



On the risk agenda



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As countries are headed for unlocking their respective economies, and organisations repositioning their future, resilience proved to be a great differentiator of the pandemic era. Risk management models were tested and no doubt, business continuity plans have been rewritten. The pandemic, and the unprecedented turn of events, has put risk management to the test. While the demands for action on ESG have increased, risks related to cybersecurity, digital privacy, supply chain disruptions are becoming top priority for boards. Based on our discussion with leading independent directors and business leaders, we highlight the issues here for boards to keep in mind as they consider and carry out their 2022 agendas.



1

ESG – Climate change risk

COVID-19 pandemic has accelerated the debate around ESG within the boardroom. Although, many boards are still grappling with the scope, framework, and practical considerations relating to ESG, risks relating to this theme are squarely starting to appear prominently within the risk management framework of organisations, across sectors. ESG matters have not only become an important parameter for investors to evaluate investment opportunities, but various stakeholders, including consumers, are starting to apply this lens and hence corporate priorities are shifting from maximising profit at any cost to making profits 'the right way' or perhaps 'doing the right thing'. There is no doubt that ESG risks will be front and centre for any risk management conversation.



Areas in focus for 2022

- Boards will have to articulate a strategy which outlines a net-zero emission promise
- Acceleration in consideration of climate change and social responsibility have forced companies to focus on sustainable recovery and 'build back better'. The actions taken by companies have inherently brought them closer to engaging with stakeholders to create long-term value.
- ESG risks, and indeed value, will have to be integrated at each aspect of the business, and where needed, appoint experts to oversee the formulation, implementation, monitoring and continual improvement of ESG performance.
- Increased demand in transparency on the environmental footprints of organisations. Companies that lead the climate transition will benefit from higher valuations and access to finance while the laggards will face difficulties to raise capital.
- Post COP 26, stakeholders have increased their scrutiny on the decarbonisation plans.
- Adhere to the new set of reporting frameworks (ISSB) and regulations that make climate risk disclosures mandatory.



Questions

- What practices should boards have in place to build ESG and climate governance in their organisations?
- How well is the board equipped to understand the material ESG risk and parameters?
- Do the company's ESG criteria also cover governance matters like board diversity, board performance and ethics apart from regular topics?
- How can the board effectively communicate the company's ESG performance to stakeholders?
- Will corporations expand the CSR effort beyond "giving back to society" and include sustainability as a tool for long-term shareholder value creation?
- How are capital markets making use of ESG information and how does it affect investor decision-making?
- How will integrated reporting help in integrated decision making between risk, opportunities, strategy and disclosures?

2

People, organisation and the hybrid work model

With Covid imposed change in our working style, workforce strategies are likely to gain spotlight in boardroom discussion in 2022. While some companies have started calling employees back to work and many others considering hybrid options or remote working, mental health and wellbeing of the workforce has become a priority agenda for the board. In the post Covid era, getting back to 'work-from-office' is a chance to create more effective operating model that works for companies and its employees. As hybrid model of working is gaining pace amongst employers, the major challenge to confront is the broadening disconnect between how organisations and their employees see the future.

Economic downturn caused by the pandemic, job losses and the environmental emergencies across the globe are still testing the mental and emotional well-being of workers. In the coming time, boards must consider a longer-term focus on whether to facilitate workforce health, both physically and mentally. This is likely to measure company's value creation and risk mitigation, such as the ROI from workplace wellbeing programmes, and the financial impact of improved attrition rates.



Areas in focus for 2022

- Consider the challenges, and opportunities, presented by the hybrid work culture and how apt it is for the company to adapt a new style of working
- Work-from-home during pandemic has driven a sense of disconnect from work. There has been a deterioration in the social networking as well. Keeping all this in mind, organisations need to design a framework, where employees feel more connected and motivated.
- A plan to bring workforce back to work and the same time ensuring their safety and wellbeing. Also, what type of office or facility configuration will be needed in the work from office scenario? As many organisations are opting for hybrid model of working, companies can explore the possibility of hiring from tier-2 or tier 3 cities.



Questions

- What are the challenges of a hybrid work environment? Does the company have the appetite to take the risk that hybrid work model bring along?
 - Is there a plan in place to get employees back to office?
- If yes, are companies well positioned to manage the new set of cost (like sanitiser, mask, temperature check etc). Also, is there a backup plan in place, in case a pandemic like situation reoccurs?
- With job market open and active, how do companies' strategies to tackle the attrition rate?

