is regarding independence of Risk Management function. Risk Management function needs to be able to participate and raise risk issues across all areas of an organization. At the same time, they need to be able to involve all areas in identification, evaluation and mitigation of risks. For the Risk Management function to perform their role effectively, they need to be – and also be seen as – an independent function.

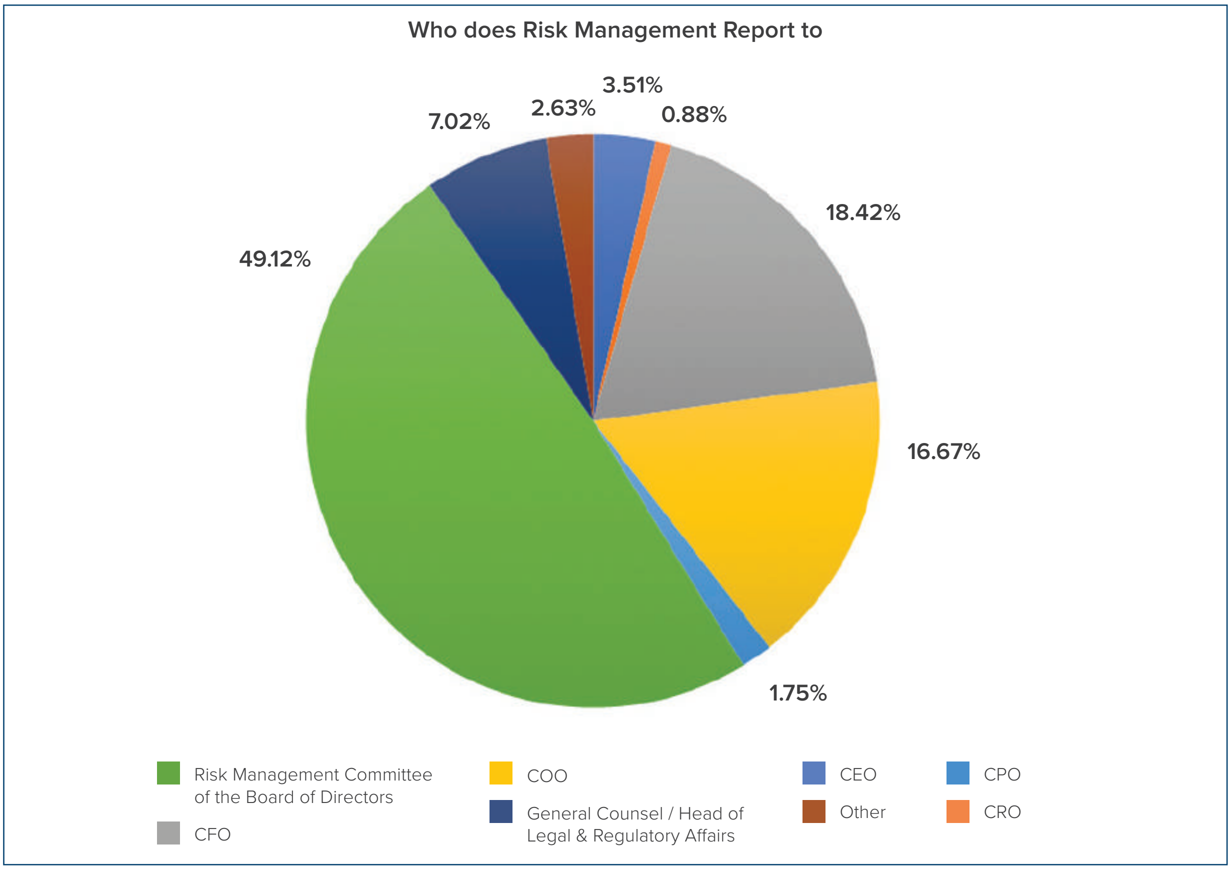


Figure 7.10. A pie chart depicting risk management reporting at organisational level.

The question has resulted in wide range of answers. Only 3.5% respondents have their risk function reporting to the CEO. A small fraction has chosen CRO, with the moot question being who does the CRO report to. Around 35% respondents indicate risk management function reporting into COO or CFO, thereby diluting the independence of the function. However, around 49% response indicate "Reporting to Risk Management Committee", implying a high level of independence of risk management function.

Risk Preparedness: Capabilities and Investments

This part of the survey focuses on how well prepared organizations are to manage the risks. For each risk we asked respondents whether they

– have a strategy to manage it
– have invested in managing the risk
– have inhouse expertise in the field
– are looking for external expertise

The table below shows risk preparedness for various risks listed as per their short term ranking.

Risk	Have a strategy	Have invested in	Have Inhouse expertise	Prepared in all three aspects	Looking for external expertise
Cybersecurity Risks	47%	56%	54%	33%	35%
Macroeconomic; e.g. Inflation / Interest / Exchange Rates	42%	31%	36%	18%	20%
Business Interruption	55%	48%	53%	29%	20%
Technology	39%	54%	46%	26%	25%
Legal / Regulatory Risks	42%	43%	53%	26%	25%
Climate change / Natural Disasters	30%	29%	21%	14%	33%
Funding / Investment Risks	40%	32%	45%	16%	11%
Talent	32%	34%	36%	19%	6%
Civil Strife / Geopolitical issues	18%	14%	12%	9%	25%
Pandemics	25%	14%	16%	9%	17%
Fire Hazard	35%	32%	29%	18%	9%

Table 7.11. The table depicts short term risk preparedness for listed risks.

Organizations need to take a wholistic approach towards preparing for risks – have a strategy that is aligned to the business goal and environment, ensure availability of expertise and invest in identifying risks and putting mitigation measures in place.

When we look at intent to engage external expertise, Cyber Security ranks first which is in line with the top rank of cyber security in risk rankings as well as increasing complexity of the subject. The next target for external expert engagement is Climate Change, which indicates increasing awareness of climate risks and will get translated into action in the near future.

