A Bloomberg Professional Services Offering

In Flux: Navigating India's Changing Risk Landscape

Bloomberg Professional Services

Overview

Bloomberg

Contents

Foreword

The nature of risk has the potential to transform entire sectors quickly and unexpectedly. Working with leading Indian financial institutions and corporations, we understand the concerted effort that India's most effective banks, funds and companies put into risk awareness and preparation.

The consistent feedback that emerges from our discussions with Indian financial institutions and corporations is that as risks evolve, their impact becomes more profound, and that traditional mechanisms for mitigating risks are often lacking.

India's risk landscape is truly in a constant state of flux – and in a post-pandemic world, the nature of risk is more dynamic than ever before. While some traditional risks have abated or been factored into existing mitigation strategies within companies, we are seeing the evolution of new, unpredictable, and less quantifiable forms of risk.

In this report, we sought to take a closer look at the changing nature of risk, and explore the concept of Non-Linear Risk while gleaning insights from 300 leaders of Indian companies on what the present, and future of risk looks like to them.

At Bloomberg, we are uniquely placed to demystify the nature of this 'Non-Linear Risk' and the parameters that directly affect the business eco-system. We are committed to working with market participants – here in India and around the world – to proactively address emerging challenges, supporting our partners and customers with the latest risk management systems and solutions. Whether it's market, portfolio, counterparty, credit, climate or liquidity risk, Bloomberg seeks to help companies innovate, prepare and be able to act decisively under any circumstances.

Rajiv Mirwani
Head of Bloomberg South Asia

Executive summary

The world of business has evolved rapidly over the past decade, with advancements in technology, a new focus on environmental considerations and massive changes in consumer behavior, all against the backdrop of a rapidly globalizing world. With these developments come new risks that companies must mitigate to ensure long-term prosperity.

In this report, commissioned by Bloomberg exclusively for the Indian market, we seek to understand the types of risks that businesses faced in the past and present, and understand how different designations, sectors, and companies perceive risk. Further, this report seeks to understand what Indian business leaders believe to be the top risk parameter in their sectors, and whether they feel prepared for alternative and unconventional risks.

Based on an extensive conducted with 300 senior business leaders across India, this report sets out to provide a holistic overview of the changing Indian risk landscape, insights on the types of risks that businesses faced a decade ago and compares them to the risks of today. Ultimately it seeks to be a snapshot of risk awareness in India, and establish understanding of the potential impact of the newer or alternative types of risks in a changing world.

Some of the key findings:

- 91% of the respondents claim it is easier to identify and manage traditional risk compared to newer forms of risk
- More than half of the respondents (52%) reveal that today's risk parameters are different as compared to the past
- Similarly, over half of the respondents (53%) believe that in the future, the risk parameters businesses face will be different from those they anticipate today
- 48% of respondents identify data-related risks as a top concern, signalling a new era where data holds tremendous power and potential pitfalls
- On the transformation of risk parameters, Chief Technology Officers (CTOs) seem to be most sensitive to the changing risk parameters; more than two thirds of CTOs (68%) admit that risk parameters in their business environment from a decade ago are 'significantly different' from those of today's generation, in contrast, less than half (44%) of Chief Financial Officers (CFOs) feel the same
- Nearly three quarters of CTOs (72%) believe that risks of the future will be different from the risks in the business environment today, compared to only 47% of CEOs, MDs and Directors

Introducing 'Non-Linear Risk'

Traditionally, the concept of risk, its measurement, analysis, and management has – to some extent – been linear, with risk events typically having a 'warming up' period before becoming a genuine threat to a business. However, risks have evolved, making them quicker to emerge, less predictable and far more variable in severity. The efficiency increases brought about by things like globalization and social media have similarly increased the speed and distance with which risk can travel. The delta between risk and crisis is smaller.

Today's risks can be much more complex and unpredictable with disproportionate effects, often rendering traditional risk management methods less effective. In this respect, this newer understanding of risk has become 'non-linear'. We call these new, unconventional risks 'Non-Linear Risks' and they are defined by three fundamental pillars:

1. **The nature of the risk itself is new** – typically because of underlying developments introducing novelty (technological change introducing new risk, changing consumer attitudes putting new premiums or penalties on particular outcomes)
2. **The risk is highly dynamic** – circumstances can change quickly, ratcheting up the scope for risk events to transpire, or the consequences of a risk event are highly variable and can change quickly
3. **The source of the risk is new** – for instance, impediments to business operations that didn't exist before, such as malicious cyber incidents and unconventional causes for loss of productivity

This research asked respondents to predominantly consider eight different forms of risk: reputational risk, regulation risk, health and safety-related risk, data-related risk, technology risk, environmental risk, operational risk, and market & economic risk. Using the above criteria as a guide, these risks were grouped into two over-arching categories:

Traditional risks: Market and economic risk, Operational risk, Technology risk, and Health and safety risk

Non-Linear risks: Environment risk, Data-related risk, Reputational risk, and Regulation risk

Non-Linear Risk and Organizational Awareness

Methodology

The data is based on interviews with 300 respondents including MDs, Directors, CEOs, CFOs, and CTOs across six sectors including information technology (IT), services, travel, manufacturing, and retail. Interviews were conducted between March 2023 to April 2023. The findings are illustrative only.

Findings

Across all sectors, decision makers were more concerned by the risk categorized in this study as Non-Linear Risks.

However, the responses also triangulated a broader concern about the changing nature of risk itself. Data from the research reveals that more than half the respondents (52%) believe that risk parameters today are significantly different from those they perceived a decade earlier (Figure 1).

Furthermore, a similar sample (53%) believe that in the future, the risk parameters businesses face will be different from those they anticipate today (Figure 2). Significantly, the data illustrates that nearly one-in-five respondents (19%) believe that they currently have insufficient data to mitigate risks during the coming decade.

How would you compare risk parameters in your business environment a decade ago, with those of today's generation?

