

State of Risk Management in India Executive Summary

The corporate risk management landscape is evolving in India. With growing acceptance from senior management, the risk function is moving closer to the boardroom. Risk management teams are now expected to take on a greater role not only in terms of leading risk governance and compliance, but also in actively influencing strategic growth decisions by addressing new and emerging risks. Risk management in India is at a turning point where risk managers are constantly looking at avenues to expand their knowledge base, hone their skillsets, and gain access to best practices, tools, and technology.

At this unique juncture, Marsh and RIMS, the risk management society™ have collaborated to produce this joint study which sheds light on the maturity of risk management functions in corporate India. This study addresses the following areas of interest:

- What are the top risks that Indian corporates face?
- How mature is risk management in organizations?
- What are the key areas of risk management that require improvement?
- What are the risks in adopting emerging technologies?

Below we present the findings and analysis of the State of Risk Management survey in India based on 123 responses

from C-suite executives and senior risk professionals from companies spanning 19 industries to an online survey conducted by Marsh and RIMS in September 2018. To address any potential biases, we have supplemented the survey findings with expert input from Marsh & McLennan Companies (MMC) and RIMS.

Top Risk Concerns in India

India faces an increasingly diverse and rapidly evolving risk landscape. The interconnected dynamics of geopolitics, technological advances, global economic integration, social instability, and climate change mean that the manifestation of one risk is increasingly likely to influence others.



Business Critical Risks

The study revealed a shift in focus towards the emerging digital and environmental risks. The critical risk areas faced by organizations were classified into three categories:

- **Contemporary Risks**
Risks which are already of significant concern to organizations
- **Imminent Risks**
Risks which are likely to be of significant concern to organizations in the next one to three years
- **Risks on the Horizon**
Risks which are likely to be of significant concern for organizations in more than three years

The most cited risks by the respondents in each category varied greatly however most organizations recognized the relevance of these risk concerns and their interconnectivity vis-à-vis the present scenario

- Among contemporary risks, 63% of respondents recognized severe energy price shocks as the biggest contemporary risk concern faced by their organization. The volatility in oil prices and India's reliance on imported oil has affected the country's industries. 55% of the respondents cited extreme weather events as a significant risk area.
- With regard to imminent risks, most respondents recognized the risks due to economic and political instability as well as emerging risks due to increasing digitization. As many as 54% of respondents cited that the risk of asset bubbles in the economy as an increasingly significant source of concern in the coming three years. Cybersecurity risks are also seen as imminent threats where 46% and 43% of respondents chose cyber-attacks and data theft respectively. The study further highlights the growing importance of these two risks in India citing recent cybersecurity breaches and the impact of data theft due to growing reliance on digital transactions.
- Risks on the Horizon comprise of concerns which have the potential to have a considerable impact on organizations in the future, however, due to the complex nature of these risks, it is difficult to predict the likely timeframe or the degree of impact in the present context. Social instability was cited by the highest number of respondents in this regard at 63%, followed by rapid and massive spread of infectious diseases at 59% and water crisis at 36%. The study looks at the impact that these risks have had in the past on organizations operating in India and on individuals with regard to the threat of a pandemic as well as depletion of water resources on the growing population.

Challenges in Risk Forecasting

The study emphasizes on the importance of risk identification and forecasting so that companies are able to address emerging risks. It enumerates the key requirements for developing a resilient risk identification process in the light of the changing nature of business and the increasing interlinkages between external and internal business functions.

On the difficulty in forecasting of risks in the present scenario versus three years ago, 43% of respondents found forecasting of risks more challenging today rather than three years ago and 28% of the respondents believed the same would become increasingly difficult in the future. The study draws a parallel with a similar survey conducted among respondents in the United States wherein 32% of the respondents similarly found the forecasting of risks to be more difficult at the time of the survey in 2016 compared to before, however, only 8% of the respondents expected the forecasting of risks to be more difficult in the future.

State of Risk Management in India

The study seeks to understand the level of maturity of the risk management function in Indian organizations by looking at how well Indian corporates identify, assess, communicate and handle risk.

Information on Emerging Risks Disseminated from the Top

Recognizing the importance of communication and identification of emerging risks, the study captures what the respondents rely on for information on emerging risks. The dissemination of information on risk concerns for organizations is observed to be contrasting in India compared to the United States. In India, 58% respondents chose to rely on information from senior leaders while in the US survey, 67% of the

respondents relied on news and industry publications to gauge the impact that various business critical risks would have on the organization.

Furthermore, the study notes the difference in sources of information among the C-Suite executives and risk professionals. The study found that 55% C-Suite executives cited Internal and External Data as a reliable source of information while 41% indicated reliance on consultants and 32% on insurers. On the other hand, among risk professionals, it was noted that 62% risk professionals referred to their senior leaders followed by industry publications and news and analysing internal and external data which were favoured by 52% and 44% of risk professionals respectively.

Indian Corporates Need to Adopt More Advanced Modelling Tools

Given the growing importance of identifying emerging risks, the study looked at the maturity of the methods employed by organizations in modelling these concerns. It was observed that as many as 51% of respondents relied on historical claims data to predict the impact of future risk events. Furthermore 38% of respondents acknowledged the use of third parties for modelling emerging risks. The study notes that, with the increasing availability of sophisticated risk modelling tools and methods, organizations may need to adopt a more dynamic, multi-pronged approach to internally address the needs of the evolving business environment.

