

# Aviva Risk Insights Report

Analysing the risks  
facing UK businesses

November 2021





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# Foreword

Risk is a fact of life. Good businesses monitor, manage and mitigate risks well. Those that don't are likely to suffer the consequences.

While the importance of risk management remains constant, the nature of the risks under consideration will naturally vary according to circumstances. This year's Risk Insights Report clearly shows that as the immediate crisis of Covid-19 appears to be receding, new challenges are rapidly appearing in its wake.

British businesses are concerned about a range of headwinds largely beyond their direct control, including the economy, inflation, Brexit impacts, supply chain issues and a shortage of skilled employees. While the economy is recovering after the shock of the pandemic, foresight and resilience will still be essential ingredients for success in the year ahead.

What's particularly striking about the risks of greatest concern to UK business this year is that they are unlikely to act in isolation. The impact of any one of them has the potential to overlap with and amplify the effects of another. Businesses will need to have a sophisticated, coherent view, along with a solid foundation of risk management fundamentals.

Equally, as leaders face up to and deal with these pressing issues, it's important that they don't fall victim to recency bias and ignore the potential for serious impact from what may seem like more remote events. For example, it's somewhat surprising that climate change (including extreme weather events) does not feature more prominently in this year's concerns.

Environmental, Social and Governance (ESG) considerations, and a focus on sustainability, will play an increasingly important role in mitigating some of the biggest, even existential, risks that businesses are facing. They can be an avenue to build resilience and take advantage of new opportunities as they appear.

Good risk management is not just about protecting your business from things going wrong. Done well, preparing for and adapting to risk can have a significant upside too.

**Adam Winslow**

**CEO of UK & Ireland General Insurance, Aviva**





# Welcome to Aviva Risk Insights

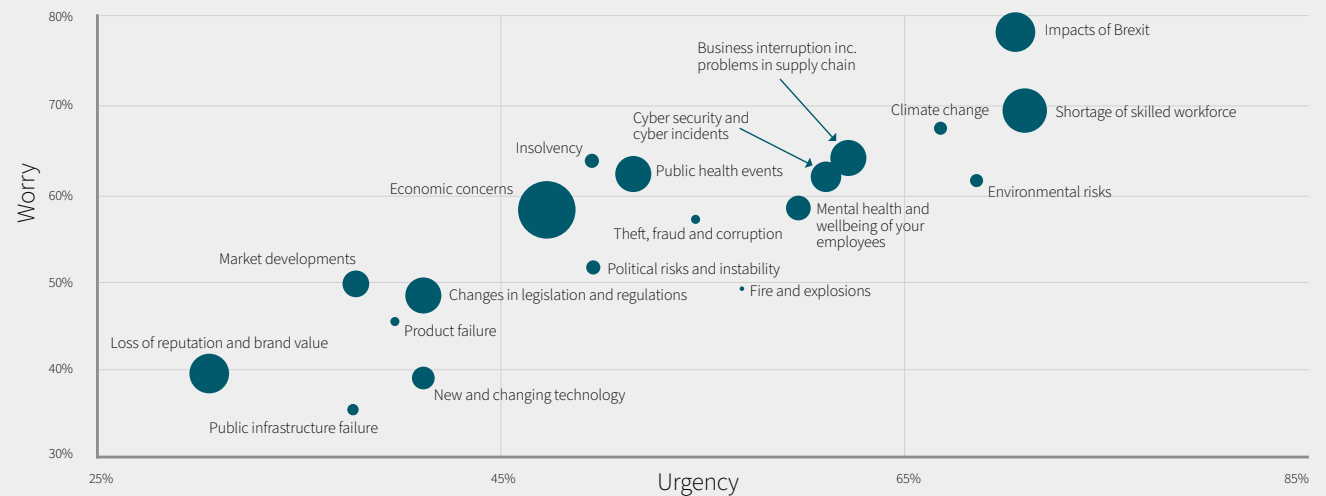
Welcome to the 2021 Aviva Risk Insights Report, the second edition of Aviva’s annual examination of the biggest risks facing UK businesses. Based on research from leaders of businesses of all sizes and sectors, it’s developed to help provide insights and analysis to the business community around the challenges that may lie ahead.

This year has seen significant changes in the top ten list of biggest risks that businesses feel exposed to. Economic concerns have replaced public health events (including

Covid-19) as the biggest risk this year, with public health events falling to fifth place as businesses become increasingly confident that the worst of the pandemic is behind us. A shortage of skilled workforce and business interruption (including supply chain disruption) feature highly this year, with business concerns confirming media attention. Reputation and brand value, cyber security and the mental health and wellbeing of employees also remain fixtures in the top ten list.

## Business risk summary

- Q2. Which of these major risks, if any, do you think are the biggest risks for your business?  
Q3. How worried, if at all, are you about each of these risks to your business?  
Q4. And how urgent do you think each of these risks are for your business?



The size of each bubble on the chart is used to denote how frequently each risk was chosen as a “major risk” in Q2. Larger bubbles denote the more frequently selected risk (e.g. economic concerns), while smaller bubbles denote the least frequently selected risk (e.g. fire and explosions).



Our research this year shows a strong link between how worried a business is about a risk and the level of control a business has over it. Issues such as the impacts of Brexit, a shortage of skilled workforce, climate change and environmental risks show extremely high levels of worry for the businesses that consider them risks, whereas those more within a company's control, such as their brand and reputation and technological risks, are considered less worrying.

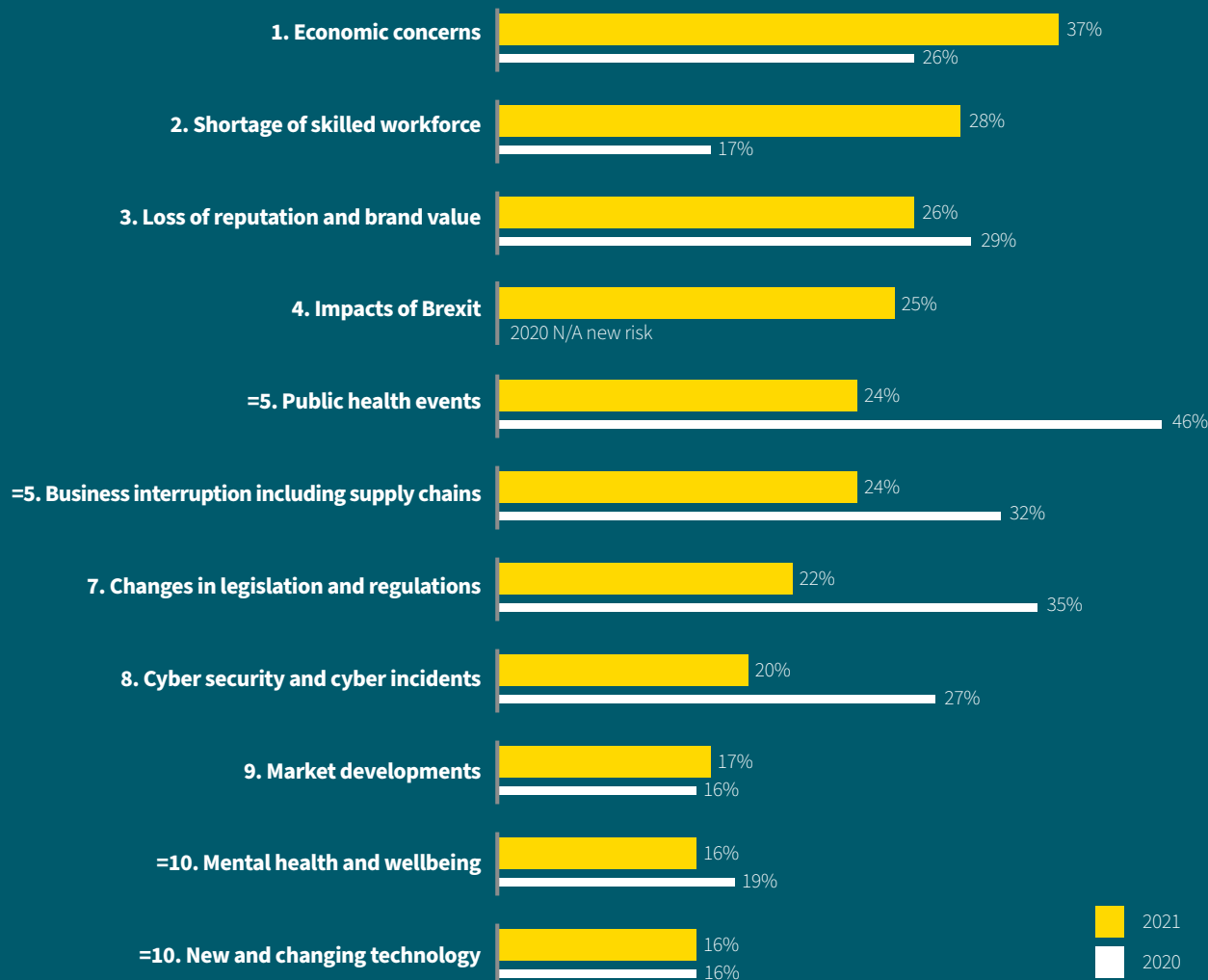
The risks businesses are exposed to are far more interconnected than in the past and can no longer be dealt with in a siloed fashion. The impacts of Brexit and the pandemic have affected the economy, the supply chain, business interruption and the workforce, which in turn may cause operational failures that damage a company's brand and reputation. Similarly, a changing and difficult economy inspires innovation and new technological solutions, and this can lead to increased cyber security concerns – concerns which may have already been exacerbated by the rapid rollout of increased working from home in response to the pandemic.

**Climate change (including extreme weather events) ranked 14th this year, with 8% of businesses selecting it.**

Businesses in the UK face the difficult challenge of preparing for and managing against increasingly intangible risks while dealing with pressing issues such as a shortage of workforce and a disrupted supply chain. However, what must not get lost is the importance of focusing on and building a strong base of risk management fundamentals. It is only by taking steps to identify and plan for potential disruptions that businesses can have confidence in their ability to respond effectively to incidents that may occur.

## Biggest risks 2021 vs 2020

We asked business leaders what major risks they believe their business is particularly exposed to.



Note: Due to the addition of new risks this year the percentage of businesses that selected each risk is not directly comparable between 2020 and 2021.

# Risk insights

## Methodology

This research was carried out in partnership with YouGov during August and September 2021. 1,251 business owners, executive-level managers and individuals with significant decision-making power responded primarily to online surveys. A wide geographical spread was sought where feasible. Throughout this report, we've split business sizes into three categories:\*

- **SMEs** – businesses with annual revenue of less than £250m, which includes:
  - › Small – businesses with less than £10m in annual revenue
  - › Mid-market – businesses with between £10m and £250m in annual revenue
- **Corporates** – businesses with an annual revenue greater than £250m.

We also categorised businesses into nine broad, but analytically useful, industry sectors. Responses have been weighted by YouGov to ensure even results across sectors.

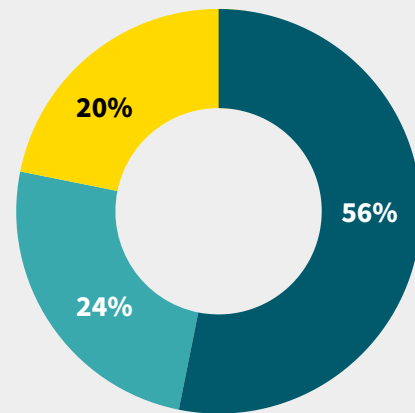
Base: All respondents 2021 (1,251)

\*Note: In the 2020 research the mid-market and corporate audiences were defined differently. Mid-market firms were defined as those with £10m-£100m annual revenues, and corporates were defined as those with £250m+ annual revenues.

## Methodology

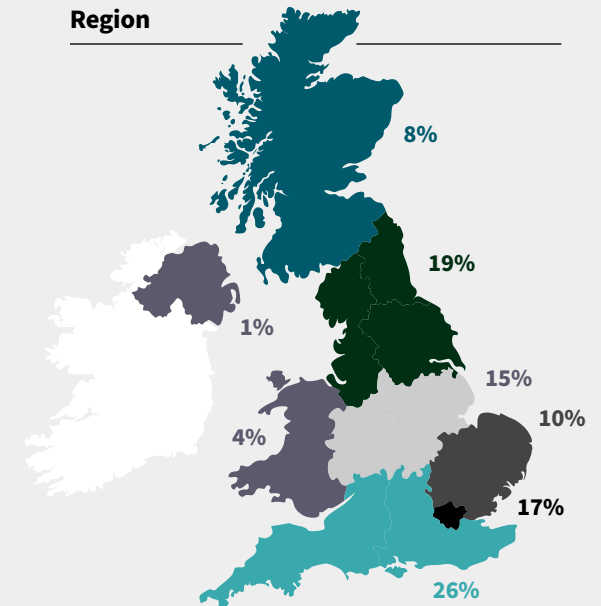
**We spoke to business leaders across a wide variety of industries and regions to get a full picture of the threats and opportunities to UK businesses.**

### Business revenue

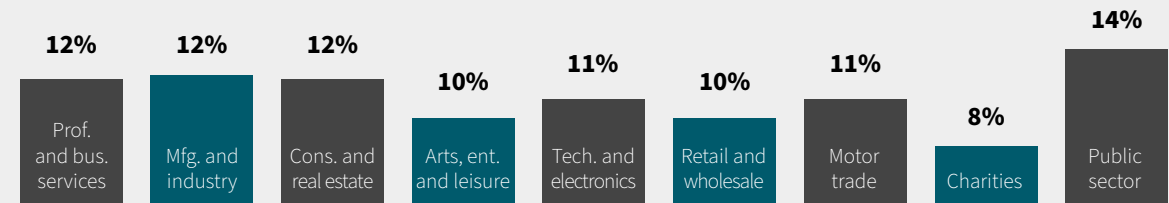


Small business (<£10m)    Mid-market (£10m-£250m)    Corporate (£250m+)

### Region



### Sector



# 1. Economic concerns 37%

Businesses are bracing themselves for economic uncertainty as the UK emerges from the pandemic with additional concerns not only over their supply chain, but also the UK's ability to trade in a post-Brexit world.