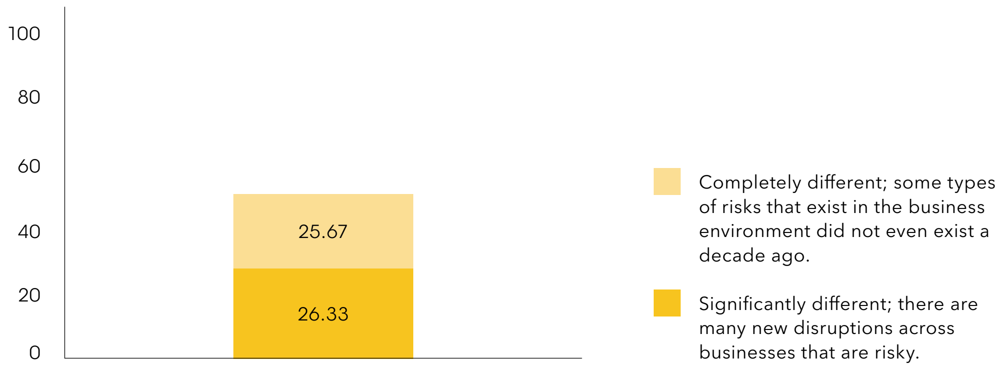

Figure 1

How would you compare risk parameters in your current business environment, with those that you could face a decade from now?

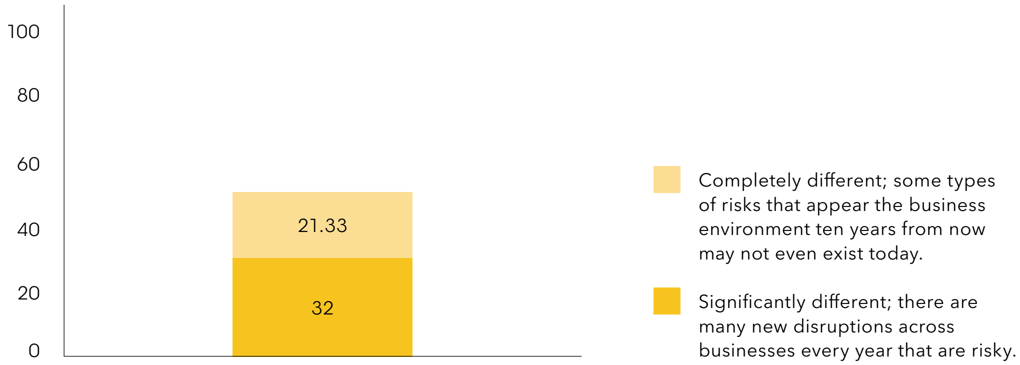

Figure 2

Decision-makers across all sectors anticipate that the risks they are most concerned about will continue to evolve over time, and the parameters affecting their businesses in the future are likely to be different. In this respect, many business leaders expect change to be the solitary constant.

When comparing the risk businesses considered their 'top' priority a decade ago, and those they considered top priority today, the data produced some interesting results.

Market and economic risks maintain an imposing lead as top priority for business leaders both a decade ago and today, however secondary risks have fluctuated significantly.

For instance, environment risk has increased 3.00 points on the decision-maker's list of priorities, a higher increase than any other type of risk. Out of a group of eight risks, environment risks were ranked sixth in importance a decade ago, but today ranks as the third most important risk factor.

In contrast, operational risk has dropped 3.00 points in the list of priorities. A decade ago 14% considered operational risk the top priority affecting their sector, in the present day, the proportion has reduced to 11%. (Figure 3). In ranking terms, operational risk has declined from the perceived second most important risk a decade ago to the fifth today.

Parameters affecting risk in your sector

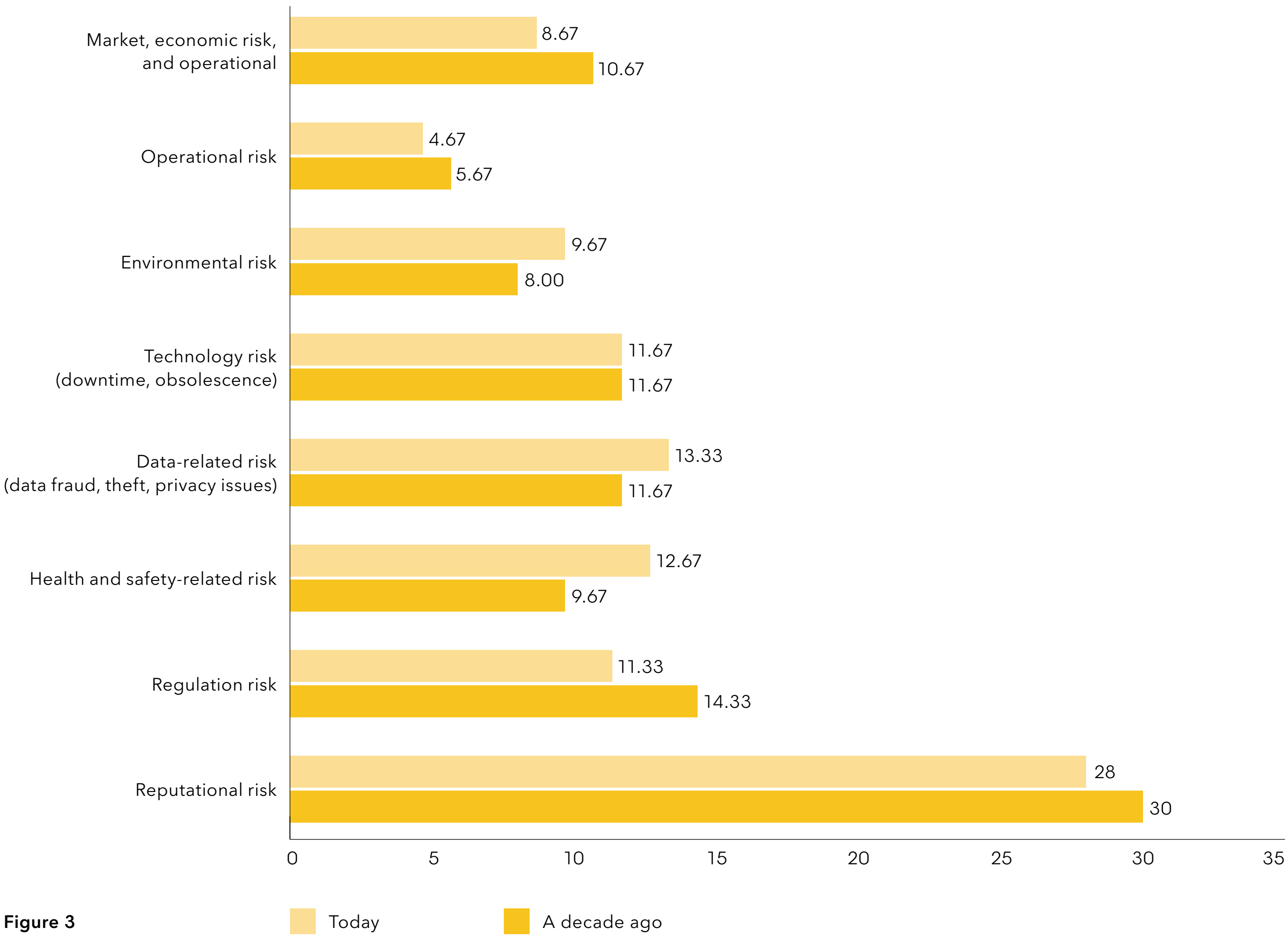

Figure 3

Data from the survey shows when it comes to the nature and type of risk – the more dynamic, unconventional and alternative risks are the ones that can be noted to be both 'high impact' and 'high occurring'.