3

Financial risk, including inflation

One of the leading concerns in the boardroom are financial risks with differing characteristic in its own depending on the geographical equation to which the entity caters. The financial risks are related to financial operations of a business, typically in the form of credit risks, valuation risks, liquidity risks, cash flow risks, rate of interest risk including risks associated with the upward inflation swing. The exposure towards these risks vary from one organisation to another and oversight may lead to significant cascading effect on finance.



Areas in focus for 2022

- Examine and deliberate within the board on the identified categories of financial risks such as market risks, credit risks and financing risks is inevitable. Premature identification is critical in mitigating the potential impact on the organisation's operations
- Review of prevailing risks that have the potential to severely endanger the organisation's ability to threaten going concern or achieve its business objectives
- Assessment of the scale of overall risk including inflation induced risks and develop risk response inclusive of control strategy encompassing qualitative and quantitative parameters
- Consider risk strategies and tools embedded within the organisation for instance internal strategies, risk sharing strategies and risk transfer strategies.



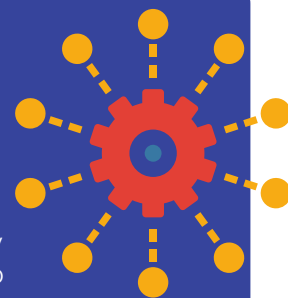
Questions

- Does organisation have financial risk identification and assessment framework in place?
- What are the prevalent mechanisms for quantifying financial risks such as regression analysis, Value-at-Risk analysis (VaR) and scenario analysis?
- How is the inflation risk affecting business operations locally and internationally
- and what are the alternative approaches to hedge those?
- How often is the financial risk hedging framework reviewed for emerging issues including supplemented risks?

4

Internal controls and framework

Organisations that establish effective control environments can improve their efficiency in delivering value and achieving its strategic objectives. It is important for companies to become brisk in identifying, assessing and managing emerging and disruptive risks and integrate the internal controls basis the risk control framework. A defined set of internal control frameworks help organisations with a disciplined business tool to align people, technology, strategy, processes, and knowledge to effectively navigate complex and rapidly changing environment and, stay competitive and successful.



Areas in focus for 2022

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| <ul style="list-style-type: none"> Consider a positive tone, which gives due credence to controls, at the top which is likely to improve the components of internal controls. Utilise a risk-based approach in designing the internal control | <p>frameworks, as the purpose to address the risks identified in internal risk assessments can be met</p> <ul style="list-style-type: none"> Assign personnel with relevant skills the responsibilities for internal control framework. | <p>This is best achieved when individuals can relate the impact that their activities have on the achievement of the business' goals and objectives.</p> |
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Questions

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| <ul style="list-style-type: none"> Has the organisation assessed the risks that threatens the company's ability to achieve its business goals or services commitments? Does there exist formal risk assessment or monitoring | <p>control activities within the organisation?</p> <ul style="list-style-type: none"> Have the procedures to identify new controls or to modify existing control activities to mitigate the risks been approved? | <ul style="list-style-type: none"> Is there an established procedure to design and communicate control changes to personnel responsible for implementing, performing, or reviewing the related activities? |
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5

Cyber and IT related risks

With digital threats evolving every second, organisations are finding ways to deal with privacy concerns and business risks cyber threats pose on their firm. A cyber threat management plan will enable the businesses to take a systematic approach and manage security challenges. With hybrid work model soon becoming a reality, organisation's (cyber) risk landscape requires a unified, disciplined, and consistent management solution. While risk committee needs to be more cautious about people with relevant skillset on board, robust policies for internal or external stakeholders and tools to assess vendor risk should also be on the top of their agenda.





Areas in focus for 2022

- A multifold increase in cyber-attacks has drawn the attention of the board and the focus is more likely to shift on privacy laws and cyber physical systems.
- Management will need to focus on the right mix of skills on the board to address the cyber related risks
- Identifying the cyber risks that might compromise your organisation's privacy. This includes identifying cyber security vulnerabilities in the system and threats that might exploit them.
- With laws being framed in the various parts of the world, companies need to prepare a roadmap, as to how prepared are they to take on the additional cost to elevate the security posture.
- Would companies want to consider having an in-house team to create a structure for cyber security? Or will still risk it on third party vendors?
- Companies must focus to design new campaigns for inhouse members to spread awareness regarding phishing and other malicious activities.