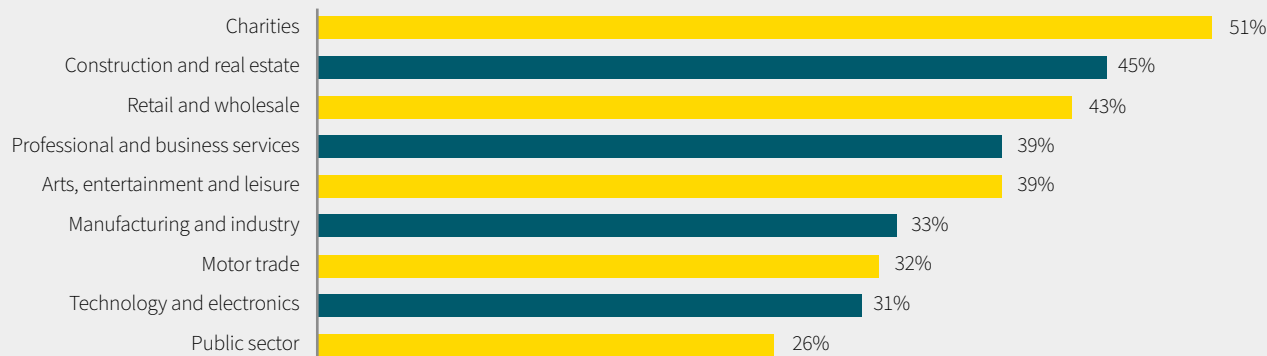
Despite an optimistic start following national lockdowns, the momentum of the economic recovery has slowed. The Confederation of British Industry's Growth Indicator for September reported that while private sector activity expanded at an above-average pace in the three months to September, growth had slowed compared with the previous month.

Against this backdrop, businesses are understandably worried about the outlook for the UK economy.

Economic concerns were by far the biggest risk identified by businesses in our survey with 37% of organisations identifying it as their top concern – making it the risk most respondents worried about in our Risk Insights Report this year.

UK businesses of all sizes are equally concerned, with 37% of small businesses, 41% of mid-sized companies and 33% of corporates identifying economic concerns as one of their biggest risks this year. Charities were the most concerned, with 51% citing the risk in their top five, followed by the construction and retail sectors, both of which were deeply affected by lockdown and are heavily reliant on a strong economic recovery. A total of 58% of companies that said the economy was one of their biggest risks confirmed they were worried or very worried about the risk, while 47% described the threat as urgent.

## Businesses that listed economic concerns as one of their top five risks



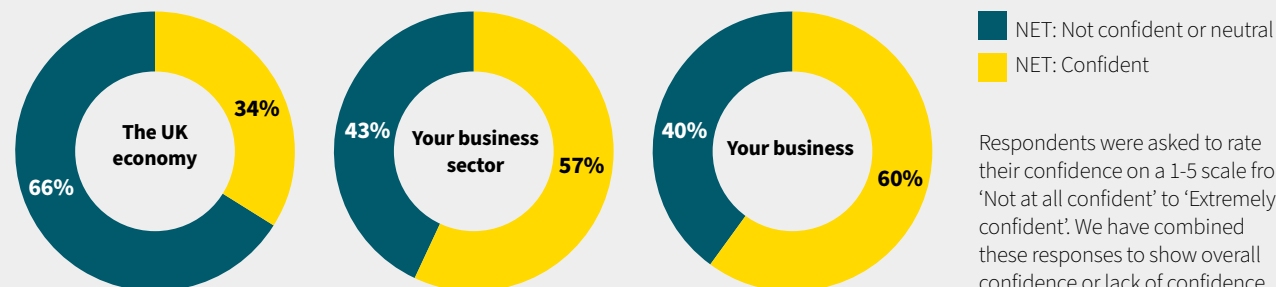


### Confidence in the UK economy is low

Companies are far more confident about their own economic prospects than they are of the UK economy. When asked how they viewed the future prospects of their business, 61% were confident with 19% saying they were extremely confident. When asked the same question on the UK economy the confidence level fell, with 34% saying they did not have confidence in the UK economy.

Confidence in the economy was lowest in the charities and arts, entertainment and leisure sectors, both of which have been impacted heavily by the restrictions imposed as a result of Covid-19. Construction and real estate, and professional and business services have the most confidence in the UK economy, though levels are still low overall with only 41% of construction companies, the most confident sector, stating they were confident or very confident.

### Future prospects – How confident are you in the future prospects of the following?



“Businesses are confident they can remain resilient and solve the issues that are within their control. They are confident about their business, slightly less confident about the sector in which they work and very concerned about the UK economy. The further away the issues are from their control, the more concerned they are about the prospects for recovery.

Uncertainty is always a concern, and Brexit, staff shortages and the impact of rising rates and inflation are not risks companies can influence to a great degree; therefore they are naturally more concerned as to how they will play out. The increased costs of goods and materials and rising business rates are challenging businesses, and are likely to do so for some time.”

**Dave Carey, Director of Mid-Market, Aviva**



The Federation of Small Businesses has expressed its concern that the UK's businesses were faced with an 'autumn storm'. It warned small businesses are facing numerous challenges as Covid-19 support is withdrawn and other pressures mount up – from inflation to staff and supply shortages, energy price spikes, increased VAT, the prospect of major tax rises and the ending of the suspension of insolvency rules.

**34% of businesses said they did not have confidence in the UK economy.**

Our own research found that 8% of businesses are either going to be 'closing the business for good in the near future' or are 'struggling to stay afloat and don't know how long they can continue' – this figure rises to 11% of small businesses, 17% of public sector organisations, 10% of construction and real estate businesses, and 10% of arts, entertainment and leisure companies fall into the same category. A further 13% of businesses (18% of small businesses) state that they are struggling now but expect the business to survive and continue to trade. Combined, this shows 21% of UK businesses are struggling and in a difficult position, rising to 29% of small businesses.

This news is not all bad, however, as 46% of businesses reported they are doing well and focused on growth, though this is weighted heavily towards mid-sized businesses (64%) and corporates (70%), with only a quarter (25%) of small businesses saying they are able to focus on growing currently. Similarly, 9% of businesses (14% of small businesses) said one of the biggest risks facing their organisation was insolvency.

86% of businesses also consider themselves very or somewhat resilient, with only 11% believing they are not very or not at all resilient – a 3% decrease in NET resilience rates since 2020.

Businesses are responding to their economic concerns with 16% saying one of their top priorities is better financial management. 26% of businesses have reviewed their supply chain to try and combat increased costs and 13% have invested in technology to reduce costs.

When asked about risks that may be given too low a priority over the course of 2021, one in ten businesses (10%) identified rising interest and business rates as a threat to their future. Many fear the implementation of a wide range of taxes and charges which had been suspended during the peak of the pandemic coinciding with a removal of support measures which they currently rely upon.

This has prompted the British Retail Consortium (BRC) to call for government to take immediate action to reduce the burden placed on retailers by business rates,\* reporting that 83% of retailers said it is likely that they will close shops if the business rates burden is not reduced as a result of the government's Fundamental Review.

**One in ten businesses identified rising interest and business rates as a threat to their future.**



\*<https://brc.org.uk/media/678328/retail-rates-and-recovery.pdf>

### Winners and losers in the Covid-19 recovery

The recovery of the UK economy from Covid-19 is increasingly proving to be an uneven one. While 39% of businesses expect to embrace the recovery and have higher growth expectations than a year ago, 20% of businesses are bracing for the opposite and have lower growth expectations than a year ago.

Similarly, 44% of businesses have been forced to take financial support to manage their way through the pandemic. While 26% of companies told the survey they benefitted from grants that they do not need to repay, 27% said they had borrowed money which needed to be repaid. Of those businesses that need to repay money borrowed to get through the last 18 months, one in eight (13%) say they are going to struggle to repay, and a further one in nine (11%) say they may not be able to pay back the money on the same terms they borrowed it. 7% of businesses tell us that one of their top three priorities is paying back the cost of Covid-19.

The end of the furlough scheme coincided with the withdrawal of the small employer Sick Pay Rebate and the end of the Apprenticeship Incentive, piling pressure onto companies at a time when the recovery had been losing pace. The Coronavirus Job Retention Scheme provided 60% of the wages of furloughed staff up until the end of September, and around a fifth of employees in businesses with two to four employees were still on full or partial furlough in September, according to HMRC.



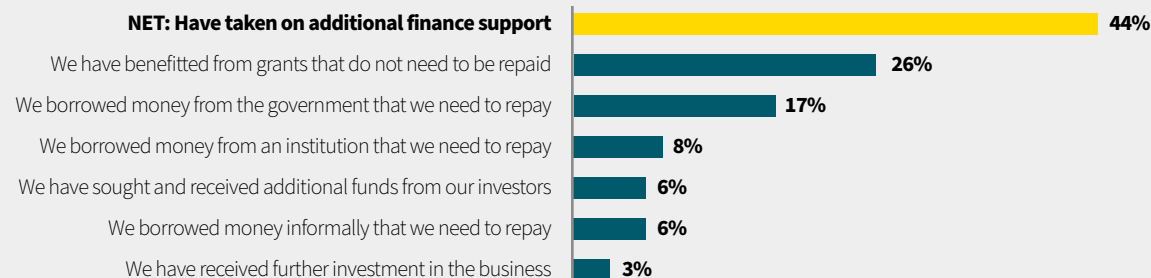
“The economic recovery post the Covid-19 pandemic has been unlike any we have seen before. Businesses have faced unprecedented challenges, and many have been forced to access additional finance to survive. The government has been clear that it wanted to ensure businesses did not fail during lockdown. However, it is increasingly evident that some businesses will not be able to repay the financing they have been required to access in the past 18 months.

The government may well have to look into writing off the debts of some of these companies rather than see them fail. Businesses have shown real resilience but there are challenges in the current market, and it will be those who are agile and able to adapt to the changing conditions and client expectations which will prosper.”

**Stewart Robertson, Senior Economist, Aviva Investors**



**Financial support** – Many businesses have had to take additional financial support to get through the Covid-19 crisis in the form of borrowing. Which of the below best describes your business?



## 2. Shortage of skilled workforce 28%

A shortage of skilled staff has become one of the most pressing risks facing UK businesses, with 28% of all businesses citing this as one of their biggest risks, rising to 38% of corporates and 40% of mid-sized companies. This represents a significant increase when compared with data from the Risk Insights Report in 2020 where a shortage of skilled workforce was only seen as the eighth biggest risk.

As businesses in the UK look to recover from the Covid-19 pandemic and find their feet in a post-Brexit Britain, growth ambitions are being hampered by the inability to recruit the necessary staff. The figures are stark and point to a shortage which will not see a rapid rebalancing in the short term. Recent headlines around a lack of HGV drivers are potentially only the tip of an iceberg affecting all areas of the UK economy.

It's a situation that has been recognised by the businesses which took part in our research. Most affected are the technology, construction and real estate, and professional and business service sectors, which saw the biggest percentage of businesses cite staff shortages as a pressing issue.



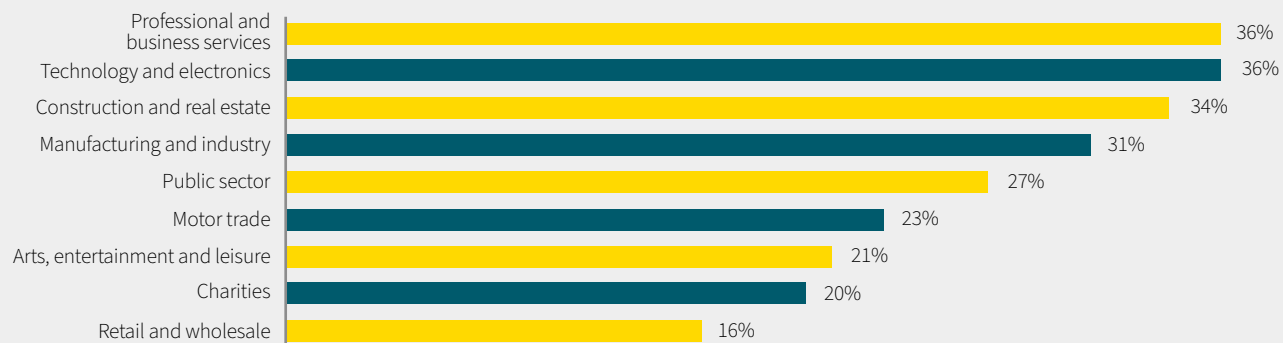
“We are all aware of the shortage of HGV drivers which has seen the government look to fast-track tests for new drivers to lower the disparity. However, many of these solutions also come with their own risks. As we have seen during lockdown, new, inexperienced drivers – through no fault of their own – lack the experience of dealing with the challenges and risks that are inherent in driving commercial vehicles. For example, we have seen a rise in claims involving inexperienced or untrained delivery drivers as much of the retail market moved online and delivery companies looked to rapidly increase their capacity.