To illustrate, 45% of respondents cite 'data-related' risk as 'very high', while nearly half (48.33%) describe its potential impact as 'very high'. Other 'alternative' (non-historical) risks in our survey include (Figures 4 & 5):

- Environmental – Occurrence risk (very high): 37.67%, Potential impact (very high): 38.67%
- Reputational – Occurrence risk (very high): 34.67%, Potential impact (very high): 37.67%
- Regulatory – Occurrence risk (very high): 32.00%, Potential impact (very high): 38.33%

Regulatory risk has been categorised as 'Non-Linear Risk' due to its association with sustainability and ESG – which aren't conventional risks.

In terms of frequency of happening, could you grade the following risks as high or low occurring

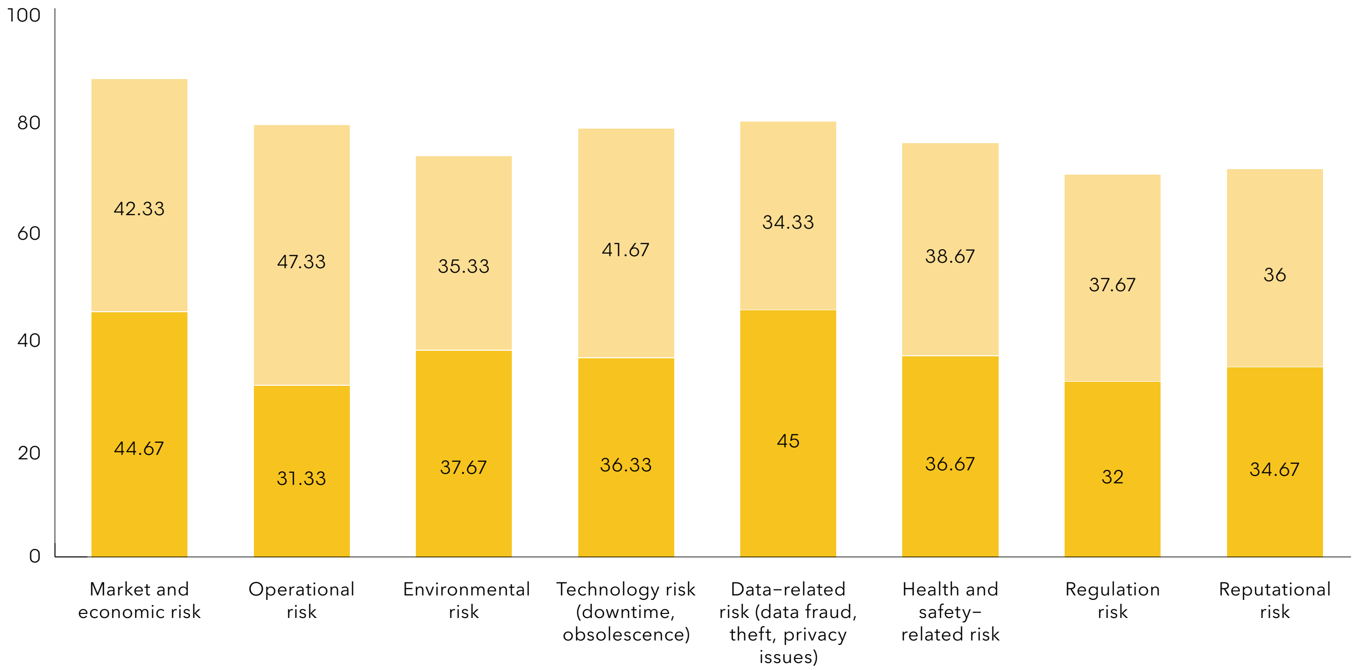

Figure 4

In terms of impact/expenses, which of the following risks are the most significant and high-impact ones within your industry?

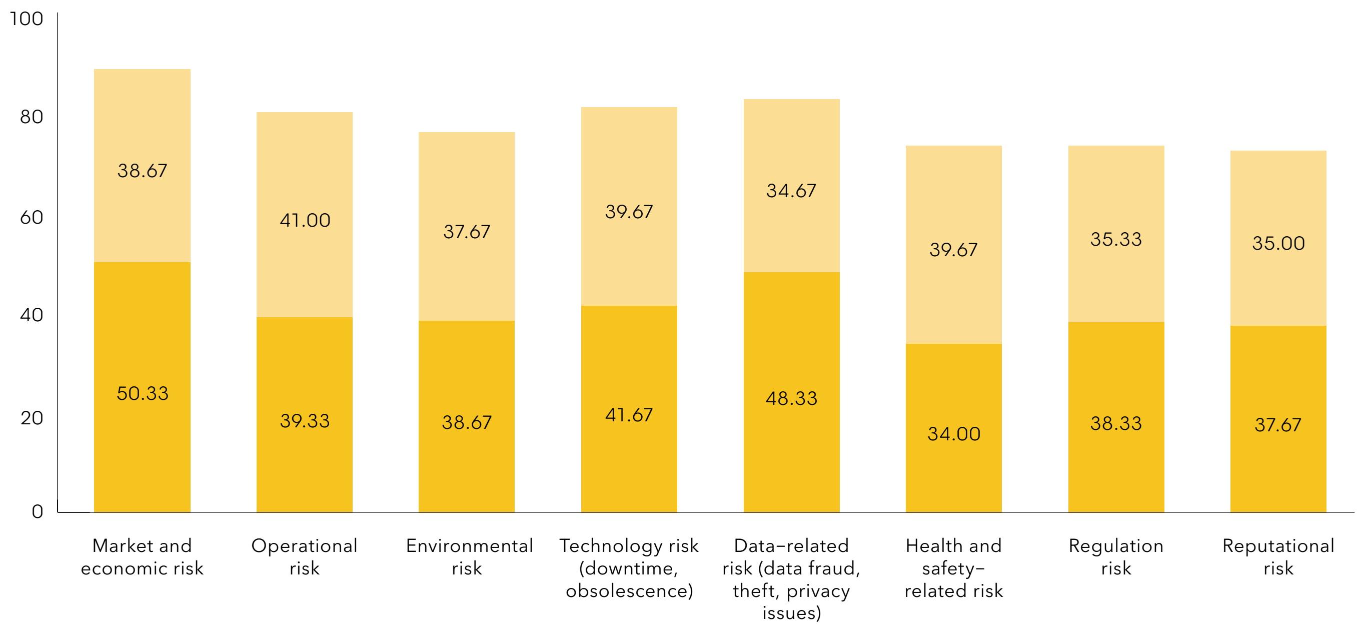

Figure 5

In the present environment, it is the 'alternative'/non-traditional risks that matter most. The research shows there is a clear correlation between some of the non-traditional risks (beyond market and operational) and potential frequency and impact, and we can conclude that the threats from unconventional parameters have the capacity to be more potent in the eyes of business leaders.