... make sure risk skills are covered in every job description and are diligently used while recruiting, training and promoting people across the organization.

8. RISK MANAGEMENT AND INSURANCE

Risk Insurance Survey

What kind of risk management solutions do organizations deploy

Respondents were asked to select which risk management solutions they deploy for various risks: options being None, Non-insurance, Insurance, Both. This question attempted to find out how industry combines insurance and non-insurance solutions for managing specific risks. The results are shown in table below.

	Solutions			
Risks	Insurance	Non-Insurance	Both	None
Business Interruption	24%	6%	51%	19%
Legal / Regulatory Risks	14%	16%	43%	27%
Technology	10%	17%	38%	36%
Talent	6%	33%	19%	41%
Cybersecurity Risks	14%	10%	48%	28%
Climate Change / Natural Disasters	20%	13%	32%	34%
Civil Strife / Geopolitical Issues	15%	16%	32%	38%
Fire Hazard	32%	0%	44%	25%
Pandemics	13%	12%	36%	39%

Figure 8.1: The table depicts the insurable and non insurable solutions deployed to manage the risks.

The response to the opted insurable and non-insurable risk solutions of the respondents, are indicated below:

- Organizations need to start planning and implementing proper solutions and programs in to manage Talent, Civil Strife, Technology and Pandemic risks.
- Organizations need to evaluate use of Insurance as a solution to manage a wide range of risks

> **Organizations need to evaluate use of Insurance as a solution to manage a wide range of risks.**

Decision factors for Insurance Solution

Respondents were asked on relative importance of factors which lead to selection of Insurance as a solution (multiple answers were allowed). The responses are shown in Figure 8.2.

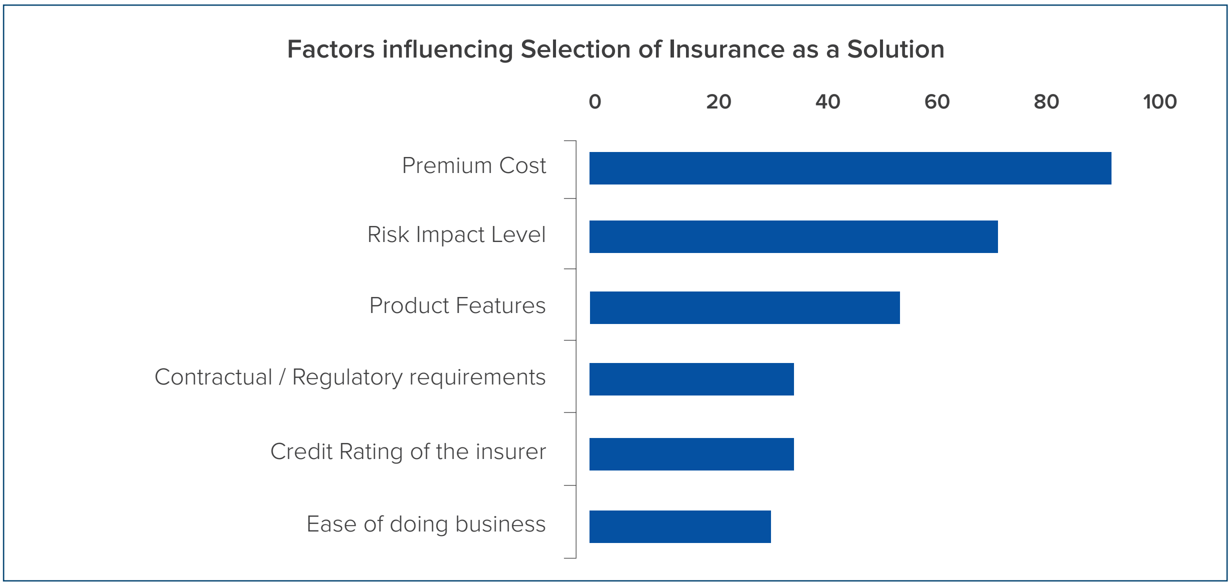


Figure 8.2: Depicts the factors influencing selection of Insurance as a solution

Insurance solutions are considered only when Risk Impact levels are assessed to be High. For such risks, Premium Cost seems to the factor with the highest weight in selecting the Insurance solution, followed by the product features and other factors.

Measuring Total Cost of Insuring Risk

The Total Cost of Insuring Risk (TCOIR) is defined as sum of internal and external costs of managing risk, cost of retaining risk and cost of transferring the risk. We asked respondents whether they were measuring costs of insuring risks and if yes which parts they were measuring (multiple answers were allowed).

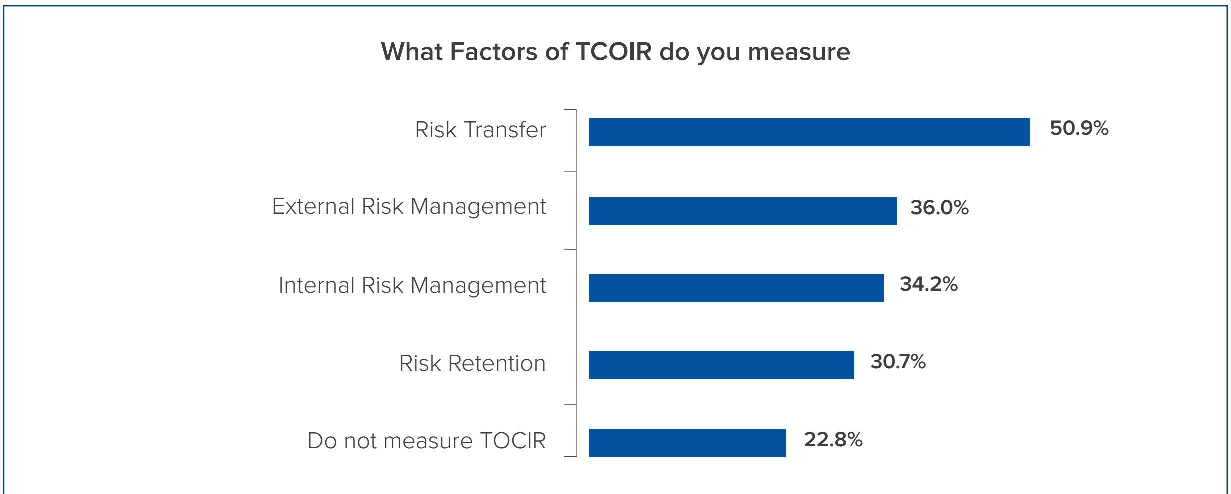


Figure 8.3. Figure depicting top parameters factored in while measuring total cost of insuring risks.