What we are likely to see with mid-sized and corporate business is to create in-house training capabilities to build the skills they need internally. However, this will take time to address the shortages.

All of this underscores the genuine need for businesses to have long-term plans in place for the training and development of their people, so when staff shortages do occur, they can draw on internal talent.”

**Gill Milner, Technical Practice Leader – Casualty, Aviva**

### Shortage of skilled workforce – Is the shortage of skilled workforce a top five risk for your business?





More than one in ten companies said they feared that recruitment and attracting talent would be given too low a priority across the UK in 2021, with 18% of mid-market businesses fearing that the issue will not be adequately prioritised.

Asked if they were worried by the risk of staff shortages, 69% of businesses said they were worried or extremely worried. It was also deemed to be the most urgent of all the risks they faced according to 71% of companies.

### Profound effect on businesses

The shortage in skilled workforce is having a profound effect on UK businesses across nearly all sectors. A quarter of companies said that staff retention and recruitment would be one of their biggest investment priorities for the year ahead, with only financial growth and customer retention having a higher priority.

According to the latest data from the Office for National Statistics the number of payroll employees increased by 207,000 in September 2021 to a record 29.2 million.\* This is a return to pre-pandemic (February 2020) levels. However, multiple industries continue to suffer from staff shortages, showing that even though employee levels have returned, they have not all returned to the same job or even the same sector. Staffing shortages continue, which in turn is creating disruption across a number of industry sectors.

And while the causes of the shortage may be debated – with Brexit, Covid-19 and longer-term issues taking part of the blame in the eyes of UK businesses – companies are becoming increasingly concerned that, as we emerge from the pandemic, they will not have the people they need to grow their business.

What's more, as businesses' staffing needs have grown more acute, the inability to attract the skills required has seen wages increase as employers compete to attract the people they need.

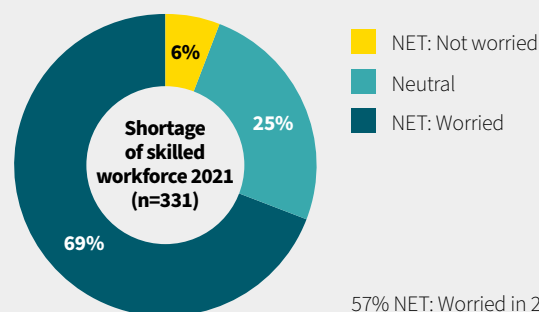
The latest figures from the ONS report a growth in average total pay (including bonuses) of 8.3% among employees for the three months May to July 2021 – and these figures have likely grown further from July to November. However, this increase in pay is unlikely to have been budgeted for and, as such, will impact on a company's financial performance and cashflow.

In some sectors wages have increased significantly and companies are having to look at their staffing levels to understand if they can attract the necessary staff. Many are having to choose whether they spend their available budget on retaining current staff, or look to attract new staff and run the risk of current employees being tempted by higher wages of competitors.

### Defending against cascading risks

A shortage of skilled staff can have a devastating impact on a business. It's an issue that companies rightly treat with importance and urgency as they attempt to resolve it. However, the urgent need to restaff the business and fill vacancies can lead to the emergence of new risks that can be equally dangerous to a company.

**Shortage of skilled workforce** – How worried are you about a shortage of skilled workforce to your business?



\*Labour market overview, UK – Office for National Statistics (ons.gov.uk)





“The war for talent is over – talent won. This has been highlighted during the pandemic, which gave furloughed employees an opportunity to think about their future and make choices about what would they like to do, where they want to work, and with whom.

The recent HGV driver shortage is an example of this. The exodus of employees from the industry reflects a long-term underinvestment in the working conditions for lorry drivers.

The truth is that it costs twice as much to replace talented staff as it does to retain them.

Daunting as it may sound, the talent scarcity equation can be turned around. There needs to be active collaboration between government, education institutions, industries and employees to upskill/reskill and redeploy the workforce.

This includes, for example, companies and recruitment managers focusing on capabilities, not just headcount, while resource planning. This will shine a spotlight on what capabilities will be required in the future, where the current gaps are now, and will enable proactive planning to align demand with workforce supply.

Businesses should also consider, where possible, actively deploying technology to create capacity for employees to do specialist/higher-value jobs and move less onerous tasks to tech-based solutions. When planning for the transformation of an organisation, teams and work, bring the people impact upfront and start to reskill/upskill the workforce at least 6-12 months in advance of the change. This helps employees be more open about embracing technology and other changes with an opportunity lens, as opposed to fearing job losses.

And it may sound counter-intuitive when competition for talent is so fierce, but companies should look to collaborate with each other to grow the workforce/talent pool. Poaching from each other creates a circular problem and will only result in driving costs up.

Education institutions also have an important role to play to provide the upskilling/reskilling programmes needed to produce the qualified workforce of the future.

Finally, businesses need to continue the focus on mental wellbeing. We know businesses view this as important, as they identified the wellbeing of their employees as one of the top 10 risks in our report. After the past year, this focus has never been so important.”

**Anuradha Purbey, People Director, UK & Ireland General Insurance, Aviva**



### 3. Loss of reputation and brand value

26%

The threats to brand and reputation have been rising up boardroom agendas for a number of years. Effective risk management is a fundamental part of protecting and promoting a business's brand and reputation.

Our research found that Britain's businesses rank brand and reputation as the third most serious risk to their organisation, moving up from fourth when compared with Aviva's 2020 Risk Insights Report.

The risks around a business's brand and reputation encapsulate the interconnectivity of modern risks. The biggest threats to brand and reputation tend to emerge as impacts from other, usually operational, risks crystallise into issues that become public. A failure in managing the risks is therefore a double whammy: not only must the business address the pressing risk (e.g. a cyber attack), but it must also face the inevitable damage to its reputation and, ultimately, its brand value.

This can lead to some companies focusing their risk management attention elsewhere. Only 39% of businesses that selected brand and reputation as one of their biggest risks said they were worried about it (compared with 78% who selected the impacts of Brexit and 69% who selected the shortage of skilled workforce). 27% said they were not worried at all. Similarly, of those businesses that see brand and reputation as one of the biggest risks they're facing, fewer companies thought it was an urgent risk (31%) while 37% thought it was not urgent. These figures suggest that while businesses respect the impact any damage to their reputation and brand can have, they likely feel it's both something they have control over and less immediately pressing than other risks.

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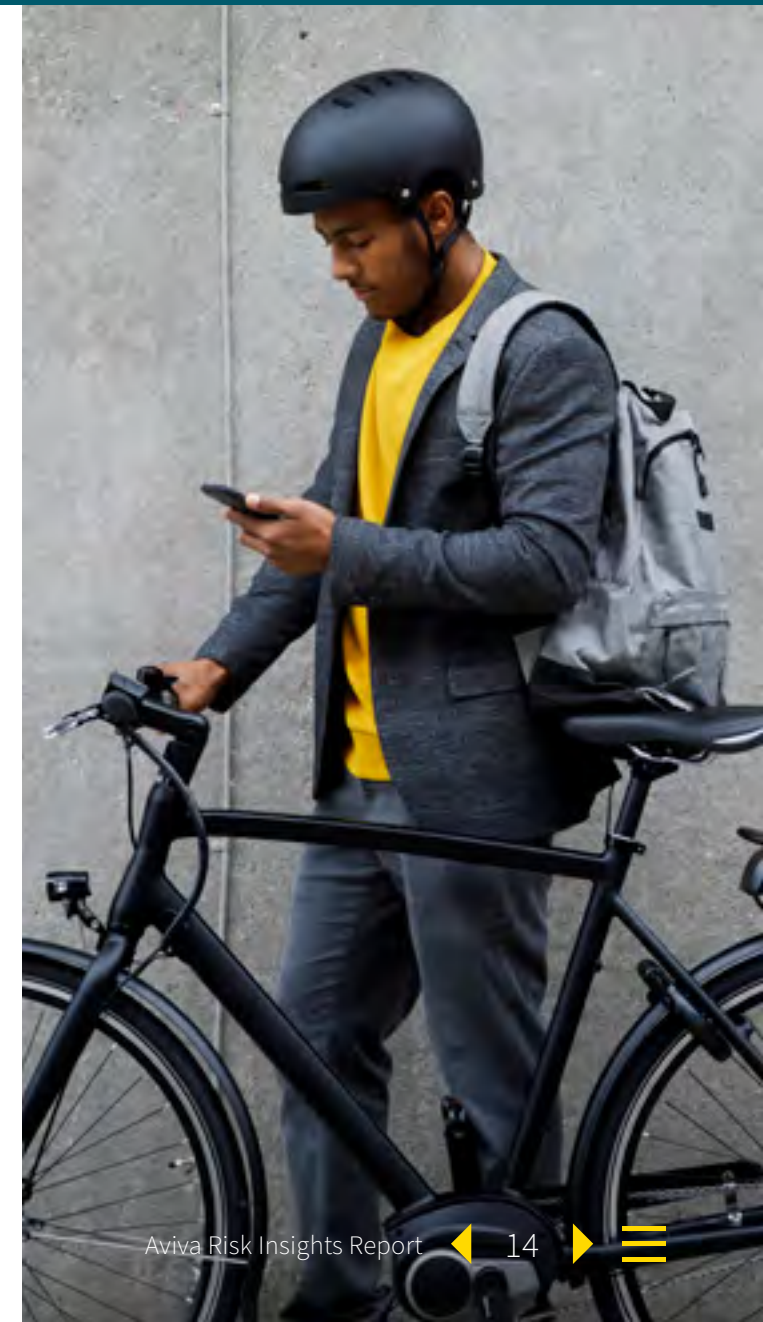
Brands and reputations take time to build. When companies have established their brand in their customers' eyes, they will gain a certain amount of equity with customers, so if something does go wrong businesses believe they will get the chance to rectify the issue.

The loss of a brand's health is often defined by a gradual and steady loss of the brand's standing only then for there to be a sudden and complete failure. There are those who will take the view that they have built the brand once, that the decline is gradual, and one can build it up again. The problem is that while you are looking to rebuild your brand your competitors are not standing still and neither are your customers' expectations, making protecting a business's existing brand and reputation a key part of its risk management approach.”

**Raj Kumar, Group Brand and Reputation Director, Aviva**

However, the threat of brand and reputational damage is real and has become more acute as the impact of Covid-19 has seen companies forced to change the way they do business.

In response to multiple lockdowns because of the pandemic, 44% of businesses made significant changes to how they conduct their business, such as the introduction of online sales or virtual services.







### ESG as a threat to brand and reputation

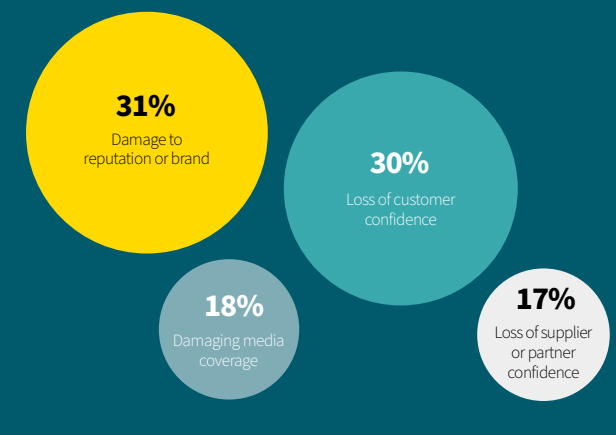
These issues come at a time when Environmental, Social and Governance (ESG) and Diversity and Inclusion have also increased in reputational importance and are starting to get an appropriate level of attention from government, boards, investors and the general public. Our own research shows that, of the companies that are aware of ESG, over 60% consider it important to the way their business operates. These imperatives are providing new challenges for companies and their reputations – not addressing equal pay discrepancies or having a lack of diversity within a company's senior management structure can create negative headlines and significantly damage a business's brand and reputation.

The momentum for ESG is expected to gather pace in the year ahead and while corporates have been awake to the issue for a number of years, mid-sized and smaller companies may not have the resources available to fully embrace the scope of the challenge facing all businesses and the steps that must be taken to effectively address it.

### Threats hidden in the supply chain

Both Brexit and Covid-19 have caused disruption to supply chains with 53% of businesses being forced to change or review their supply chain as a result. However, many businesses have not considered the risk those suppliers may pose to their reputation, with only 14% of businesses having examined their supply chain to eliminate potential reputational risks. We have seen in the past, with some of the world's biggest brands, that a sudden revelation that products have been made using child labour or that a supplier's working practices fall far below what is deemed to be just, can lead to significant damage to a company's brand and reputation.

**Effects of cyber attacks** – Which of the following do you think your business is particularly exposed to as a result of cyber attacks?