This is also reflected in other research, for instance, a survey by Gartner[1], 50% of respondents cited concerns about competitors, partners or other third parties, and 49% were concerned about malicious hackers.

According to the data, Indian leadership teams concur – familiarity breeds confidence. For instance, 91% of the respondents state it is easier to identify and manage traditional risk compared to newer forms of risk (Figure 6).

Do you agree with the statement — 'It is easier to identify and manage traditional risks (financial, safety, etc.) compared to newer forms of risk (reputational, regulatory, etc.)?

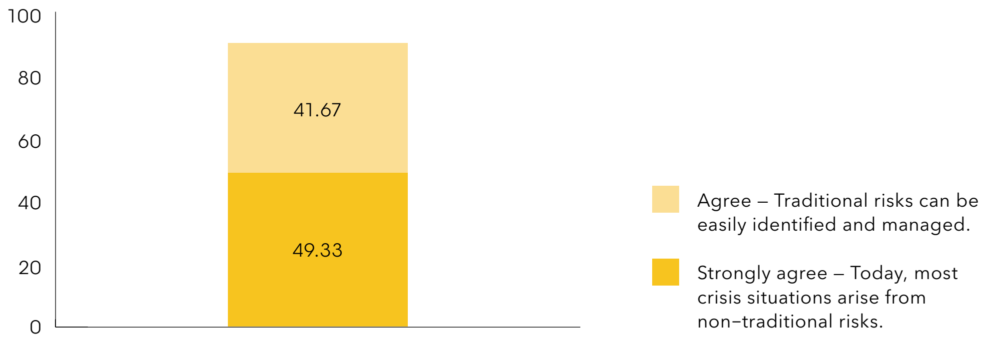

Figure 6

Depth and breadth of 'Non-Linear Risk'

In recent years, the business landscape has undergone significant changes, and organizations have had to navigate various risks to remain competitive and ensure business continuity. While decision-makers across sectors understand and accept the notion of 'Non-Linear Risk', the degree of their concurrence varies, to some extent, with their leadership position and the risks most directly relevant to them.

On the transformation of risk parameters, CTOs are generally most sensitive to the changing risk parameters, while CFOs, CEOs, MD/Directors are generally less so.

For instance, more than two thirds of CTOs (68%) state that risk parameters in their business environment from a decade ago are 'significantly different' from those of today's generation, compared to less than half (44%) of CFOs (Figure 7). In fact, on the issue of future risk, the awareness of changing risk parameters is even higher. By way of example, nearly three quarters of CTOs (72%) believe that risks of the future will be different from the risks in the business environment today, compared to only 47% of CEOs, MD/Directors (Figure 8).

In alignment with this trend, the information technology (IT) sector, typically led by CTOs, is most likely to observe the changing risk landscape, compared to all other sectors. For instance, nearly two thirds (65%) of decision-makers in the IT sector are aware of the differences in risk parameters between the previous decade and today, and 77% are of the view that the future risk will be different from those businesses are facing now.

How would you compare risk parameters in your business environment a decade ago, with those of today's generation?

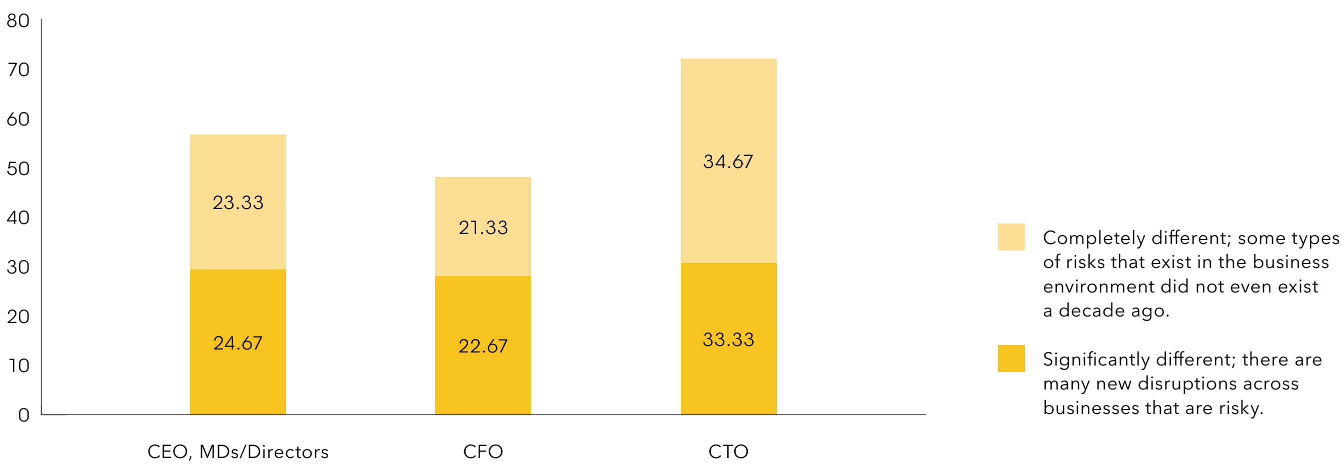

Figure 7

How would you compare risk parameters in your current business environment, with those that you could face a decade from now?