Questions

- How to ensure that consumers aren't harmed by rogue agents?
- If the organisation meets all of its obligations for information assurance and fully complies with applicable regulations?
- Is cyber a part of the board's strategy discussions, also, when was the threat last examined by the board?
- How do we move from reacting to anticipating cyber attacks?
- Is a cyber insurance cover required for the company to compensate in case of a cyber-security incident? What kind of data does your organisation store? How sensitive is it? Is there an action plan in place in case of a cyber security incident?
- Where does the organisation store data? With increasing in number of cyber attacks, is your organisation working on a new strategy to store the data?
- How ready is the organisation to be in line with the proposed privacy bill?

6

Global supply chain risk

Logistics and supply chain risk is the core area that will need directors' attention in the coming year. The covid pandemic has acquainted the world with major risks with regard to supply chain, especially global supply chains as it interconnects a wide network of firms. The disruption in supply chains can lead to bankruptcies, business breakdown and also makes risk management difficult. Companies will now have to focus on adapting new ways (technology, skill training, changing manufacturing base, etc) in order to get rid of the glitches.





Areas in focus for 2022

- Directors must plan to diversify sourcing of resources as this will reduce dependency on a particular region.
- Companies will have to plan for a new approach for aligning their supply chains in the new paradigm.
- Organisations may have to plan to secure lower-cost suppliers and focus their efforts on maintaining their financial health in the short to medium-term, irrespective of where they plan to relocate.
- Organisations will have to look for opportunities from emerging economies within the region, and develop high-quality infrastructure that supports more effective cross regional supply chain flows.



Questions

- Has there been an objective reevaluation of our business strategy to determine the impact of supply chain vulnerabilities? Especially with respect to key components and intermediaries.
- Do we understand the evolving business and regulatory factors in the external environment that impact our existing supply chain network?
- How is the company planning to analyse the geo-political and macro-economic risks that we are currently exposed to?
- Have the stakeholders assessed elements (vendors, customers, production sites, logistics) across organisations' value chain are most vulnerable?

7

Geopolitics

In a world that is geopolitically unpredictable and in many ways, unstable, companies operate in a business environment which is defined by continuous change and disruption. Companies need to carefully review and assess geopolitical risks, and accordingly define their business plans.



Areas in focus for 2022

- Conduct a geopolitical stress test on the strategy and planned initiatives. A stress test could help evaluate the impact of likely disruption.
- Observe the pressure points and functioning realities from various angles and discuss opposing viewpoints to improve decision making.
- Create short-term, midterm, and long-term response strategies
- Develop market-specific assessments or architecture that fuse corporate strategy and risk management. Such an architecture should make crystal clear what an organisation's priorities are in the high-risk market, the criteria to be used to assess and manage risks and how to deploy the criteria aligned with goals for operations and performance.



Questions

- What are the organisation's business planning assumptions which could be derailed/effected by geopolitics?
- Has the organisation conducted stressed test on financial forecasts and business plans for geopolitics
- disruptions? Assessment of outcome of the test.
- Is there identified and assigned responsibility in the business for analysing, monitoring and interpreting geopolitical events?
- Is level of geopolitical intelligence reliable in terms of quality as compared to the quality of financial or operational data?

8

Post-Covid related risk

Organisations had invested in wide-ranging crisis management planning. Although it was a potential risk with critical consequences and a reasonable likelihood of occurring, the spread of COVID-19 resulted in n companies not well prepared for the sudden crisis.



Areas in focus for 2022

- Post COVID-19, the level of risk appetite and tolerance has been altered in order to respond to change in a dynamic and rational way. Evolving from the pandemic, an organisation's need for reassessment of risk appetite and tolerance to risk has been enhanced to ensure they remain aligned with the strategic objectives of the organisation
- Management and early detection of risk is key factor to mitigate any impact and allows timely focus on risk mitigation strategies. Risk management roles are encouraged to renovate their processes and integrate tools to improve their ability to identify and manage risks in advance
- Pre-pandemic risk profiles may not be relevant in the current scenario. Ensure that risk management programmes are aligned with emerging exposures. There is a need to reassess their risk appetite to keep pace with emerging risks and ensure that gaps are identified and mitigated.



Questions

- What is the organisation's current approach to respond to post pandemic risk management?
- What robust key risk indicators does the management have access to?
- Has the organisation established a lead responsible for operational resilience or resilience office?
- Is the management's response to the pandemic sustainable? Should new practices be established including remote work arrangements?

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