Maximum number of respondents, over 50%, measure the costs of Risk Transfer which would be cost of premiums paid and costs related to managing insurance process. Just over 30% measure cost of risk retention.

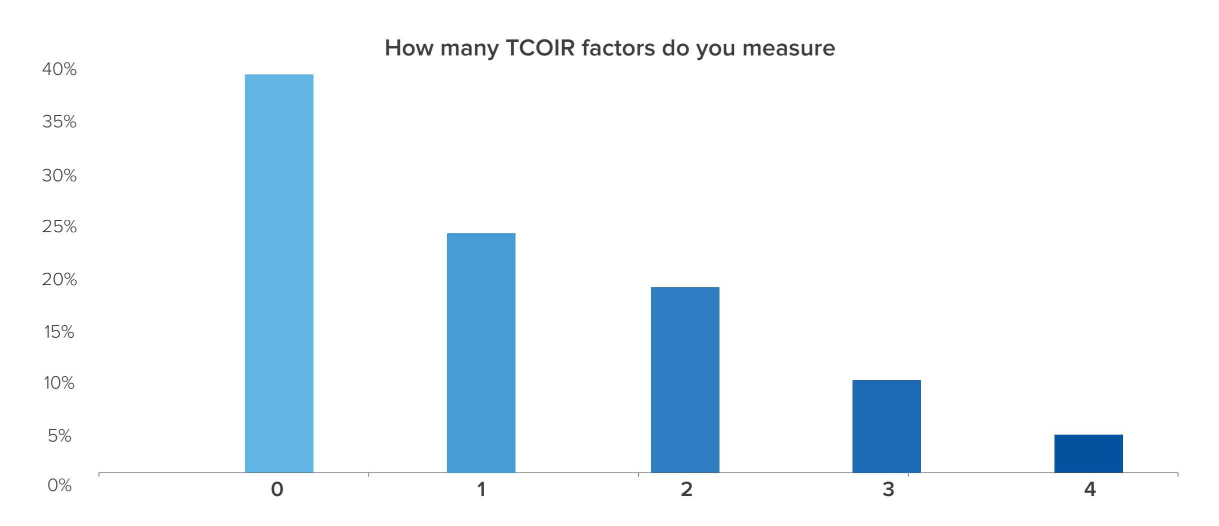


Figure 8.4.Figure depicts the total number of parameters evaluated while measuring the cost of insuring the risk.

On the other hand, we also tried to find out how many parameters related to Total Cost Of Insuring Risk (TCOIR) are measured – it turns out that roughly 40% do not measure any factor at all whereas just about 6% measure all four parameters. This indicates that the processes and practices related to managing risks using Insurance products need to improve.

Additional Services

Respondents' preference for additional services they expect from Insurance providers (multiple answers were allowed), is given in figure 8.5.

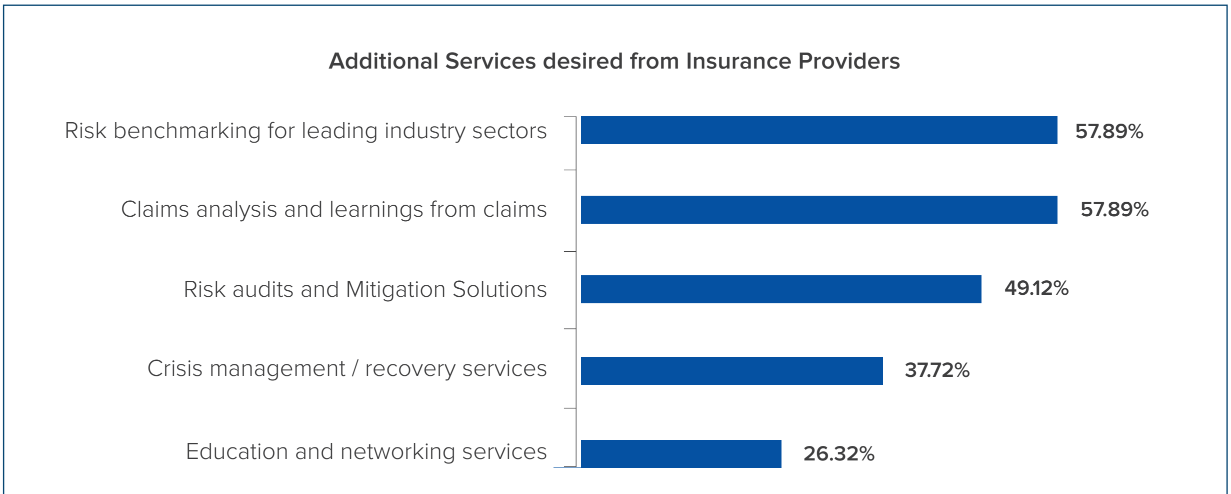


Figure 8.5.: Depicts the top additional services expected from insurance providers by the survey respondents.

Largest number of respondents were desirous of benchmarking their Risk Management practices and in getting insights from analysis of claims. These would help organizations improve their Risk Management practices in a focused way and improve their Insurance outcomes thru better claims settlement results.