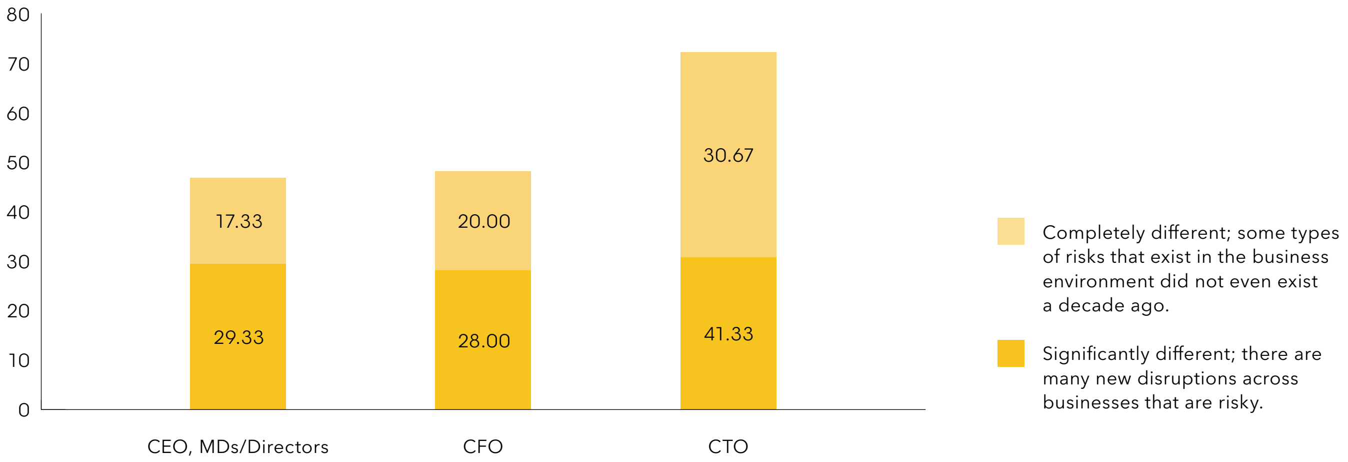

Figure 8

The decline of traditional risk parameters

While ‘Market and Economic risk’ consistently remains the top parameter, a slight decline in relevance amongst respondents from different designations, sectors, and organizations can be observed. According to results from the survey, the most significant decline has been noted amongst CTOs, respondents from the travel sector, and in INR 500cr. to INR 1000cr. companies.

For instance, the proportion of CTOs that consider Market and Economic risk a ‘top’ priority has dropped from 27% a decade ago to 20% in the present business environment. In the travel industry too, it has shown a drop of 7.89 points and a 6.93 points drop in companies of size 500cr. to 1000cr.

Operational risk too has witnessed a similar decline for CEOs, MD/Directors, CFOs, services industry, and for companies valued between 1000cr. to 2000cr. To illustrate, while it has dropped by 4.09 points and 4.00 points for CEOs + MD/Directors, and CFOs respectively, the drop is even greater when comparing sectors. In fact, in the service industry it has seen a sizeable drop of 10.26 points from 19% a decade ago to only 9% today. For respondents in companies of size 1000cr. to 2000cr, the drop in priority for this parameter (6.84 points) is second only to decline in priority for market and economic risk.

The rising prominence of environment risk

Due to the increasing awareness of the impact of climate change, environmental disasters and the importance of sustainability, there is growing concern around environment risk.

Our survey data reveals that this is particularly evident in responses for CFOs, CEOs, MD/Directors, and CFOs, decision-makers in the services sector, and in 500 cr. – 1000 cr. companies.

It was ranked as the top risk a decade ago by CEOs, and MD/Directors with 10% ranking it as such, but it has risen by 3.26 points to 13% today. For CFOs, environmental risk was the top risk for only 4%, but has shown the highest rise in risk priority, with 9% ranking it as their top risk today. The same is true for respondents in companies valued between 500 cr. to 1000 cr. For this category, the proportion of respondents rating environment risk as the ‘top’ risk has grown by 8.91 points, from 10% to nearly one-in-five (19%).

CEOs and MDs and Directors ranked environmental risk as the top concern a decade ago, with 10% of them considering it as such. However, it has risen by three percentage points to reach 13% today. While only 4% of CFOs ranked environmental risk as their top concern in the past, it has demonstrated the greatest rise in risk priority, with 9% of them now considering it as their primary concern. The same trend is observed among respondents from companies with revenue between Rs 500 crore and Rs 1000 crore. In this category, the proportion of respondents considering environmental risk as their top concern has grown by 9 percentage points, increasing from 10% to almost one in five respondents (19%).

Similarly, the proportion of respondents in the services sector has shown the second highest growth (11.54 points) on the importance of environment risk, rising from a meager 1% a decade ago to 13% at present.

Other significant changes in risk parameters today span across data-related risk for CEOs, and MDs and Directors; and regulation risk for the travel sector.