Companies now face questions over how ethical their entire operation is and all too often it's a link in the supply chain that poses the biggest risk. This is particularly relevant in 2021 where a business's brand and reputation affect not only its ability to attract customers but also its ability to recruit and retain employees. Employees and customers are increasingly value-driven, especially among millennials and younger cohorts who now make up over half the workforce.

### The emerging threat of cyber risks

One area that stood out in our research is the potential threat to brand from cyber security threats. In total, 31% of businesses fear the damage to their brand and reputation from their exposure to cyber risks, with those fears increasing with business size. Of the small business respondents only 17% highlighted cyber exposure, but this rose to 53% of corporates revealing deep concerns over the threat cyber risks pose to their brand and reputation.



### Customer is king

Issues that impact on the customer are at the heart of companies' worries over brand and reputation. Although no single issue dominated the responses, each of the top five threats included a customer-related element, with a lack of

responsive customer service, not resolving customer issues and problems, misunderstanding client needs, poor value for money and low-quality products and services being the biggest reasons companies believed their brand and reputation would be damaged.

#### Largest threats – Which of the following do you consider to be the biggest threats to your business's brand and reputation?



“As an insurer, our role is to support our clients with the risks they face to allow them to concentrate on building and operating their business. Our research highlights that businesses understand the interplay between the risks they face and their own reputation. Proactive risk management is therefore one of the most significant actions a business can take to protect its brand and reputation.

It is, of course, impossible to prevent and protect against every risk. However, one of the biggest challenges for businesses plunged into a crisis is how they respond – to customers, employees, shareholders, regulators and key stakeholders. Good risk management, including post-risk response planning, is crucial for businesses of all sizes to protect their brand and reputation. For mid-sized and corporate businesses this could take the form of tested and up-to-date business continuity planning, as well as the creation of a crisis handling plan.”

**Raj Kumar, Group Brand and Reputation Director, Aviva**

## 4. Impacts of Brexit 25%

The ongoing impacts of Brexit and the continued uncertainty this creates for UK businesses remains a significant risk concern to companies of all sizes. Businesses say they are more concerned over how Brexit will continue to affect them than they are over the ongoing implications of Covid-19.

There have been, as expected, major Brexit-related goods and services trading frictions with the European Union. The impact of these were perhaps masked to a degree as a result of the pandemic but now seem to be amplified by the global post-Covid-19 trading frictions we are seeing (such as the very real threat to supply chains).

As the UK continues to struggle with a shortage of HGV drivers, which has led to fears of shortages in the shops and petrol stations, some businesses cite Brexit as an impediment to the successful economic recovery as we come out of the pandemic. So, too, do businesses across multiple industries facing a shortage of workers. Uncertainty for the UK's post-Brexit policy and regulatory agenda remains for many sectors.

The impacts of Brexit have been ranked in the top five biggest concerns for businesses, with 25% of companies citing the issue as a major threat, rising to 29% of mid-sized businesses and 30% of corporates. Businesses in retail (34%), manufacturing (31%) and construction (30%) cited the impacts of Brexit as one of the biggest risks they face.

### Impact of Brexit – Do you think Brexit is a top five risk for your business?



“The trading frictions and labour issues the UK is experiencing have some source in Brexit, but an issue that will continue to concern UK businesses is the uncertainty that remains in many sectors as to how the UK will approach its new policy and regulatory freedoms and when the benefits of new international trade deals might flow.

The pandemic has had the understandable effect of delaying progress on some areas of policy development which amplify that uncertainty. There are likely to be winners and losers as the UK defines its future policy approaches, both domestically and in trade agreements. For instance, the government seems keen to look to drive the artificial intelligence and health sectors with changes to the data protection rules, the GDPR regulations we inherited from our time in the EU. While this may deliver great benefits to sectors such as AI and health, for some businesses that rely heavily on transferring data internationally there might be concerns as to how departing from the EU standards might negatively impact on current trading practices, particularly with the EU which currently recognises the equivalence of the UK's rules. These sorts of trade-offs cannot be avoided, but businesses are keen to understand the long-term direction of policy and regulatory travel so that they can plan accordingly.”

**Suresh Weerasinghe, Head of EU and Brexit Public Policy, Aviva**





### Immediate impacts of Brexit

Brexit has forced almost one in five businesses to change or update their supply chain. This has affected all sectors of the economy but has a particularly large impact on the manufacturing and retail sectors, where 31% and 26% of companies respectively have been forced to change their supply chain. 11% of businesses have taken the opportunity to update their supply chain to move to more local or British suppliers, with 28% of companies expecting to increase their sourcing from more local or British suppliers over the next year. There’s growing evidence that while businesses are keen to grow in the year ahead, the majority believe that growth will need to come from within UK borders.

When asked about their priority for investment over the next 12 months, just 8% said they would be making any investment in international growth. This figure was among the lowest in terms of business priorities and highlights the negative view businesses currently have on their prospects for international trade.

Business priorities

Which of the following are the top priorities for your business, in terms of investment and resources?

39%

Financial growth

8%

International expansion

Similarly, the Federation of Small Businesses has highlighted the pressure SMEs have faced from Brexit and the lack of support for making the most of the trade deals the UK has signed since it left the EU. In its report ‘Ready to Launch’ (Ready to Launch | FSB, The Federation of Small Businesses), it reported that since the end of the Brexit transition period, around 25% of small exporters have either temporarily or entirely stopped exporting to the EU. This is confirmed by our own research that shows around one in 20 small or corporate retailers have taken the decision to stop selling internationally over the last 12 months.

### Long-term impacts of Brexit

In the longer term, 47% (53% in 2020) of businesses believe that Brexit will have a negative impact on their business with only 16% (23% in 2020) saying they feel that there will be a positive future for them outside of the single market.

The corporate responders have the most negative view of Brexit, with 53% believing Brexit will negatively impact their business, while that figure fell to 43% among small businesses.

Long-term effects – What do you think will be the long-term impact of each of the following on your business?

	Small 705	Mid-market 298	Corporate 248
New technologies	+46%	+70%	+75%
Working from home becoming the norm	+15%	+27%	+44%
Recovering following the pandemic	-1%	+15%	+22%
Brexit	-26%	-37%	-38%
Climate change	-18%	-20%	-19%
My business debt	-11%	-2%	-2%

\*Table shows the net scores. The positive and negative numbers represent the expected long-term impacts.

Businesses accept that Brexit cannot be undone and are now looking for more certainty to inform how they will be able to move forward in the years to come. Whilst the term Brexit may disappear from the conversation, the process of the UK arriving at a reformed policy and regulatory structure is likely to take 10 to 15 years, and businesses now recognise that the uncertainty Brexit has caused will not disappear in the short term, even if the moniker does.

## 5. Public health events

24%



The perceived risk from a resurgence of Covid-19 or another public health crisis is diminishing. However, Covid-19 remains a major concern for companies who fear the impacts of future lockdowns, with 21% of businesses telling us that further lockdowns affecting their ability to operate was the risk they think is most in danger of being given too low a priority in 2021.

The number of companies that placed public health events in their top five risks for the year ahead almost halved from the figure in the 2020 report (46%), when it was by far the biggest risk identified by businesses across the country.



“The Covid-19 pandemic has impacted every business in the UK, regardless of size or sector.

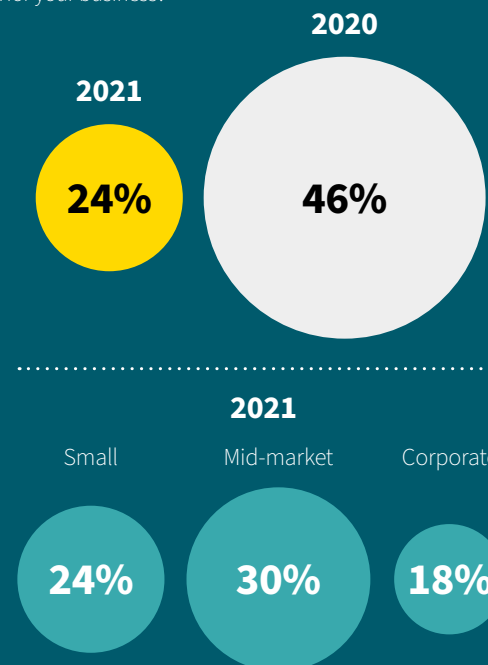
As the UK economy recovers and the restrictions on social distancing are eased, it's understandable that there is a higher degree of positivity over the threat it currently poses. However, it also starkly illustrated the threat that a major public health event can have on companies. And having traded through the peak of Covid-19, business leaders are understandably concerned over any future pandemic-style event.”

**Dave Carey, Director of Mid-Market, Aviva**

Despite the steep fall in those who saw the issue as one of the biggest risks to their business, the ramifications of the Covid-19 pandemic are still being felt and are at the heart of many of the risks that feature in the top ten for 2021.

The biggest concern is with mid-sized companies, 30% of which put the risk in their top five business threats.

**Effects of Covid-19** – Are public health events a top five risk for your business?



### Long-term impacts of Covid-19

The success of the vaccine rollout in the UK has been hailed as a key step in the ability to protect the country against a new wave of the pandemic. But for businesses which rely on international supply chains, the threat of disruption continues, such as the recent delays to the shipment of goods from China.

Those delays have been caused by recent lockdowns to contain Covid-19 outbreaks near ports, coupled with the ongoing disruption due to vessels and containers being in the wrong place at the wrong time across the world due to the Covid-19-driven shutdowns. 18% of companies told us they had been forced to change their supply chain following disruption caused by the pandemic.

Alongside supply chain disruption, the economic hangover may be long-lasting for many businesses with 7% saying paying back the cost of Covid-19 is one of their top three priorities for 2021. Similarly, 24% of businesses that took financial support that must be repaid are going to struggle to repay what they borrowed or are unable to repay on the terms they borrowed it.

### Businesses remain worried

When asked if they were worried about the risk presented by Covid-19, 62% of those companies who saw the risk as a major threat said they were worried, with 25% saying they were extremely worried. Over half (52%) of those companies also said they felt the threat remains urgent, with 22% saying it was an extremely urgent threat to their operation.

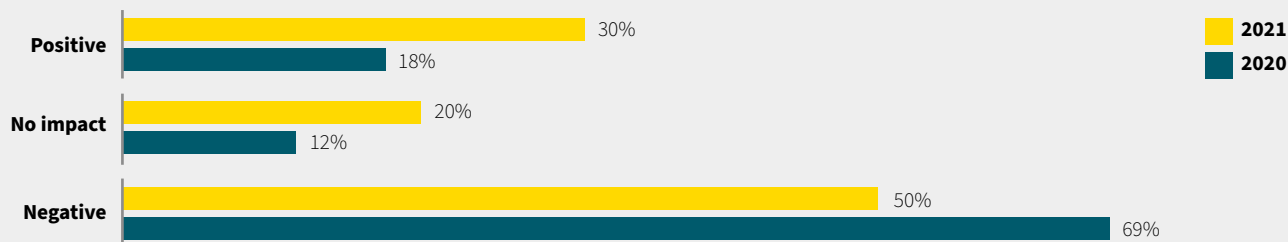
In the longer term, 37% of businesses said they were positive about the recovery from the pandemic, with 28% saying they felt negative about the prospects of recovery.

The fears of the impact of another lockdown due to a public health emergency rank high for companies, with 21% of businesses concerned that the threat is not being prioritised as it should be. On a sector basis, those in the arts, entertainment and leisure sector (31%) were understandably the most concerned, followed by motor (23%) and retail (23%).

On a personal level 13% of business leaders said they felt more exposed to Covid-19 infection than they deemed to be comfortable. Small businesses were the most worried with 14% of management concerned, while the figure fell to 10% for corporate business leaders.

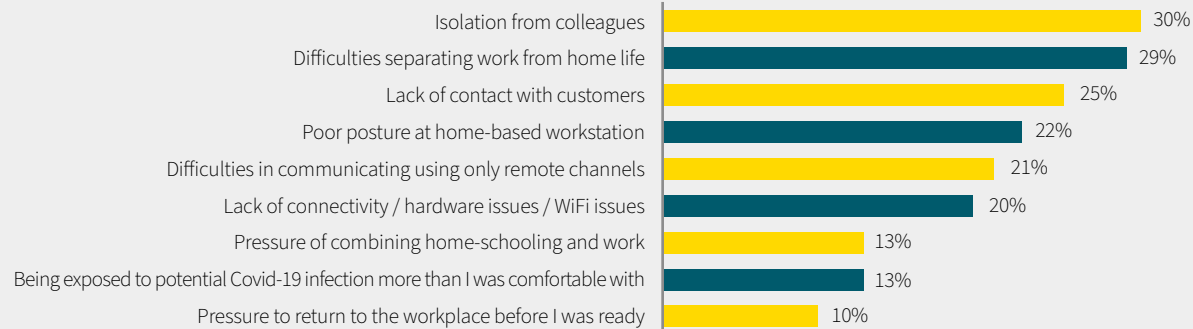
### Covid-19 pandemic long-term impacts

Do you think the long-term impact of Covid-19 on your business will be positive, negative, or do you anticipate there being no impact?





### Effects of Covid-19 – Which of the following have you personally experienced as a result of the Covid-19 pandemic/lockdowns/working from home?