Risk Audits and mitigation Solutions would help companies find out their areas of improvements both in processes as well as in Risk Mitigation solutions. Managing Crises and recovering from them are also quite popular demands.

Improvements expected from Insurance Providers

The final set of questions asked respondents what improvements they would like to see from their insurance providers in terms of products and experiences.

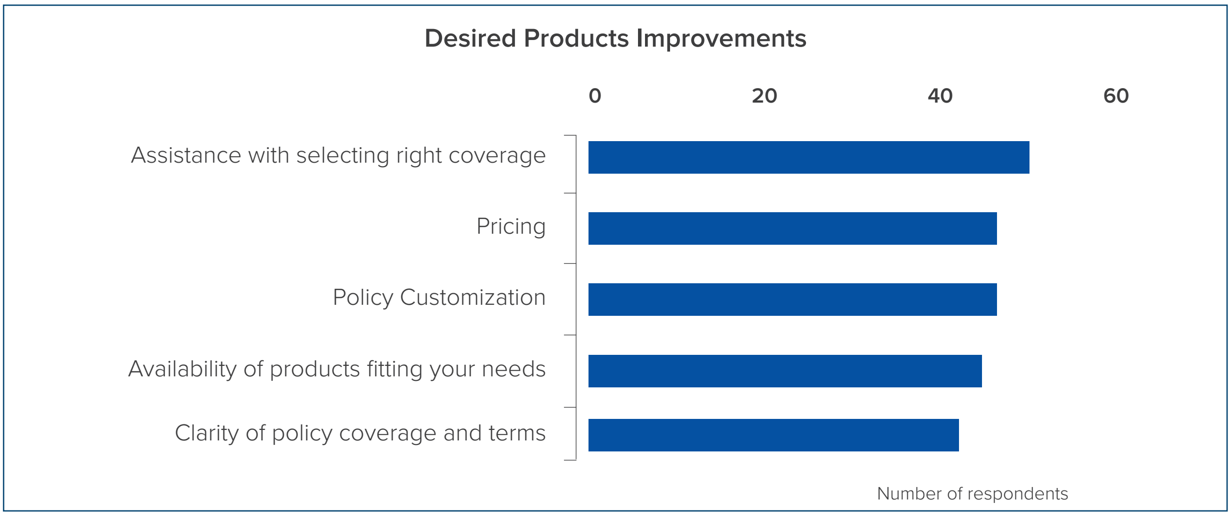


Figure 8.6.: Table charting out the desired improvements in the Insurance products.

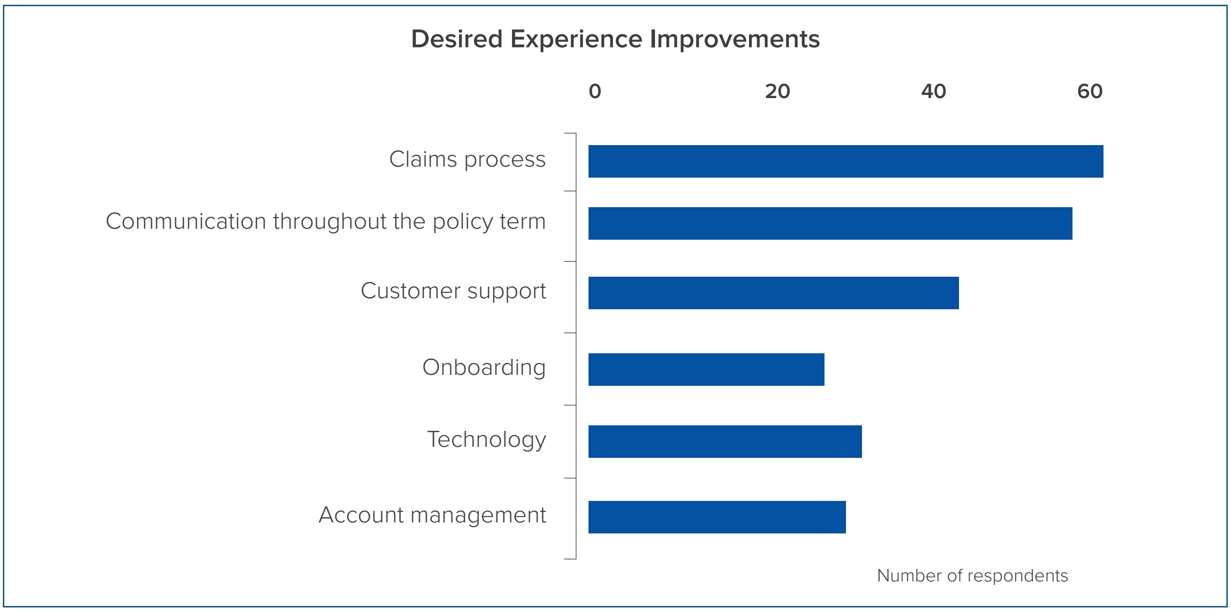


Figure 8.7.: Table charting out the desired improvements in the Insurance products.

While respondents vote almost equally for all product areas to be improved, the largest number of votes go to improvements in Claims Process when talking about overall experience. The next rank goes to the desire for communication throughout the policy term. In a matching comment, Claims experts also say that “constant communication during the claim process – starting right at the moment when a loss has occurred, will ensure smooth claim settlement”.

An analysis of publicly available claims data

Analysis of insurance claims filed by businesses over the years helps us analyse on how risk profiles have changed during that period.

We have based our analysis on NL-37 (Claims Data) forms filed by general insurance companies with Insurance Regulatory and Development Authority of India (IRDAI).

To create an industry-wide report that accurately reflects the changing insurance landscape for businesses, we have gathered the data of top 13 insurance companies and focused on only 4 commercial line insurance products sold to businesses. Out of the 19 different categories listed in the NL5 and NL37 forms, we have selected 4 insurance categories for this analysis as can be seen in Table 1.