Change in risk parameters affecting the sector – Across designations

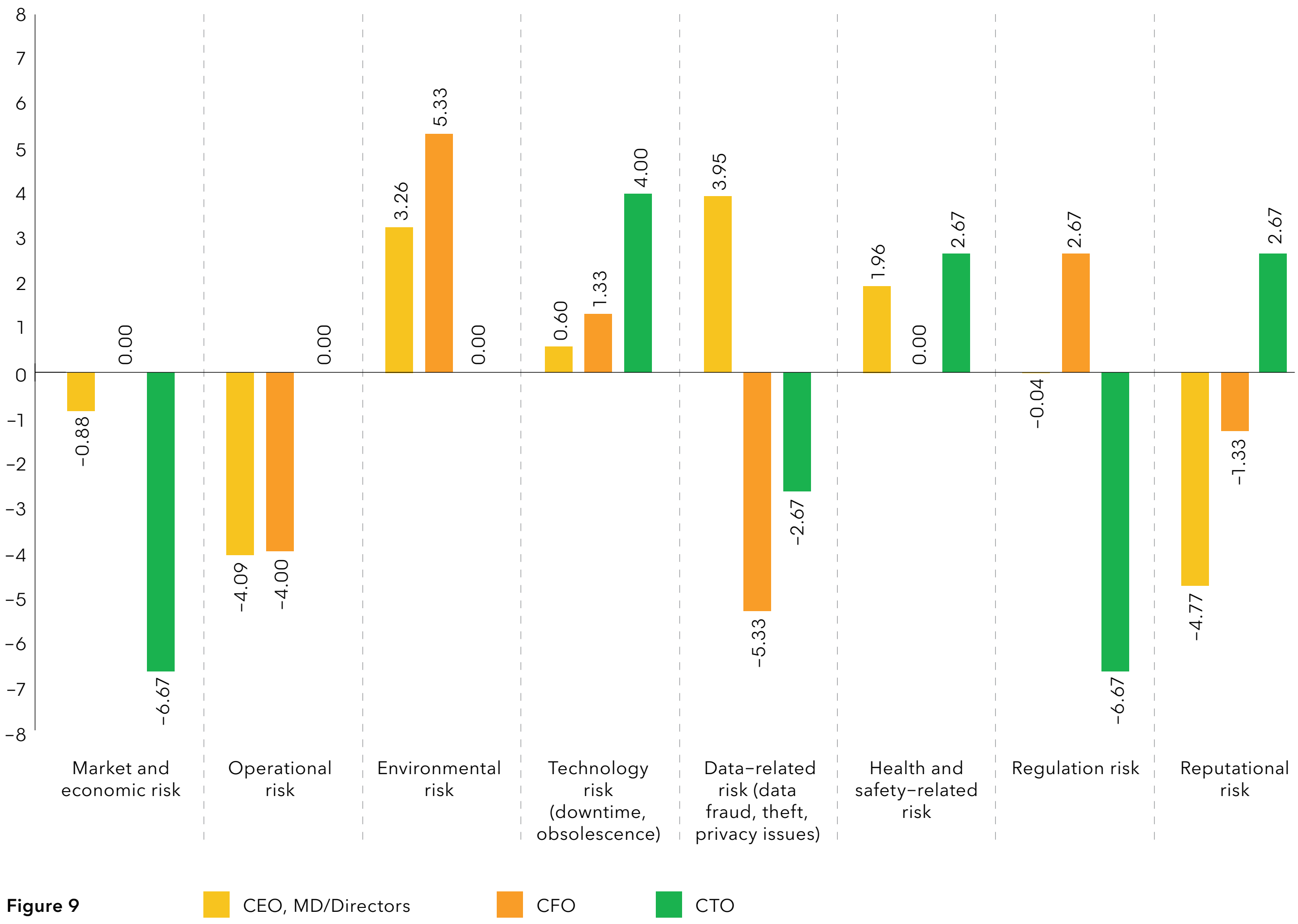

Figure 9

Change in risk parameters affecting the sector – Across sectors

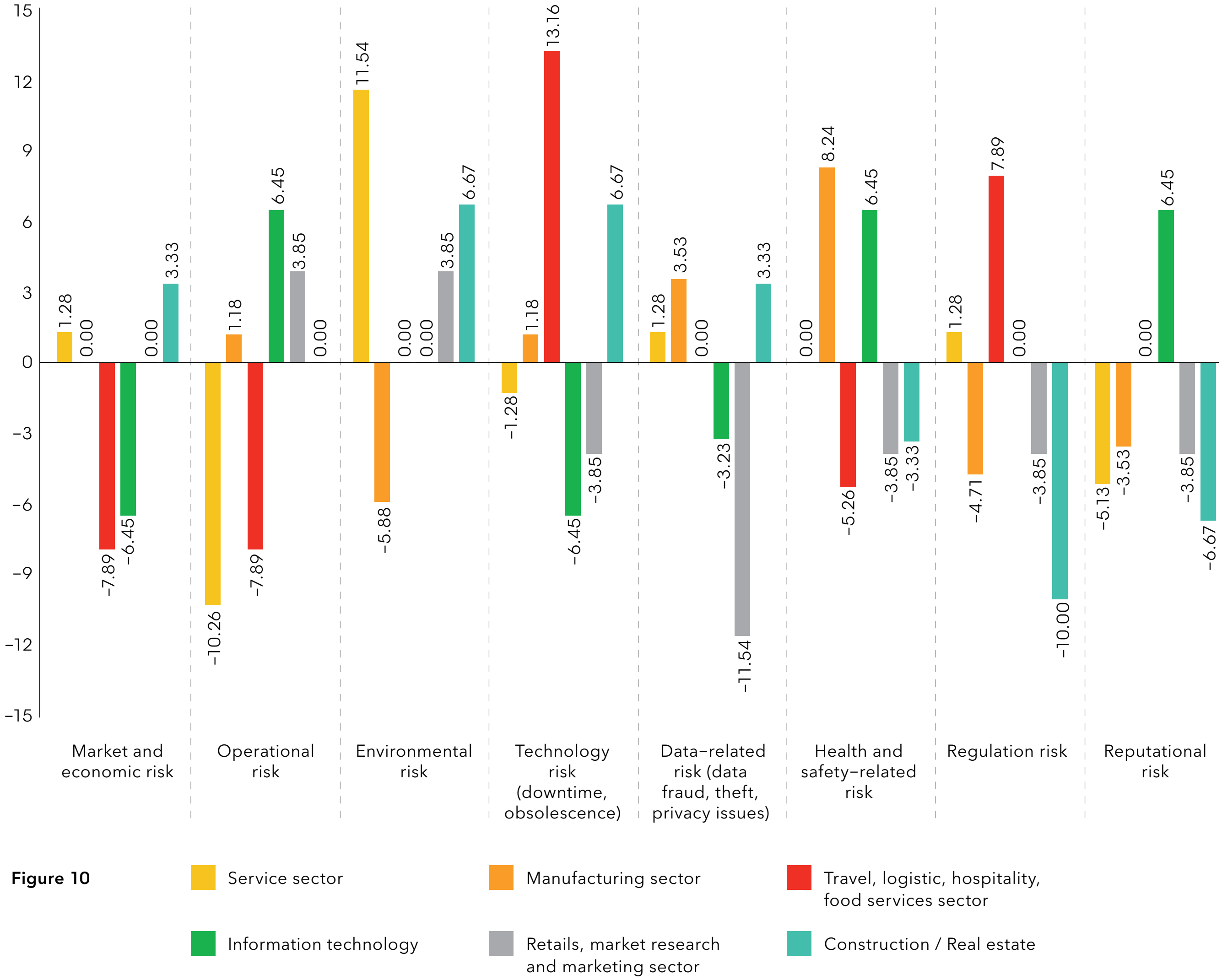

Figure 10

Change in risk parameters affecting the sector – by company size

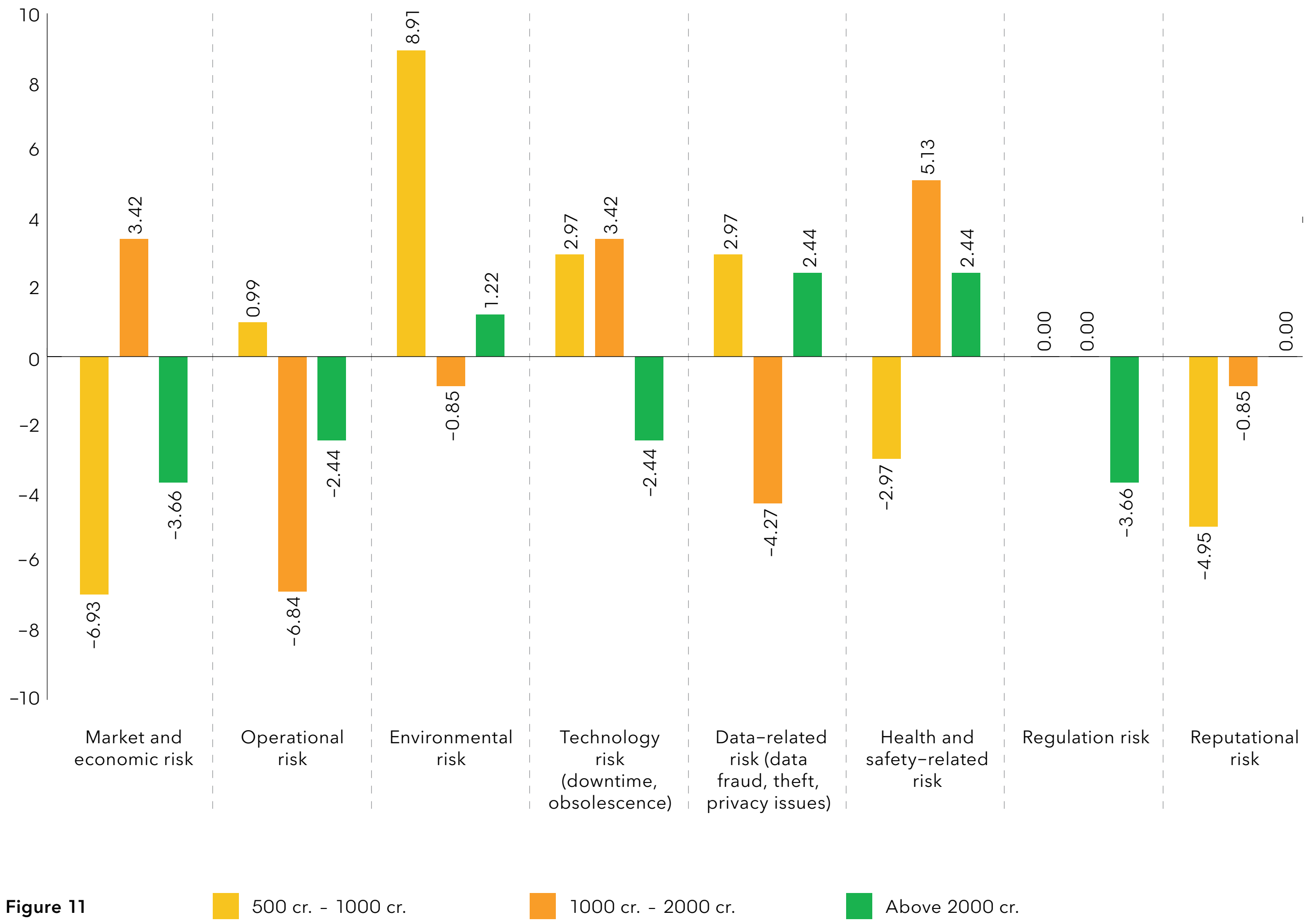

Figure 11

Data from the research indicates that CFOs, and respondents in companies sized between INR 500 cr to 1000 cr are most cognizant of new and emerging risks.

In fact, 92% of CFOs and 94% respondents from INR 500cr. to 1000cr. companies agree that it is easier to identify and manage traditional risks, when compared to newer forms of risk. One-in- six CEO, MD/Director (17%) and 15% of CFOs admit that they would feel under-prepared facing today's risks with the information systems available a decade ago.