In the UK, we have seen the recent announcement that the UK Health Security Agency (UKHSA), the nation's new public health body focused on health protection and security, had become fully operational (UK Health Security Agency launches with a relentless focus on keeping the nation safe – GOV.UK ([www.gov.uk](http://www.gov.uk))).

The agency will look to work as part of the public health system and the national security infrastructure, utilising state-of-the-art technologies and capabilities in data analytics and genomic surveillance to tackle Covid-19 and future threats locally, nationally and globally.

It highlights the concerns within the UK government and medical community over the threat, and the need to be better prepared for any future health events.



“Lessons have been learned and Covid-19 has heightened the understanding of the interconnected nature of today's commercial risks, and the fragility of international supply chains. Businesses were forced to rethink many of their operational processes. Transformations that would have been expected to take years required implementation in the space of weeks. It has asked several challenging questions of businesses and their insurers. Brokers and insurers now need to collaborate with clients to understand their concerns around future public health events. We need to explain how we can support them to put in place systems that will lessen the effects of any future public health events, as well as addressing the challenges and new risks businesses will face as they shift from Covid-19 response to the embedding of new models and structures permanently.

Like many of the risks which have emerged post-pandemic, the solutions to public health exposures will require different approaches and innovative solutions.”

**Marc Lewis, Chief Underwriting Officer Commercial Lines, Aviva**



## 5. Business interruption and problems in supply chains

**24%**

While the large-scale interruption of businesses caused by the Covid-19 pandemic has largely passed, issues within the UK's supply chain are threatening everything from fuel to Christmas dinner, and are a significant concern for British businesses who fear the impact of their inability to access and supply goods and services.

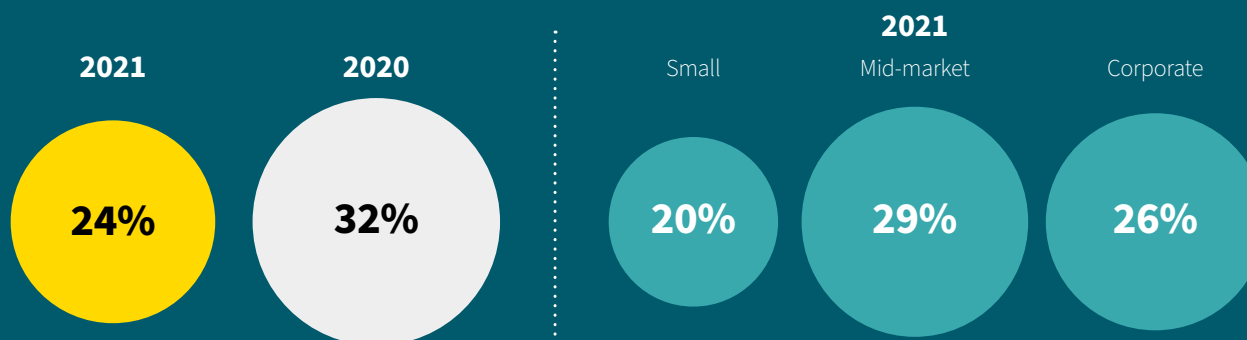
With the recent lack of fuel, a shortage of CO<sub>2</sub>, rising energy prices, and the impact of the chip shortage in the automotive industry among other concerns, 2021 is increasingly witnessing tension in the supply chain.

This is forcing many companies to re-evaluate the length, location and complexity of their business's supply chains.

Of those that put the risk in their top five issues, 64% said they were worried about it, of which 24% said they were extremely worried. Furthermore, 62% of businesses described the threat as urgent, with 28% seeing the issue as extremely urgent.

The reality is that businesses are faced with an increasing number of disruptive business interruption threats.

### Business interruption concerns – Do you think business and supply chain interruption is a top five risk for your business?



### Brexit and Covid-19 seen as key factors

While some businesses blame interruptions on the impacts of Brexit, due to the inability to access seasonal workers and challenges in trading with the European Union, Covid-19 is also seen as a significant catalyst for the supply chain issues that UK businesses face. The pandemic harshly exposed the fragility of the global supply chain as lockdowns across the world impacted businesses thousands of miles away in the UK.

The pandemic and successive lockdowns have also changed the way in which Britain does business. For example, the growth of online retail drove an increased need for delivery and warehousing staff, and the subsequent demand for qualified and experienced drivers meant companies struggled to fill vacancies. The result has been a disruption in service across all aspects of industry, with many businesses believing there is no short-term fix.

One in five (19%) businesses told us they had been forced to change their supply chains specifically because of Brexit. Likewise, 18% of businesses said they had been forced into a change by Covid-19. Reputational risk was also a concern, with 14% of organisations saying the fear of damage to their reputation due to how a supplier operates had caused them to re-evaluate their supply chain.

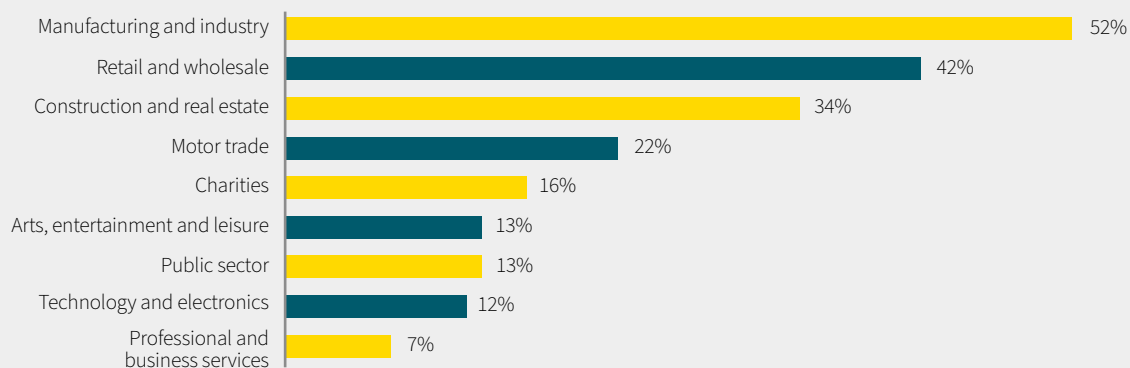
In response to supply chain issues, the Confederation of British Industry has called for the creation of a COBRA-style, government-led taskforce to tackle them and aid economic recovery – similar to the taskforce convened to combat the pandemic.



“As the world economy starts to recover from the global pandemic, stresses and strains in the supply chain are emerging. To drive process efficiencies, companies have adopted ‘just in time’ working practices which have the potential to increase susceptibility to minor disruptions in the supply chain. These can result from a broad range of causes such as damage to suppliers’ premises, cyber attacks and disruption in the distribution networks. To make sure businesses are resilient they need to understand the risks in their supply chain and take action to ensure their business is able to continue to trade should the supply chain be disrupted. Working in conjunction with their insurer and broker partner, a combination of insurance coverage and risk management solutions will help customers to respond to the unexpected and allow them to continue to meet their customers’ needs.”

**Mark Dunham, Head of Technical Underwriting for Commercial Lines, Aviva**

### Business interruption – Do you think business interruption is a top five risk for your business?



**64% of business owners are worried about business interruptions, up 19% on 2020.**



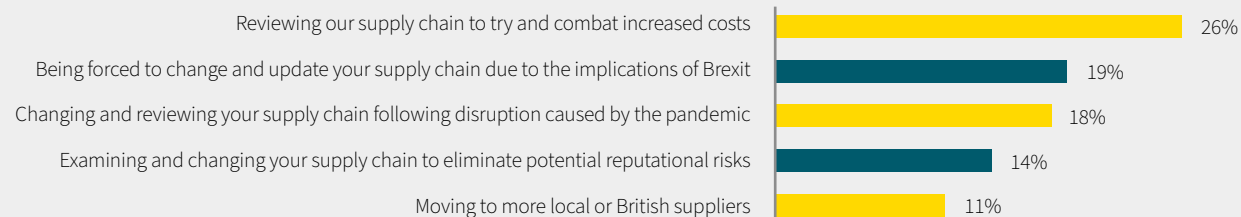
### Core sectors fear disruption

Against this backdrop, it's no surprise that companies ranked business interruption and supply chain problems in the top ten risks they faced. One in four businesses (24%) said it was one of their top five concerns, rising to 29% in mid-sized businesses and 26% in corporates. Manufacturing (52%), retail (42%) and construction (34%) had the highest percentage of businesses that highlighted supply chain disruption as a major concern.

In response to the disruption businesses have faced, 65% of mid-sized companies and 63% of corporates said they had made changes to their supply chain in the past year. The figure fell to 43% for small businesses.

To combat the supply chain risk, 19% of businesses say they conduct regular supply chain analysis (rising in sectors that rely heavily on their supply chains: manufacturing 34%, retail 33%, construction 27%), while 14% expect to shorten their supply chains over the next year. One in nine (11%) businesses have moved to a more UK-centric supply chain, with a further 28% expecting to do so over the next year. However, one in five companies (20%) are braced for a lengthening of their supply chain as they seek alternatives, while 36% expect to see higher supply costs.

### Supply chain – Is your business undertaking or planning to undertake any of the following actions with its supply chain?



### The importance of business continuity planning

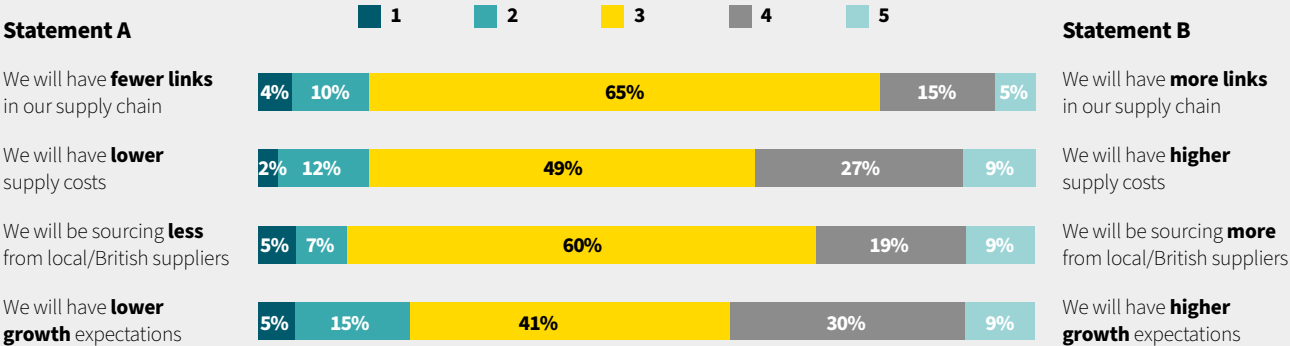
Many businesses are responding to the threat posed by business interruption, with 10% of companies identifying investment in their business continuity plan as one of their three biggest priorities for the year ahead.

Unfortunately, this isn't true for all businesses. Only a quarter (25%) say they regularly update and test their business continuity plans, with 27% admitting they don't have a continuity plan in place – a figure that rises to almost half (48%) of small businesses. 13% of businesses did not test their business continuity plans within the last 12 months, and 6% of companies across the UK were forced to enact their plans and found they didn't work as well as anticipated.





Supply chain – What do you think your business might look like in one year’s time and what do you think are the most likely outcomes for your business?



“

As part of their approach to business continuity, companies need to complete a business impact analysis on the issues that could affect their ability to operate, identifying dependencies, suppliers or customers, and any single sources of supply or points of failure. The impact analysis needs to be revisited regularly and should consider the approach to each risk to the business and determine the actions needed to manage, prevent or control to an appropriate level.

Whatever its size, every business should take the time to examine ways in which it believes its supply chain can be undermined and take steps to protect its critical supplies. Businesses must ensure that when they view their supply chain it does not simply stop with the goods or services they are receiving – it must reach the end customer. If it fails to reach the customer then the business will fail, so how goods or services are delivered must be part of any supply chain analysis.

With the growing pressure on companies for next-day delivery given the pledges made by many of the major distribution outlets, a failure to meet the expectation of the client can have a deep impact on a business’s reputation.

We may see more companies move to onshoring, consider other transportation methods such as road to rail, or move away from just-in-time inventory management by increasing the levels of inventory on site. These changes will bring their own risks, all of which need to be managed and understood. The world is changing and businesses need to adapt, understanding the risks and exposures as they do, to ensure they are and will continue to be resilient.”

”

Chris Andrews, Director of Aviva Risk Management Solutions, Aviva

## 7. Changes in legislation and regulations



22%



The regulatory and legislative landscape for businesses across the UK is set to undergo a year of transformation, with significant changes on the horizon.

When asked, 22% of companies saw regulation and legislative change as one of the biggest threats to their business. This is a reduction from last year, when 35% of businesses said regulation and legislative change was one of the biggest threats, making it the third largest risk for businesses in 2020.

In this year's research, the highest proportion of those who saw the issue as significant to their future were mid-sized companies, with 27% selecting it as one of their biggest risks compared with only 21% of small businesses and corporates.



“We continue to work with brokers to identify the regulatory and legislative changes that affect their customers, and what they will mean for their clients, through our Back to Business campaign and a series of webinars.”