Table below provides an overview of the total **number of claims settled by top 13 insurance companies,** for these 4 categories over the last 5 years.

Sum of Number of Claims Settled							
	FY2018-19	FY2019-20	FY2020	FY2021	FY2022	FY2023	Grand Total
Engineering	57,059	72,371	86,081	81,704	65,379	53,670	4,16,264
Fire	45,337	61,303	59,351	85,779	64,502	54,575	3,70,847
Liability*#	13,755	15,157	14,053	11,895	19,493	18,632	92,985
Marine Cargo	2,31,981	2,83,903	2,36,349	2,24,411	2,91,698	3,35,865	16,04,207
Grand Total	**3,48,132**	**4,32,734**	**3,95,834**	**4,03,789**	**4,41,072**	**4,62,742**	**24,84,303**

Table 8.7: Overview of number of claims settled for four commercial line insurance products of Top 13 companies.

*Liability category calculation includes Workmen's compensation/Employer's liability and Public/Product Liability claims.

#Liability as a category was dropped after FY 2021 in the reporting format and Public/Product Liability was introduced. Public/Product Liability heading along with other items were reported seperately from FY 2022 onwards.

Source: NL-37 uploaded by Top 13 General Insurance companies on their respective websites.

Fire Insurance

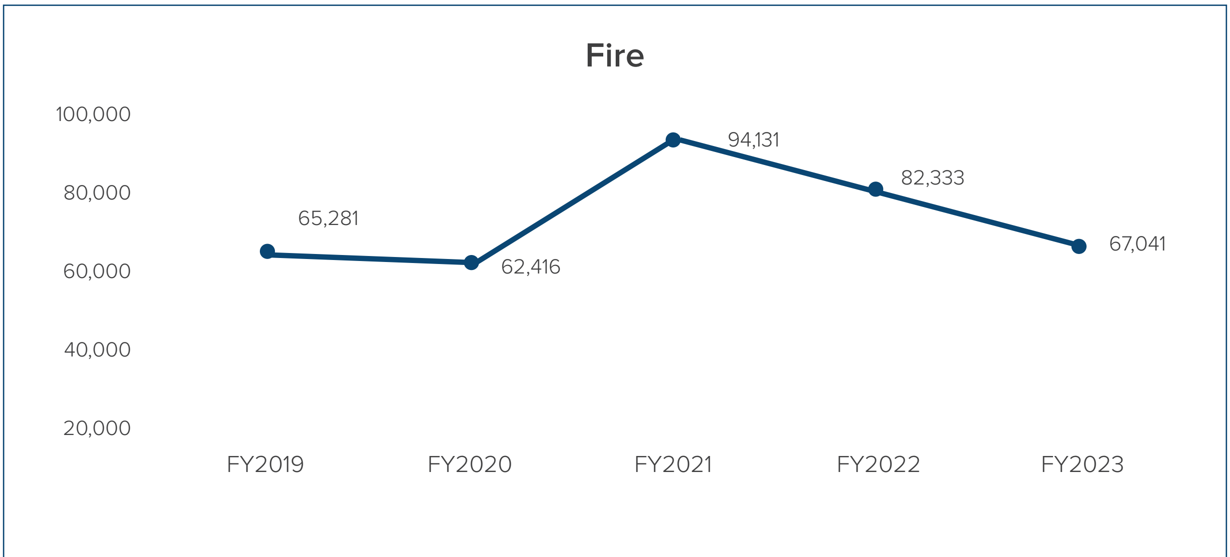


Figure 8.8: Trend line depicting total number of fire claims over last 5 years.
Source: NL-37 uploaded by Top 13 General Insurance companies on their respective websites, consolidated for Fire LOB.

Fire insurance claims saw an increase in the last few years. Through our conversation with industry experts, we understood that adverse effects of climate change have played a significant role in the escalation of fire insurance claims. Additionally, in 2022, the country experienced the highest number of heat wave days in a decade, with 280 heat wave days recorded across 16 states – the highest tally in 12 years. The combination of dry air and soaring temperatures created favourable conditions for the ignition and rapid spread of fires. The heightened frequency and intensity of heat waves significantly increased the vulnerability of various environments to fire outbreaks. This increased vulnerability to fire accidents necessitated greater reliance on fire insurance coverage and subsequent claims.

The increasing awareness also means that businesses are taking greater precautions against fire accidents. They are being assisted on this front by insurance companies who are able to provide them with inputs on how to minimise the chance of fire accidents and subsequent disruptions.

FROM THE DESK OF ICICI LOMBARD'S LIABILITY INSURANCE EXPERT

Ramneek Goyal
Vice President – Liability Underwriting & Claims

Trends in Liability Claims

Employment Practices Liability

Claims related to racial/gender discrimination and sexual harassment have been rising from 10% to 15% year over year. Such risk events are global in nature and involve legal and settlement costs. It has been observed that legal costs are far higher than the actual settlement costs, given that lawyer fees have seen a steep increase.

Commercial General Liability

This category has seen an increase in claims, most of which are connected to product recalls or flaws.

Directors and Officers Liability

The number of claims in this category has seen a downward trend. Also, given the fact that these events can impact corporate reputation, only "need to know" information is disclosed. In cases where settlement costs are low, companies often withdraw claim notices and handle settlements independently to reduce disclosures.

Technical Errors and Omissions Claims

E&O claims have recently seen an increasing trend. Earlier, the trend was that affected entities would notify potential disputes but would rarely file an actual claim. This is changing due to an increase in contract terminations on account of time, capability, and skill issues. While the frequency of claims is not high, the severity is. These can occasionally lead to class action lawsuits that, usually in the pharmaceutical industry, result in large settlements.