Consider the business information and systems available

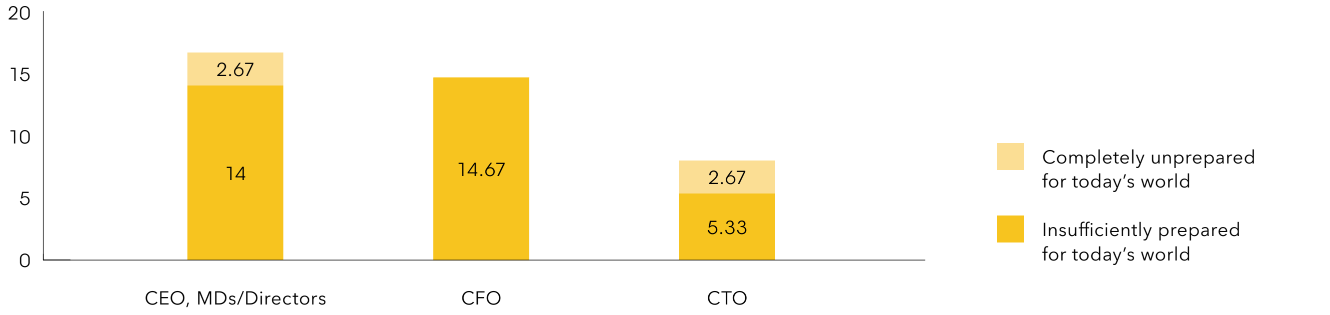

Figure 12

Interestingly, despite a large proportion of respondents from services and travel sector rating 'alternative' risks such as environment risk as 'top risk', it is the retail industry that understands the criticality of these risks. To illustrate, 96% of respondents in the retail sector agree that it is easier to identify and manage traditional risks compared to newer forms of risk, compared to only 84% respondents in the travel sector and 92% respondents in the service industry.

Do you agree with the statement – 'It is easier to identify and manage traditional risks (financial, safety, etc.) compared to newer forms of risk (reputational, regulatory, etc.)?

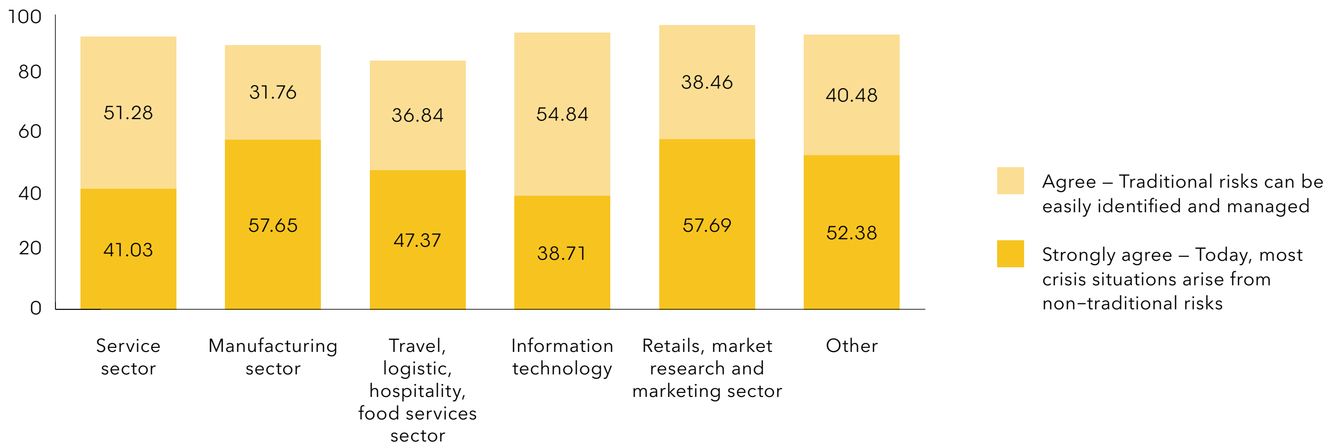

Figure 13

Future of 'Non-Linear Risk'