**Frank Carson, Director of UK Public Policy, Aviva**

### Trade uncertainty driven by Brexit

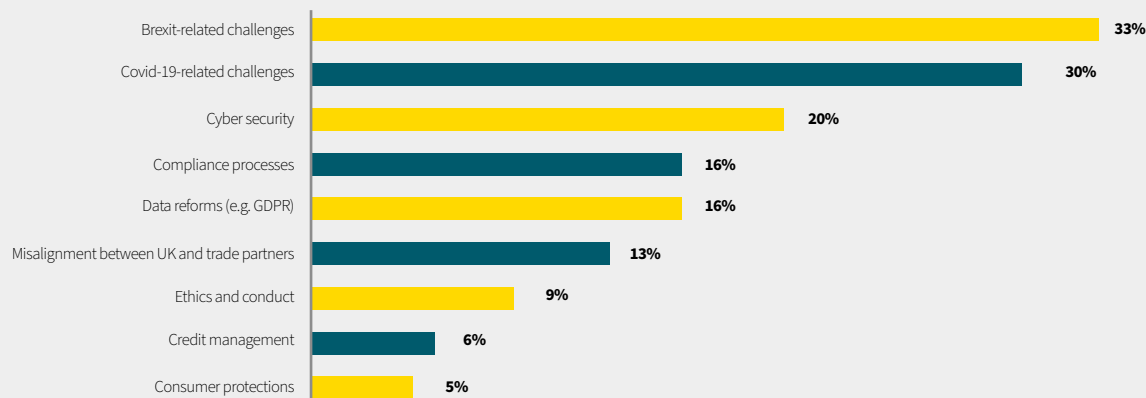
Brexit is the primary driver of legislative concern for companies, with a third (33%) of businesses stating that Brexit-related issues are at the root of the main regulatory challenges they expect to face over the next 12 months.

Post-Brexit trade negotiations will continue to develop, resulting in ongoing uncertainty around how and when the trade requirements between Northern Ireland, the Republic of Ireland and mainland UK will be agreed. Currently the temporary arrangements are expected to be extended, with no visible progress on a long-term solution evident – however, the government is still in negotiations. A similar set of temporary arrangements and lack of long-term clarity is in place for trade between the UK and European Union member states. This disruption and uncertainty has led almost one in 20 small and corporate retail and wholesale businesses to stop selling internationally.

The pace of negotiation and lack of clear direction has left businesses unclear on future trade opportunities globally and what those opportunities will mean from a product-standards and regulatory standpoint, leading to 13% of businesses citing potential misalignment between the UK and trading partners as the source of their current legislative and regulatory concern.



### Regulatory challenges – Which of the following best describe the main regulatory challenges you expect your business will face over the next 12 months?



### Domestic legislative agenda

Away from international trade, there is likely to be a swathe of new regulations with new rules on construction, planning and data protection already scheduled for 2022.

The ongoing impact of Covid-19 and the rise in the use of technology has been identified as an area where companies believe there will be new rules in the year ahead, with 20% of businesses calling out cyber security regulation as a key challenge for the next year and 16% worried about data reform (including any changes to GDPR that emerge following the UK’s exit from the European Union).

19% of business leaders representing large corporations expressed concern about the weight of existing and expected future compliance processes.



“UK businesses have undergone a wide range of regulatory and legislative challenges in the past 12 months, with Brexit and Covid-19 providing significant but very different challenges. And both Brexit and Covid-19 are likely to create further regulatory changes as we emerge from the pandemic and the UK looks to adopt and adapt regulations in a range of areas.

The environment and the global move towards net zero will also have an impact. Businesses are already having to examine how they will meet the challenge of the end to the sale of internal combustion engine vehicles in 2030 and its impacts across delivery, supply chains and transport networks.

The year ahead is also likely to see new regulations around cyber risk and protection as the move to more online and remote working continues, with new rules around the use of data and GDPR. For the construction industry the Building Safety Bill is likely to have an impact for companies in all areas of the sector.

While some of these changes are likely to bring benefits, there will also be risks and businesses will be keen to understand how any new regulations or laws will impact them.”

**Frank Carson, Director of UK Public Policy, Aviva**



## 8. Cyber security and cyber incidents

20%

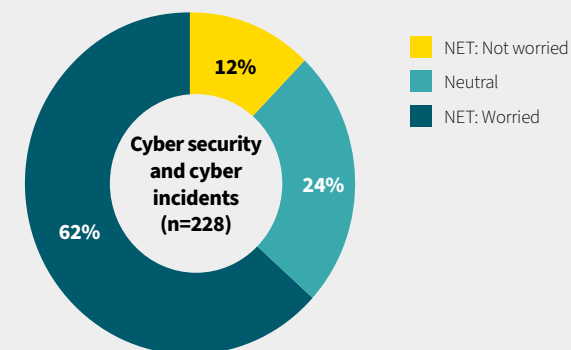


The Covid-19 pandemic has prompted a surge in cyber crime, with the National Fraud Intelligence Bureau recently releasing figures showing almost 500,000 crimes reported and £2.5bn in reported losses due to fraud and cyber crime across the last 13 months (to October 2021).\*

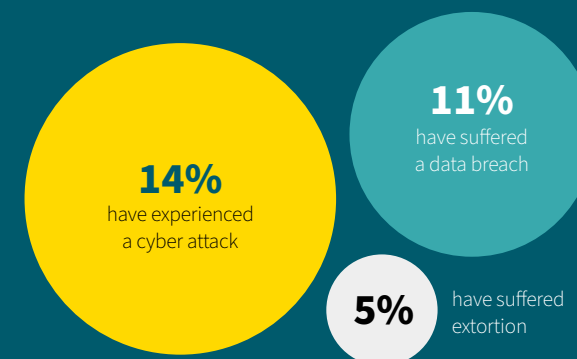
Amid warnings from security services, law enforcement and experts, the threat has been ranked as the eighth most significant risk that businesses face (falling from fifth position in 2020) due to the rise of business concern around a shortage of skilled workforce, the economy and long-term impacts of Brexit. Businesses that are aware of the threat cyber incidents pose take it seriously, with 62% of those who highlighted the risk expressing they were worried about the threat of a cyber attack, and 19% saying they were extremely worried. Asked if the risk was deemed to be urgent, 61% agreed with 24% viewing the risk as extremely urgent.

One in seven (14%) businesses we surveyed reported that they were the victim of a cyber attack in the last 12 months, with 11% of businesses suffering a data breach or cyber attack and 5% suffering extortion, including cyber extortion (predominantly ransomware). This makes cyber attacks one of the most frequent risks that directly affect businesses.

**Threat of cyber attack** – How worried are you about a cyber attack to your business?



**Cyber incidents** – Has your business been affected by any of the following incidents or risks in the last 12 months?



\*<https://colpolice.maps.arcgis.com/apps/opsdashboard/index.html#/60499304565045b0bce05d2ca7e1e56c>



“Cyber insurance is a specific solution designed in response to the needs of businesses, and can cover first-party, third-party and reputation management costs, as well as risk management support, experts from third-party specialists and rapid response in the event of a cyber attack. Crucially, a cyber insurance policy reacts at the time of the incident – not afterwards.

Some businesses mistakenly believe they are adequately covered via an add-on to an existing insurance, such as computer policies. Businesses should be aware that add-on policies are not designed to provide the full range of cyber cover and services that a business would require following a cyber incident – most notably breach response, which is essential to limiting the impact of an event.

Good cyber insurance policies will provide access to experts who can help limit the scope of the attack, provide legal advice to ensure that you meet the requirements of GDPR and the reporting rules around any data breach, and support a business in terms of how they handle any publicity around the event. It is not a product which is simply designed to compensate the policyholder for any financial loss.

Companies will often have business continuity plans for physical risks such as flood or fire, but they are significantly more likely to suffer a cyber attack and, as such, working with your brokers and insurers to ensure that you have a contingency plan for a cyber incident should be a fundamental part of your risk management strategy.”

**Alana Muir, Senior Cyber Regional Underwriter, Aviva**

### The impacts of a cyber attack

Businesses said they were most exposed to operational disruption and loss of data because of a cyber attack, with 37% of businesses citing both exposures. Damage to brand and reputation, loss of customer confidence and financial impacts were also seen as significant threats should an attack occur. The commercial sector has seen a huge rise in the number of ransomware attacks, with cyber security experts SonicWall reporting that the number of ransomware attacks on UK businesses grew by 144% in the first half of the year alone – more than the total number of attacks in 2020.

### Cyber risks – Which of the following, if any, do you think your business is particularly exposed to as a result of cyber attacks?



Increased working from home due to the pandemic has changed the risk profile for many businesses when it comes to cyber exposure. The forced move to remote working has left many businesses increasingly vulnerable.





Companies and cyber security experts are concerned about the ability of hackers to access company systems via home computers or internet connections being used for work purposes. This risk has been magnified by many businesses – out of necessity – conducting the move to remote working in haste, with only 37% of businesses investing in technology to support more flexible working, despite 86% of companies having at least one staff member working from home.

Legislative and regulatory challenges around cyber have become more pronounced this year. 20% of businesses said they are worried about complying with increased cyber security requirements and 16% said the same about data and GDPR.

The European Union Agency for Cyber Security (ENISA) has warned commercial supply chains are increasingly becoming a target, highlighting the interconnectedness of risk. UK businesses ranked supply chain disruption as the sixth biggest risk they face in our survey, and the risk of cyber attacks feeds into this.

Such attacks have been a concern for cyber security experts for many years because the chain reaction triggered by one attack on a single supplier can compromise an entire chain of companies.

### Small businesses in danger

While many businesses are aware of the threat of a cyber attack, our research found there were clear differences in terms of the types of businesses that believed cyber attacks are a major threat to their operations. While 25% of mid-sized companies and 28% of corporates identified cyber security as one of their biggest risks, only 13% of small businesses did the same.

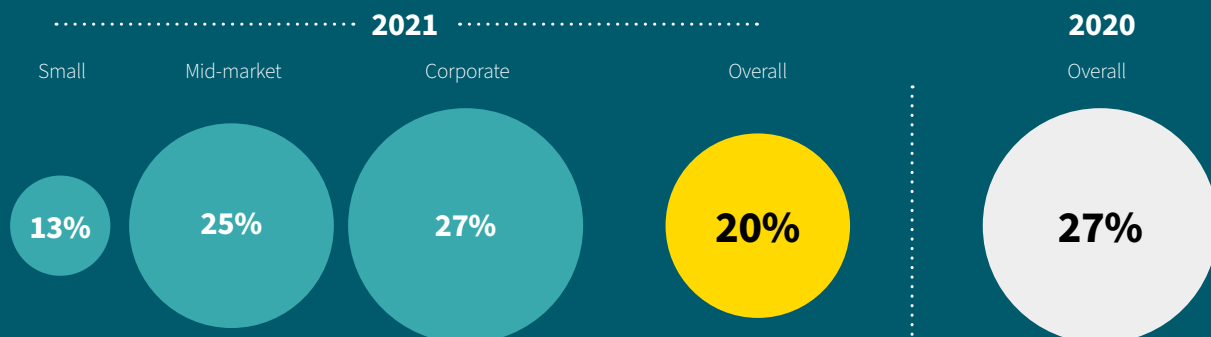
Many cyber criminals cast a wide and indiscriminate net when selecting their targets and prefer to attack smaller businesses. Malware, ransomware and phishing attacks can be sent to thousands of businesses and hundreds of thousands of employees far more quickly and easily than a sophisticated attack, and can be prepared against a larger and more secure target.



“For small businesses, taking the view that ‘it won’t happen to me’ is far too common. They may weigh the likelihood of a cyber attack against the level of support that would be required to prevent and protect them in the event of an actual attack. However, this is precisely where a well-rounded cyber insurance policy can offer protection against an attack and ensure businesses have fast access to expert specialists if a breach does occur, so they can return to normal as quickly as possible.”

**Matt Gordon, Chief Underwriting Officer  
for Specialty Lines, Aviva**

### Cyber attack fear by business size



## 9. Market developments, mergers and acquisitions

17%



Companies are struggling with ongoing uncertainty as they look to understand the future direction of the business landscape. The optimism from many businesses after their navigation through the Covid-19 pandemic and the efforts to realign operating models to profit from the new normal have begun to fade as the reality of the economic implications of the past two years hits home.

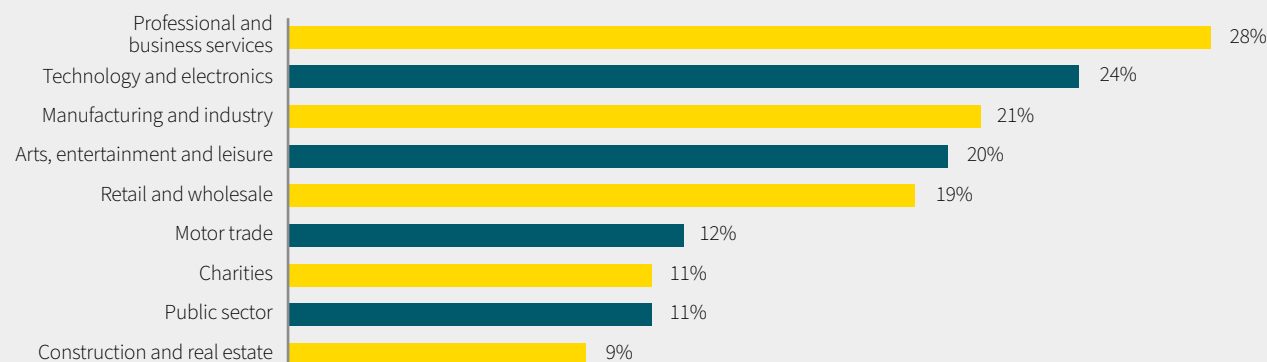
The risk of adverse market development, increased competition, and mergers and acquisitions has been placed in the top five risks by 17% of companies. This risk is a greater concern for larger companies, with 22% of mid-sized businesses and 26% of corporates selecting it compared with only 11% of small businesses. Professional and business services (28%) and technology (24%) were the sectors where competition and

market developments were most concerning, but the growth in the number of mergers and acquisitions is sector-agnostic.