Other areas with increasing claims trends are Crime Policy focusing on –

- Employee fraud
- Social Engineering / Phishing
- Loss of Fee cover
- Copyright related policies

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

Marine Cargo Insurance

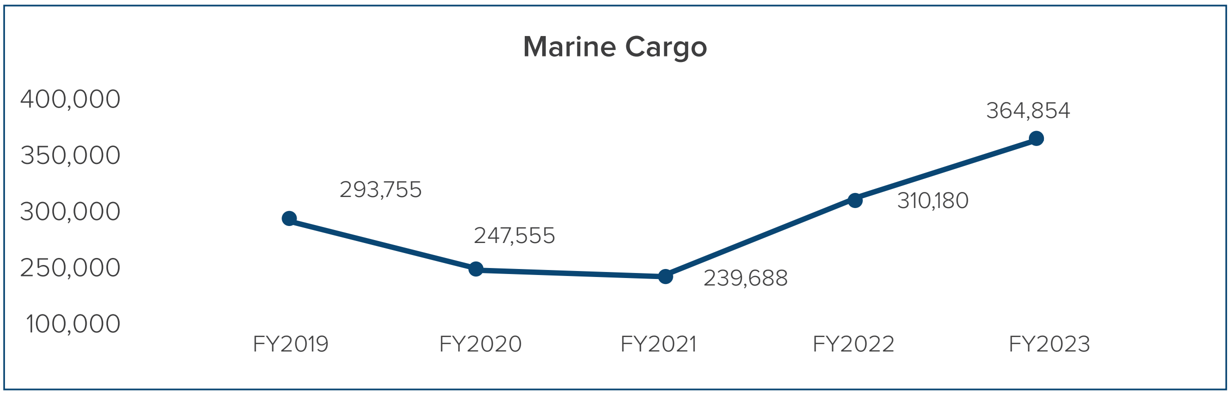


Figure 8.9: Trend line depicting total number of Marine cargo claims over last 5 years.
Source: NL-37 uploaded by Top 13 General Insurance companies on their respective websites, consolidated for Marine LOB.

The expansion of import-export activities in India, particularly with the increasing push of the Government of India to "Make in India", has seen an increase in the amount of cross-border trade of goods. This increased push to make India the manufacturing capital of the world had an impact on the marine cargo insurance as well.

ICICI LOMBARD EXPERT VIEW ON MARINE CLAIMS

Trends in Marine Claims

Marine Claims include claims from domestic and international transportation of cargo using multiple modes of transportation, such as trucks, railways, airlines, and ships.

Sujoy Maitra
Marine

Cause of Loss incidents

- Mishaps during loading/unloading
- Accidents during transportation
- Damage due to rains can be severe in case of cargo like cement or coal
- Theft
- Hijacking/Robberies
- Fire damage due to hazardous goods such as batteries
- Misplacement of packages / Cargo
- Catastrophic events and natural disasters

Major developments

- Consignment values are increasing; the same cargo has a higher value due to inflation
- Business mix change: due to e-commerce, all kinds of things are being shipped.

As a step to risk reduction, companies should

- Improve the risk management process for transportation using a multi-disciplinary team representing all stakeholders
- Selection of carriers based on the needs, carriers' capabilities, and track record
- Proper packaging design
- Due diligence in loading and unloading processes and sites
- Safeguard proper driver verification in the case of truck transportation
- Ensure proper fixtures, safety harnesses, and devices depending on the consignment.

For detailed information, please reach out to us at sujoy.maitra@icicilombard.com

Furthermore, the expansion of India's e-commerce sector has significantly contributed to the increased demand for marine cargo insurance across all modes of transportation. According to a Statista report, the country boasted 185 million online consumers in 2021, a number projected to soar to 425 million by 2027. With an average of 10 orders placed per client annually, the e-commerce sector has emerged as a key driver of import and export activities. E-commerce platforms heavily rely on the efficient movement of goods not only through sea transportation but also through road, rail, and air transport. As a result, the need for comprehensive marine cargo insurance coverage extends to safeguarding cargo during transit across multiple modes of transportation.

Engineering Insurance

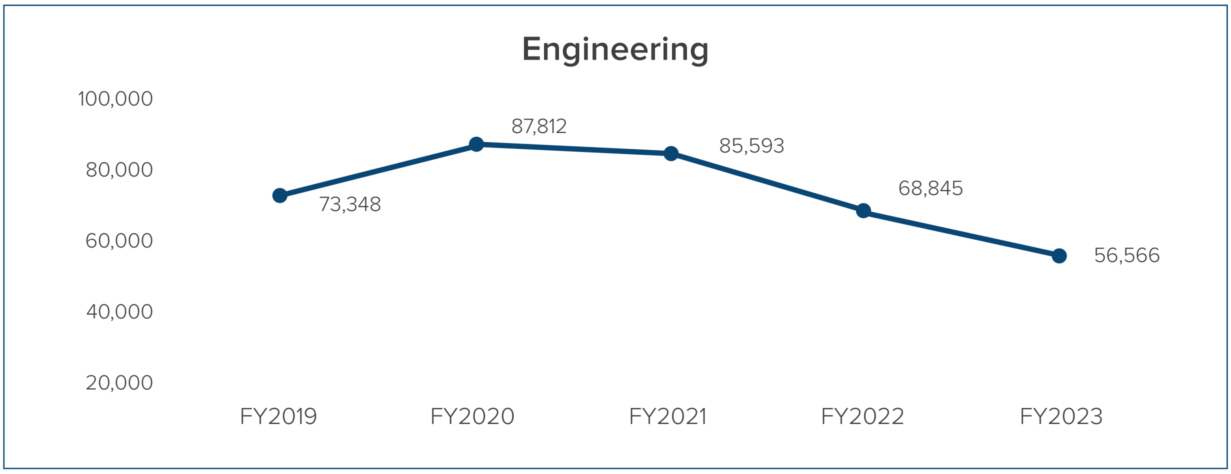


Figure 8.10.: Trend line depicting total number of Engineering claims over last 5 years.