As technological advancements, environmental considerations and global interconnectivity accelerate, businesses face a newer, more potent 'Non-Linear Risk' that could lead to disruption or even loss. It's important for leaders to learn and adapt to such possibilities in the future.

India, like many markets, is facing an increasingly complex and dynamic business landscape with the emergence of 'Non-Linear Risk'.

Here, climate change is one such example. Extreme weather events caused by climate change can disrupt supply chains and damage physical infrastructure, something that was hard to predict a decade ago. The effects of increasing drought have impacted water storage in reservoirs, which is currently at 55% of total capacity compared to the 84% average over the last 10 years[2]. The 2030 Water Resources Group warns that India "faces a looming water crisis where demand is set to outstrip supply by 50% by 2030"[3]. The effects of climate change have now reached the business eco-system. In fact, CDP India Disclosure Report 2022[4], revealed that the financial impact reported from climate-related risk was estimated to be INR 2,842 billion by Indian companies responding to CDP.

Another example is data-related risk. 'PwC's 2022 Global Risk Survey: India'[5] states nearly eight-in-ten Indian business and risk, audit and compliance executives say keeping up with the speed of digital and other transformations is a significant risk management challenge. Additionally, even as huge volumes of data get created every minute in the age of digital transformation, according to a recent survey of ERP Data Professionals and Executives by Dimensional Research, nearly nine-in-ten businesses report being unable to get real-time insights from their legacy ERP systems to make effective business decisions[6]. Furthermore, 41% of organizations have had a known AI privacy breach or security incident[7].

All of these reflect a significant potential impact of 'Non-Linear Risk' events in the future. With the Indian economy poised to grow, an equivalent rise in newer risks that are often difficult to identify and manage makes it imperative for businesses to prepare themselves for unforeseen threats.

The conversations held as part of this research bear out that unforeseeable risks can arise from a variety of sources, including financial uncertainties, legal liabilities, strategic management errors, and even accidents. It is essential that organizations in India understand the nature of these risks and develop strategies for dealing with them.

Businesses will need to become more agile and responsive. This means being prepared for potential risks and having contingency plans in place. Businesses should also invest in robust risk management systems, including AI and other technological tools, to monitor and mitigate non-linear risks.

In the face of changing circumstances, ongoing monitoring and review of 'Non-Linear Risk' is critical to ensure risk management strategies remain relevant and effective in a world of uncertainty.

1 https://www.gartner.com/en/newsroom/press-releases/2022-08-22-gartner-survey-reveals-80-percent-of-executives-think-automation-can-be-applied-to-any-business-decision

2 https://www.bbc.com/news/world-asia-india-35888535

3 https://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/reports/documents/000/000/893/original/CDP-india-business-case-for-water-disclosure.pdf?1472051621

4 https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/900/original/CDP-India-Annual-Report-2022.pdf?1677751685

5 https://www.pwc.in/global-risk-survey.html

6 https://cio.economictimes.indiatimes.com/news/big-data/cios-in-india-find-data-driven-decision-making-challenging/93359625

7 https://www.gartner.com/en/newsroom/press-releases/2022-08-22-gartner-survey-reveals-80-percent-of-executives-think-automation-can-be-applied-to-any-business-decision

About the Bloomberg Terminal.

Since 1981, business and financial professionals have depended on the Bloomberg Terminal® for the real-time data, news and analytics they need to make the decisions that matter. The Terminal provides information on every asset class — from fixed income to equities, foreign exchange to commodities, derivatives to mortgages — all seamlessly integrated with on-demand multimedia content, extensive electronic-trading capabilities and a superior communications network.


02:41:18
Tokyo
Erste Group Bank AG (Vienna)
Starea pietei 11 - 15 septembrie 2017
Czech PX Rises 1.2% to 1,035.89; CEZ Leads Advance
Erste Upgraded to Buy at Kepler Cheuvreux; PT Raised to 45 Euros
Erste Raised to Buy at Kepler Cheuvreux, PT EU45
Fitch: Austrian Banks' Earnings to Stay Strong Throughout 2017
Stockpicking for European Banks Will Shift Up a Gear From 2018
Starea pietei 4 - 8 septembrie 2017
Austrian Banks Show Better Resilience in Stress Test
Banca Transilvania Rises Most in 2 Months After Bank-Tax Denial
Austrian Banks to Repay Interest After Overcharging: APA
Czech PX Falls 1.1% to 1,024.81; Erste Leads Decline
Austrian ATX Falls 1.8% to 3,146.59; Erste Leads Decline
Starea pietei 28 august - 1 septembrie 2017
Erste Group: 22.08.2017 - Publication of a transaction regarding...
Starea pietei 21 - 25 august 2017
Erste Drops BMW, Daimler From 'Sustainable' Investment List
Moody's corrects rating and rating history for ISINs AT0000A14P...
HSBC Tops Natixis, UniCredit to Gold in 2Q Price-Target Upgrades
G 328: Custom Seasonality
Hi: 42.939
Low: -27.687
2016
2017
OK

Take the next step.

For additional information, press the <HELP> key twice on the Bloomberg Terminal®.

Beijing
+86 10 6649 7500

Dubai
+971 4 364 1000

Frankfurt
+49 69 9204 1210

Hong Kong
+852 2977 6000

London
+44 20 7330 7500

Mumbai
+91 22 6120 3600

New York
+1 212 318 2000

San Francisco
+1 415 912 2960

São Paulo
+55 11 2395 9000

Singapore
+65 6212 1000

Sydney
+61 2 9777 8600

Tokyo
+81 3 4565 8900

bloomberg.com/professional