When asked how worried they were about the threat, of those businesses which had placed the issue in their top five risks, half (50%) said they were worried and 13% described the issue as extremely worrying.

Conversations are being held in boardrooms across the country to understand how the business environment will develop and where investment is needed to ensure companies are prepared for the future. As insurers we need to be part of those conversations around how we can support businesses in being agile and meeting the demands of a market which has been defined by changing risks.

### Market developments – Do you think market developments are a top five risk for your business?





“There are a wide range of dynamics that are currently impacting businesses. There is uncertainty in a range of areas, which is making some business owners question the future direction of their operations and with it the structure of the business.

The data suggests that we will see an increase in mergers and acquisitions (M&A) activity – certainly we are now in one of the busiest periods of sustained M&A activity that I can remember, across all sectors. There’s increased competition for good acquisition targets, which can result in compromising on completing a full-scale due diligence process in the rush to complete a deal. Companies looking to acquire a business should consider talking with an M&A insurance specialist, who can advise on how to protect the value of the investment and ensure the acquisition is successful.

There will be businesses with concerns that future conditions will present challenges against which they lack the tools to effectively negotiate. We are seeing new companies created post-Covid-19 and they are using technology to streamline processes and reduce operating costs. However, the flipside of the focus on increased technological capabilities is people. People are at the heart of every business and are the key to its success. It has left some established businesses considering the need for a cash injection to drive their future and whether now is the time to consider the sale of the business.”

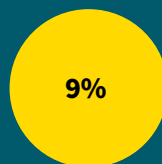
**Josh Cowen, Head of Mergers and Acquisitions Underwriting, Aviva**

### Changing business models

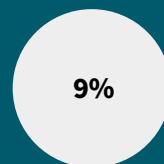
The market has also been impacted by the rise in new start-ups which are looking to use technology and innovative business models to disrupt traditional companies. This has led to one in ten (10%) businesses prioritising investment in technology to keep pace with their competition.

The pandemic has also changed the dynamic for customers, causing a rapid and wholesale move to more online and technology-enabled transactions with 44% of businesses making significant changes to the way they operate. It appears the dynamic of market conditions will continue to evolve, with 84% of businesses saying they are making or intend to make significant investments in technology, and 55% expecting their businesses to realise the benefits of this investment within the next 12 months.

**Changing business models** – In which, if any, of the following ways have you changed the way in which your business operates over the last 18 months?



We have started offering new virtual services



We are now offering services that are significantly different from our usual offer



We have introduced online sales / e-commerce



We have reduced the range of products or services we offer



We are now offering goods that are significantly different from our usual offer



We have started doing takeaways / click-and-collect



## Growth expectations

Companies had hoped the economic rebound would be at a pace to enable them to drive revenues to meet the costs incurred as they managed the financial implications of the pandemic. However, the optimism is being tinged with a degree of pessimism, with many business leaders fearing for the future market conditions.

That outlook has been reflected in data from the Institute of Directors (IoD). Its latest Economic Confidence Index saw a significant fall in September, slumping to levels last seen in February 2021. This is a sentiment reflected in our own data, where net confidence for the UK economy sits at only 5%.

Some businesses remain concerned at the ability to meet the expectations of shareholders, while others say they will struggle to pay back the financing they have had to access to protect their ability to continue trading during the past 18 months.

Small businesses were hardest hit. Across businesses of all sizes 44% said they had to access additional finance. However, the figure rose to 54% of SMEs, while only 28% of corporates sought additional funding.

Of greater concern is that almost a quarter (24%) of businesses that accessed additional funding revealed they will struggle to repay the funds.

It has sparked discussions around a potential rise in mergers and acquisitions, as those businesses which have emerged in better shape than their peers may look to acquisitions for growth, particularly with the current difficulties of global or European expansion.



“Larger companies are now looking at growth. This may come organically as they look to new markets, but they are also open to growth by acquisition if the price and fit are right, or if international expansion proves too difficult at the current time. Our own research shows only 8% of businesses are prioritising international expansion, which leaves growth in the UK remaining an option.

There is, however, a good degree of positivity from business managers about the resilience and adaptability of their businesses, especially when considering how they have managed their way through the past two years. Focus has now shifted to how they can make the most of future opportunities, and there is a recognition that business models have evolved and will need to continue to change and adapt.

Mid-market and corporate businesses are confident they will be able to deliver those changes to ensure they remain relevant to the client.”

**Josh Cowen, Head of Mergers and Acquisitions Underwriting, Aviva**

**24% of businesses that accessed additional funding in the last 18 months will struggle to repay the funds.**



## 10. The mental health and wellbeing of employees

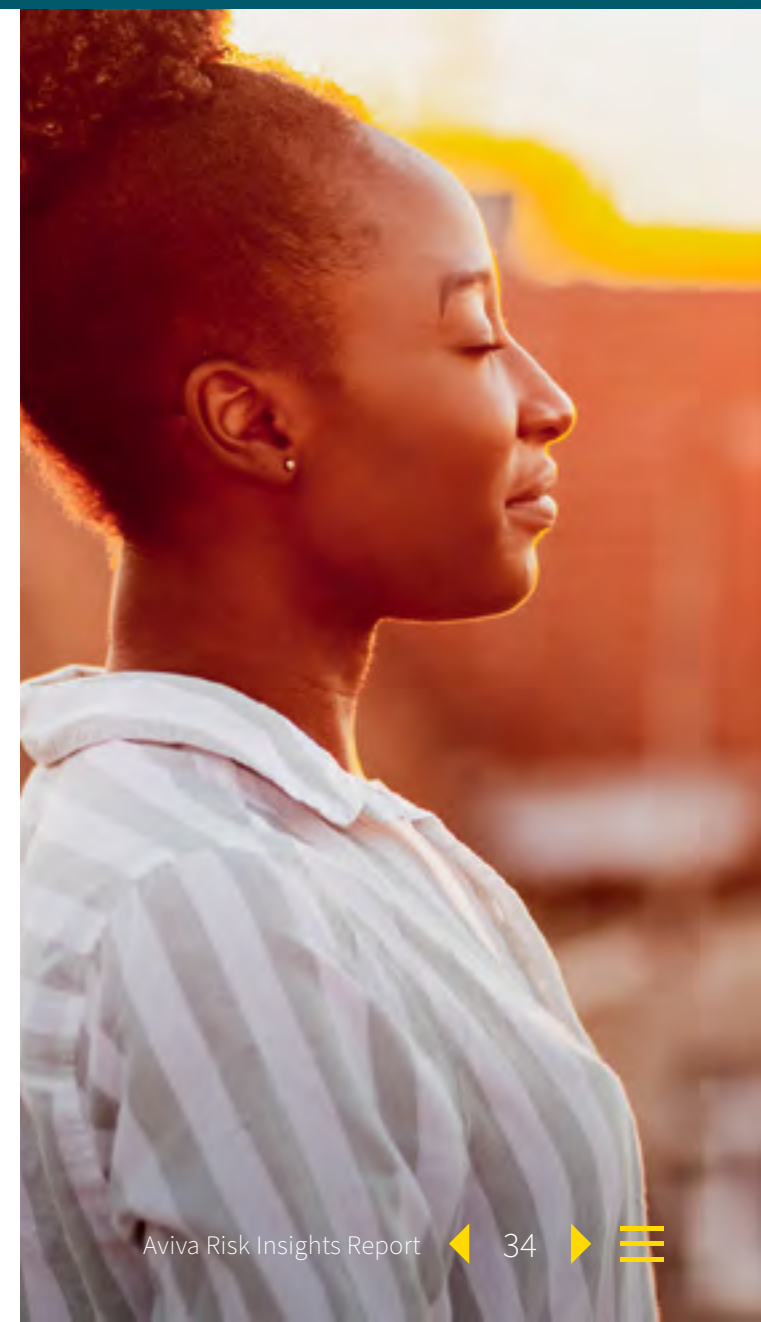
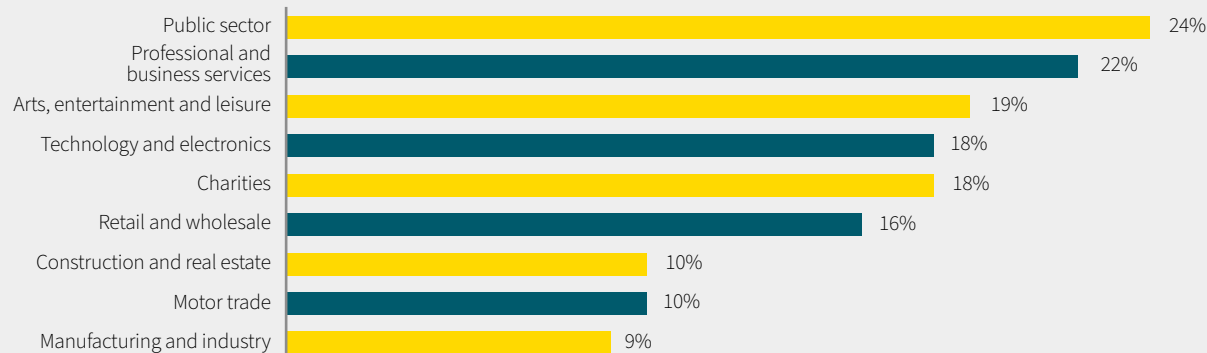
16%

The fundamental shift in the way the UK will work after the pandemic is causing continued concern over the ability of company management to ensure the wellbeing and mental health of employees who will work increasingly remotely. Although the risk has fallen from seventh position in 2020 during the height of the pandemic, it's still considered one of the biggest risks UK businesses currently face. The requirements for remote working, social distancing and the job protection furlough scheme left millions of employees either working from home or on enforced leave during the peak of the pandemic.

Sector-wise, the issue was seen to be most acute by those industries that have had a larger proportion of their workforce working flexibly, with public sector companies (24%) and professional and business services (22%) the most concerned. Conversely, industries without the ability to work as flexibly rate the issue lower, with just 9% of manufacturing and industrial companies and 10% of construction and industrial companies naming it as a top five concern.

Asked if they were worried about the issue, 58% of organisations that selected the risk in their top five said they were worried about the impact it would have on their business, while 60% described the threat as urgent.

### Mental health and wellbeing of employees – Do you think mental health is a top five risk for your business?





“As businesses manage the return to the workplace at the end of furlough, we are seeing detailed evidence of the toll that the lockdown and the move to new ways of working has taken on the health and wellbeing of employees.

Wellbeing experts engaged by companies have found that many issues with their people revolve around the feeling of burnout, with 29% of business leaders personally having difficulties separating work from home life.

Employees feel stressed and exhausted, and there is a variety of causes for this burnout. When the first lockdown occurred, employees were suddenly at home, unable to go out or doing anything else other than be at their desk and in front of the computer. With nothing to do, they continued to work extended hours.

The pandemic has also caused anxiety for many. People had to deal with fears they would become sick or that their loved ones would contract Covid-19 and become seriously ill or die, and 13% of business leaders stated they felt more exposed to Covid-19 infections due to work than they were comfortable with. Anxiety often leads to overdoing tasks, so it only added to the desire to work harder and for longer.”

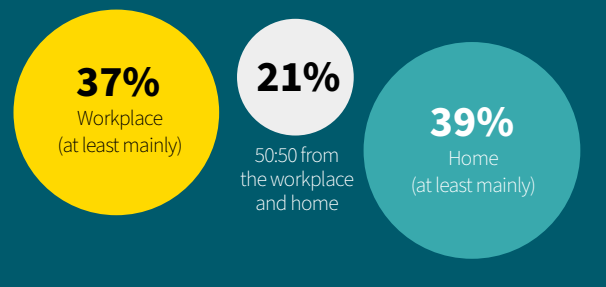
**Debbie Bullock, Wellbeing Lead, Aviva**

### Working from home is here to stay

The move to remote or more flexible working has only gathered pace over the pandemic and into the recovery, with 39% of businesses saying they expected employees would now be mainly working from home, compared with 37% who said they would be mainly working at their premises, and 21% that foresee a 50-50 split between the two.

This aligns closely with the personal preferences of business leaders: when asked how they would want to work if given the choice, 40% said they would look to work mainly from home, with 35% preferring to work mainly from the workplace.

**Flexible working** – As UK businesses consider the implications of extended flexible working, how do you think your time will be split between working from home or from your workplace?