Source: NL-37 uploaded by Top 13 General Insurance companies on their respective websites, consolidated for Engineering LOB.

The Indian government has placed a high priority on enhancing the nation's infrastructure to better serve its burgeoning economy and it aspires for India to become a fully developed nation by 2047. With a firm commitment to propel the country's growth trajectory, the Indian government has identified a range of upcoming infrastructure projects deemed critical to the nation's advancement.

The focus of the government on Infrastructure has led to good growth in engineering line of business, we have seen multiple projects on roads, railways electrification green energy as well as irrigation and water pipeline projects. Corporate India has started to focus on manufacturing capacity expansion, we are seeing investment happening in energy, steel and cement sectors. The landscape of large engineering and construction projects has undergone a remarkable metamorphosis in recent years, leading to unprecedented scale, higher values, and increased complexity. These endeavours have evolved to become colossal undertakings, often entailing immense financial investments, with the largest ventures valued in the tens of billions of rupees. The timelines for these projects have expanded substantially, spanning not just years but sometimes even decades. Moreover, the incorporation of advanced technology and sophisticated machinery in factories and offices has led to a substantial increase in the monetary value per square meter of these sites.Consequently, the sums insured for these projects have also witnessed a significant increase, reflecting the heightened value and scale of modern construction sites. As a direct consequence, any potential loss incurred during the project's lifecycle is now much more likely to have a larger and more substantial impact, underscoring the critical importance of comprehensive risk management and insurance coverage to safeguard against potential financial setbacks.

The above analyses has shown that there has been an increase in awareness amongst customers about several of the insurance products to cover their risks. It can be seen that government programmes and policies have a significant impact on the insurance sector.

Similarly, the "Make in India" policy meant that there is an increase in trade value which is being reflected in the marine cargo insurance.

Finally, the Government's push to improve infrastructure also meant that there is a corresponding increase in the Engineering insurance products used by businesses.

APPENDIX I: SURVEY METHODOLOGY

Methodology and Statistics

Basis of the report is a survey of senior industry representatives seeking responses to 28 questions spread across 4 sections:

- Section 1 Demographics : 6 questions
- Section 2 Top Risks : 7 questions
- Section 3 Enterprise Risk Management Practices : 9 questions
- Section 4 Risk Management and Insurance : 6 questions

The survey was launched in May 2023 and responses collected by June 2023.

Analysis and interpretation of the survey data was further enhanced by using inputs from multiple sources such as:

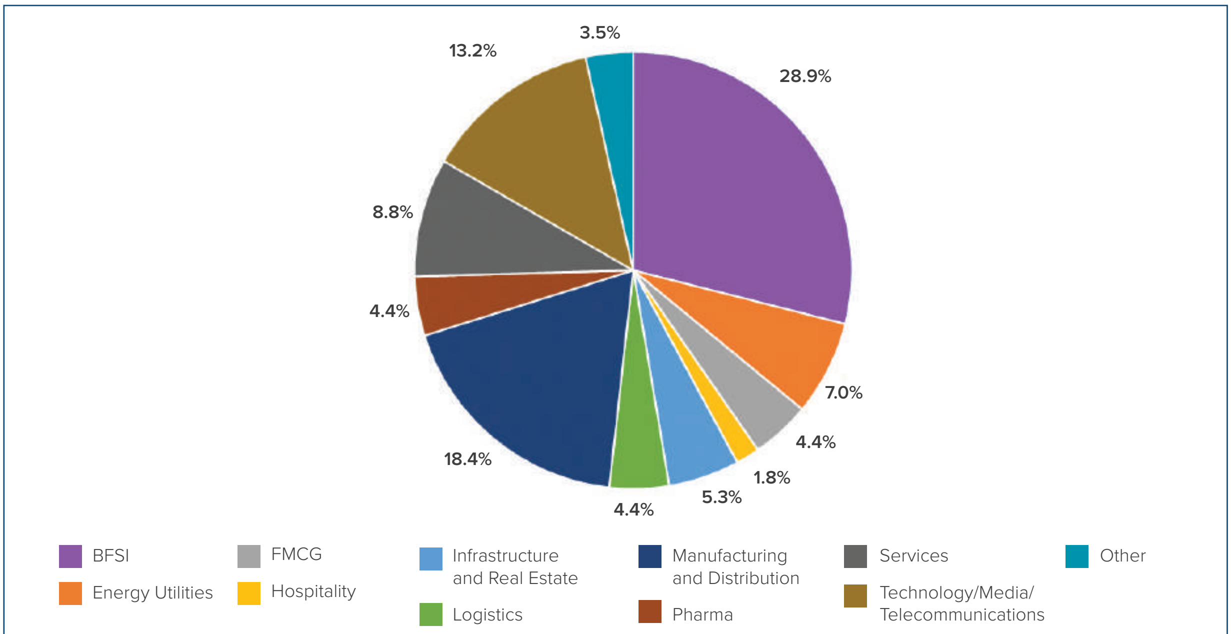
- Claims reports filed by Insurance companies with IRDAI
- Risks Reports from sources like World Economic Forum, RBI Systemic Survey, Eurasia Group
- Study of risks declared by 20 global companies across industry sectors in their annual reports or Form-10K filings as required by US SEC
- Study of risks declared by 20 Indian companies across sectors in their annual reports

Inputs on contemporary Indian scenarios were obtained as expert views from Industry Risk Experts and Claims/Underwriting Experts of ICICI Lombard.