Organizational and Reporting Line Dynamics

The study looked at the communication between risk professionals and senior leaders and between risk-related functions to the head of risk management. Half of the risk professionals surveyed reported to their Chief Financial Officer or Treasurer, while 22% reported to a dedicated Chief Risk Officer. The study noted in further detail that 54% of respondents from the Banking and Financial Services industry

reported to a Chief Risk Officer followed by the 25% of Communications, Media and Technology industry respondents who followed the same. It was also observed that none of the respondents from pharmaceutical industry reported to a dedicated risk management leader.

Risk Management Effectiveness

The study looked at the confidence that the respondents had in the effectiveness of various key risk management related activities with further analysis on how various organizational functions were collaborating on risk management protocols and the performance standards used to determine effectiveness and organizational alignment.

- The survey found that significant improvement is required across all risk activities. On average, less than half of the respondents reported that their risk management activities are effective. In particular, areas like appropriating of resources to the risk function (35%) and planning for emerging risks (39%) need to be even more effective
- The study also captured how organizations measure the effectiveness of their risk management practices. 66% of the respondents cited timely risk identification, assessment and reporting followed by integration with operations and impact on strategy development and execution which were cited by 39% and 36% of the respondents respectively.

Priorities for Improving Risk Management Capabilities

For organizations to keep pace with the dynamic risk landscape they operate in, it is important for them to understand the challenges they face to identify the key focus areas needed to improve their risk management capabilities and to invest in them. 45% of the respondents named both, the inability to model the magnitude of risks and budget as barriers

which inhibit the organizations' ability to understand the impact of emerging risk on business strategies and decisions. Through a deeper analysis, it was noted that budgetary constraints were named as the top barrier by 41% of C-Suite Executives and 46% of risk professionals. The findings from the US 2017 survey and the Latin America 2018 survey, however, did not echo the same sentiment on the budget barrier.

The extent of regulation in an industry also affects the risk management focus areas for an organization. On most parameters, respondents from both regulated and lesser regulated industries laid similar emphasis. There was an increased emphasis on improving risk governance and formalizing risk management training across the organization from respondents from more regulated industries like energy, chemical/chemical manufacturing and financial institutions. The study acknowledged the importance of investing to improve their risk management capabilities in the coming years. 72% of respondents saw an increase in investment towards risk management training and 70% expected more investment in cyber risk management. 66% of respondents foresaw more investment towards additional lines of coverage and risk management of information systems.

In addition to potential areas of investment, integration of risk management with the strategy and values of the organization, risk management as a part of the day-to-day business of the organization and recurrent training and induction were named as strategies to advance risk management capabilities

Adoption of New Technology

With the advent of the disruption in the modern age, successful adoption of emerging technologies is an important aspect for risk managers who need to factor in the impact from these on various risk processes.

- The study found that only 15% of the respondents strongly agree that their organization has a clear process in place for addressing risks related to implementing emerging technology. On further analysis, it was observed that only 54% of the respondents from financial services have clear processes around the identification and addressal of potential risks from disruptive technologies. This percentage was even lower for manufacturing and retail/wholesale industry participants.
- With regard to disruptive technologies like the Internet of Things, Blockchain and Artificial Intelligence, while most respondents said that they were aware of these technologies but were not able to utilize it at a strategic level. Only a minority of respondents said that they could engage at a strategic advisor level regarding these technologies. The US Survey responses were a stark contrast to these with over 39% of respondents using these technologies as a part of their business strategy.

Recommendations

The study provides key takeaways for risk professionals to utilize opportunities to turn an efficient risk management framework into a competitive advantage.

- Clear understanding of C-suite expectations from the risk management function
- Active awareness of emerging risks and technologies
- Intra and inter organizational collaboration to develop strategic focus on emerging risks
- Investing in sophisticated risk management tools and capabilities
- Thorough consideration of the implications of new technologies on business functions
- Busting of organization silos to broaden understanding on potential risks.

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Marsh & McLennan Companies' Asia Pacific Risk Center addresses the major threats facing industries, governments, and societies in the Asia-Pacific region, and serves as the regional hub for our Global Risk Center. Our research staff in Singapore draws on the resources of Marsh, Guy Carpenter, Mercer, Oliver Wyman, and leading independent research partners around the world. We gather leaders from different sectors around critical challenges to stimulate new thinking and solutions vital to Asian markets. Our digital news service, BRINK Asia, keeps decision makers current on developing risk issues in the region. For more information, visit www.mmc.com/asia-pacific-risk-center.html or email the team at contactaprc@mmc.com.

About RIMS

RIMS, the society for risk management™, is a non-profit organization that represents more than 3,500 companies, government organizations, and NGOs around the world. Dedicated to the development of risk management for the success of organizations, RIMS offers networking, professional development, and educational opportunities for its members: more than 10,000 risk managers in more than 60 countries. For more information visit: www.rims.org.

In India, RIMS has been working with local risk practitioners since 2017 to engage, educate and advocate for Indian Risk Management professionals. The Society seeks to build an engaged community of risk professionals committed to sharing ideas, networking, and advancing the practice of risk management.

About this Report

This report is based on 123 responses to an online survey with C-suite executives and risk professionals from leading firms across 19 industries conducted by Marsh and RIMS in September 2018, along with expert input from MMC and RIMS.

We hope that in coming years, with the growing membership base of RIMS and the Marsh client base, we can further expand and deepen the findings of this survey.