Participant Demographics

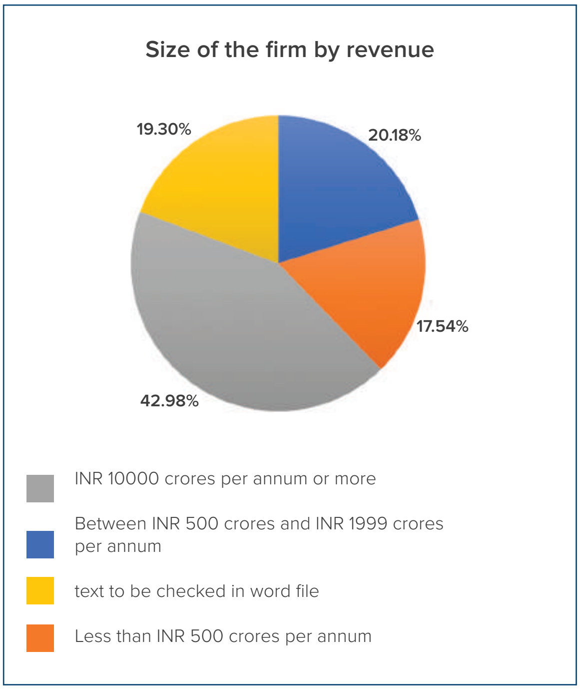
The important demographic factors from the point of view of risk are the respondent's industry, the revenue size of the entity, the age of the entity and the geographical spread of the entity.

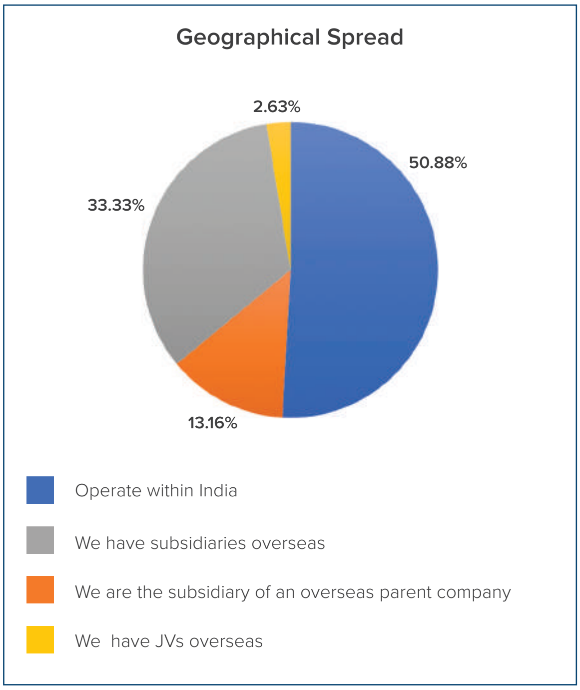
Our respondent profile includes a diverse industry sector representation with major number of respondents coming from BFSI, Manufacturing and Distribution, Technology Media and Telecom, Services, and Energy and Utilities and Pharma sectors.



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.

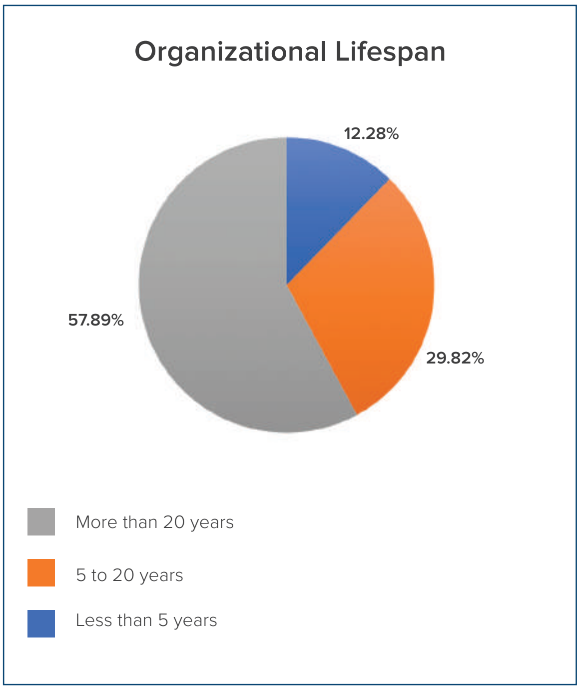
In terms of geographical spread, just over 50% companies operate only within India. About 33% respondents have subsidiaries overseas and 13% organizations are subsidiaries of overseas companies. Just over 2% respondents have JV's overseas.

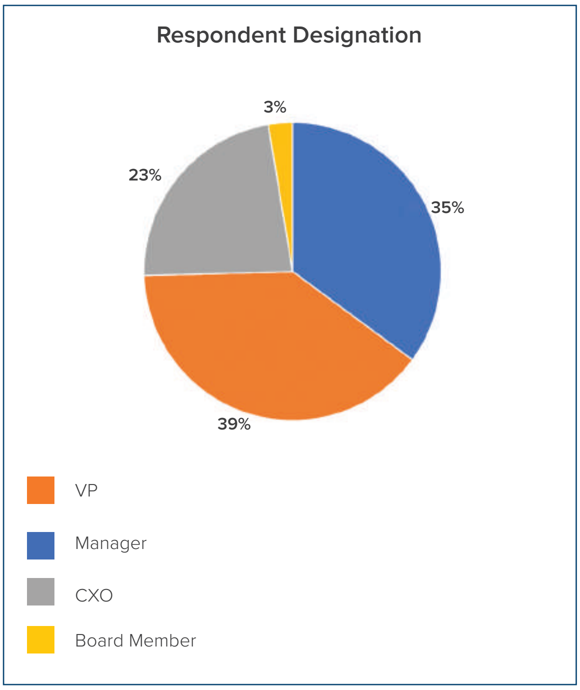




In terms of organizational lifespan, more than 57% companies are more than 20 years old and just over 12% are less than 5 years old.

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





APPENDIX II: REFERENCES

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The India Risk Report 2023 serves as an inclusive assessment of business risks, risk management practices, and risk management culture in India Inc. in the context of evolving opportunities and various economic, political, social, and environmental challenges faced by the nation and the globe. This report offers insights into key risks and India Inc.'s risk preparedness, creating a compass for businesses to chart out their own risk maturity journeys.

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