The move to remote working has created a need to review the amount of office space companies will need, with 18% planning to decrease the office space they utilise over the next three years. This is particularly relevant in the professional and business services and technology sectors, where 28% of businesses plan to reduce their office footprint. Over the longer term, 30% of all businesses expect to be using less office space than they did a year ago.







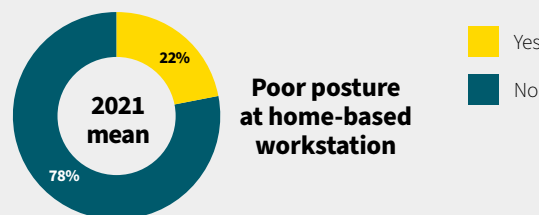
### Emerging liability risks

Even though 86% of businesses have had at least one employee work from home over the last 18 months, only 24% reported that they had undertaken risk assessments for those that have moved to flexible, remote or home working.

While this gap is understandable – the mass move to flexible working over the pandemic was enforced and far more rapid than many companies would have liked – it exposes businesses to emerging liability risks. Businesses have a responsibly to protect their employees and ensure their working conditions are suitable and safe, and this extends to the home if employees are expected to conduct work-based tasks there.

Conducting risk assessments for employees that are now working from home should be a priority for all businesses. 22% of business leaders told us they have personally suffered from poor posture at home-based workstations – companies could be deemed liable for issues that develop because of working from home without a proper consideration and assessment of the risks involved for employees.

**Effects of Covid-19** – Have you personally experienced poor posture at your home-based workstation as a result of the Covid-19 pandemic/lockdowns/working from home?



### Protecting people

While most of Britain's business leaders said they had managed the transition to a new way of working well, the longer-term impacts on employees have yet to be fully addressed and have resulted in many organisations looking to implement new support systems.

The cost to businesses of mental health issues has spiralled to the point where the UK government has stepped in, launching an action plan in an effort to better enable companies to deliver the necessary support.

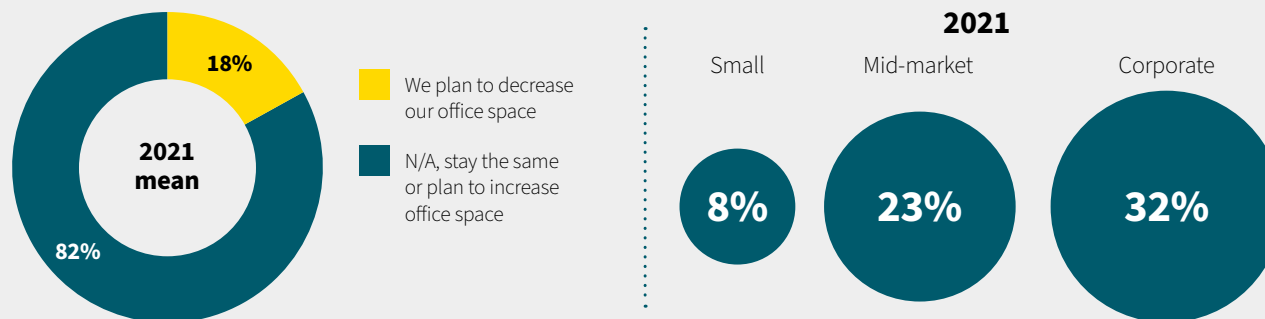
Government figures showed that poor mental health costs employers between £33bn and £42bn a year, and the UK economy between £74bn and £99bn a year – figures that may increase with the end of furlough and most lockdown restrictions, and as people return to workplaces.\*

However, business leaders say they have been working to support their employees during the disruption; 34% said they have taken steps to protect their employees' welfare due to remote working.

Isolation from colleagues (30%) was the biggest downside personally experienced by those who took part in the research, followed by the difficulties of separating work from home life (29%). Almost a quarter of those asked said they had also suffered poor posture issues working from home.

\*<https://www.gov.uk/government/publications/covid-19-mental-health-and-wellbeing-recovery-action-plan>

**Office space** – To what extent, if at all, does your business intend to change how much office space it uses over the next 36 months, compared with a year ago?



“As restrictions ease there are real fears for some over the return to work and how the new normal will look for the business – but more importantly for employees as individuals.

Businesses need to recognise their managers are now on the front line on areas such as mental health to a point they have never previously experienced. As such they need to be not only trained to spot the signs of mental health and other problems, but also to hold a supportive conversation with their team that can lead to the ability to access professional support.

For larger companies those professional services may already be in place, but for SMEs they need to identify the options available and how they can be accessed. Companies may well be returning to the new normal, but the requirement for employees to access both mental and physical support services will not simply be eradicated.

It's a serious risk to the ability of businesses to operate, especially at a time when skilled workers in many sectors are at a premium. Businesses need to look at how they can manage the risk and reduce the potential for serious problems by making sure that issues are quickly identified, and employees know there is support in place.”

**Debbie Bullock, Wellbeing Lead, Aviva**



## 10. New and changing technology 16%

As businesses across the UK are forced to change the way they operate, the importance of technology – and the risks it poses – remains a key concern for businesses, maintaining its ranking in our top ten.

Covid-19, the restrictions on social interaction and the forced closure of all but the most essential of retail and manufacturing premises provided companies with a sudden and immediate need to redefine the way they conducted their business – often fuelled by investment in new and changing technology. The risk is prioritised evenly across all business sizes with 15% of small businesses, 15% of mid-sized companies and 19% of corporates citing it as one of their biggest risks for 2021.

### New business models

Working models that had been in place for decades were rendered temporarily obsolete as staff were forced to work remotely and retailers faced the challenges of providing goods and services without the ability to open their premises and conduct face-to-face sales.

It triggered a huge wave of innovation as 44% of businesses looked to make significant changes to the way in which they operated to find new ways to meet the needs of their customers. In total, 9% of businesses have begun to offer virtual services, while 6% have introduced e-commerce and online sales, and 3% of companies have introduced click-and-collect systems.

Companies that had been considering a move to a more online or automated operational model found that what had been viewed as nice-to-have had become a must-have. However, those efforts proved challenging as investment in technology was undertaken at a time when demand was at a peak and supply of both hardware and software was already disrupted.

Similarly, the enforced move for many companies towards remote, home or flexible working has resulted in them advancing long-term rollouts of connective technology – 37% of companies, including 50% of mid-sized companies and 56% of corporates, have invested in this.

Plans for hybrid working have seen companies examine their current and future needs for premises. 25% of companies said they expect to change the level of office space they'll require in the next 36 months compared with a year ago. Of that total, 18% believe they will be downsizing their office space.

The pandemic has forced businesses of all sizes to assess how technology can better drive their business. Many have had to fundamentally change the way they operate, be it a shift to remote working, or a move to online sales and transactions.

It's also driven the demand for businesses to become more agile, and the need for new systems and new ways of working that bring with them new risks in terms of cyber vulnerabilities and the risk of technology failure.







### Opportunities as well as risks

As technology becomes ever more integral to business operations it presents new risks. The threat of cyber crime has increased, as has the potential impact of any system failure.

However, businesses believe that while new and changing technology presents new risks, it will be a positive for their future prospects. When asked, 65% of businesses said they felt that new technology will have a positive impact on their business, with 14% saying it would have a very positive effect on their future. Just 6% said they felt it would have a negative effect on their business in the long term. Similarly, of those businesses that recognise the risk of changing technology as important to them, only 39% said they were worried about the impact, including 8% that are extremely worried.

### The technology dividend

Businesses that look to fully adopt technology are likely to gain a competitive advantage through greater efficiency, productivity, agility and customer-centricity.



**Efficiency:** enables the streamlining of operations and removal of non-value processes to deliver faster service focused on value-added activities



**Productivity:** ability to access systems, teams and whole customer views to maximise workforce productivity and ownership



**Agility:** ability to access real-time insight to help inform decisions with the flexibility to change and adapt faster



**Customer-centricity:** ability to deliver personalisation through data and technology, and respond quickly to customer needs



“As insurers we have access to data and we can use that data to identify trends, identify vulnerabilities and highlight these threats to our policyholders where applicable, to support their efforts to build and grow their business with greater confidence and enhance the security of their systems, alongside using technology to deliver the right service proposition at the right time.

Businesses are finding their clients are looking for faster service and a better experience. They want goods and services quicker, and they want earlier communications. Both speed and experience are now key factors, and digitalisation and automation have increased the responsiveness of businesses.

Therefore, we need to reflect on the fact that just as their customers demand a speed in response and delivery of service, businesses are increasingly seeking this from their insurance and broker partners, with emphasis on us expanding our digital appetite and capability with frictionless solutions.”

**Jason Chambers,**  
**Head of Digital Solutions, Aviva**

### Leveraging the technology dividend

Wide-scale adoption of technology will outlast the pandemic, with business leaders looking to leverage the application of technology in response to Covid-19 to drive further business benefits for the long term.

This is highlighted by the fact that technological investments will continue to play a significant part in businesses' thinking, with 84% of businesses reporting they are investing in technology. Similarly, 17% of businesses put investment in technology and 9% put big data and analytics as one of their three biggest priorities for 2021.

**Key driver for investment** – In respect of new and changing technology in your business, what is the key driver for investment in your business?



The size and intended impact of this investment shouldn't be underestimated. Businesses are seizing the current opportunity to make big changes, fuelled by technology. Of those investing in technology, a quarter (24%) believe their investments will fundamentally reshape the way their business operates, while 49% are aiming for incremental improvements, and 27% believe it's too early to say.

Similarly, the pace of change is only accelerating, with 55% of businesses expecting to realise the full benefits of these investments within the next year. And of those looking to make significant change to fundamentally reshape how their business operates, 77% expect to see results within the next 12 months.



# Conclusion

## **An upcoming ‘year of change’**

The last 18 months have been a time of unprecedented change for businesses, and our research shows that the pace and intensity of change is unlikely to slow down over the next year. From issues that featured heavily in our risk report, such as the economy, a shortage of skilled workforce and Brexit, to the continued prominence of intangible risks and the ESG imperative, businesses of all sizes face real challenges ahead of them. It is vitally important, especially in times of unprecedented challenge and uncertainty, for businesses to not allow themselves to get distracted by the latest crisis and maintain their focus on the fundamentals of risk management.

## **A rocky road to economic recovery**

Despite the early signs of a rapid economic recovery after most social distancing restrictions were lifted, economists now say that, while the post-Covid-19 recovery is still underway, the current rate of GDP growth will slow. A range of headwinds are dragging the green shoots of a recovery down. Between inflation, Brexit, ongoing Covid-19 issues, supply chain issues and a shortage of skilled workforce, what has become clear is that while the economy will recover – if slower than desired – the journey will be bumpy, and its eventual make-up will be radically different from its pre-pandemic predecessor.

While the UK has benefitted from the vaccine rollout and feels like a country heading back to a ‘new normal’, many emerging nations, and some economically mature nations like the United States, are still heavily impacted. This will continue to put pressure on the global supply chain as, due to its highly globalised nature, the lockdown of a port in China or closure of a factory in the United States will disrupt supply chains across the world and lead to shortages here in the UK.

Companies have shown their resilience and innovation by rapidly changing their operating models to manage their way through the pandemic. However, many have only been able to do so due to the government’s financial stimulus measures. These schemes, which were designed to protect businesses, such as the furlough scheme, have ended. Similarly, many businesses had to borrow significant sums of money to get through the last 18 months and a significant proportion of them have reported that they are going to struggle to pay the money back.







### **Brexit**

If the pandemic wasn't a big enough challenge for businesses to deal with, the UK has also exited the European Union. The impact of Brexit has led to large amounts of uncertainty, and accentuates many of the same risks and vulnerabilities that Covid-19 has. For many businesses the European Union was a source of both suppliers and customers, and Brexit has made trading with them more difficult. Similarly, the much-discussed global trade has not come online quickly or effectively enough to replace it.

Both Brexit and the pandemic are contributing causes to the three biggest issues threatening the economic recovery: economic confidence, supply chain disruption and a shortage of skilled workforce.

Over the coming months, not only will companies need to focus on how they manage their business, but they will also be required to examine how they will be best positioned to make the most of the opportunities that the economic recovery will create. This will mean navigating a host of pressing risks if they are to be able to grow into the recovery, from supply chain disruption to staff shortages. Newly formed businesses will emerge, driving demands for materials and services. Existing clients will also have changed their approach to the goods and services they require, as they have been forced to adapt to the changes demanded by their consumers.

### **Failure to prepare is preparing to fail**

The top ten risks facing UK businesses in 2021 show two things clearly: the ever-increasing importance of preparing for and managing against intangible risks, and the incredible pace at which businesses are having to bounce from crisis to crisis: from lockdowns and home working in 2020, to a lack of workforce and supply chain issues in 2021. Added to that is how most companies have adapted, with many being forced to undertake transitions which would normally be expected to take several years in weeks or months.

What must not get lost, however, as businesses deal with new issues that emerge, is the focus on risk management. Strategic risk management will enable businesses to navigate the ever-changing series of risks UK businesses are facing. Only by taking steps to identify and plan for potential disruptions can businesses have confidence in their ability to respond effectively to any incident. Regularly reviewing and testing business continuity plans will help ensure businesses are prepared to deal with incidents as effectively as possible, and then recover, resume, and restore the business to a predefined level after an incident. Business continuity planning should be a priority for all businesses, from SMEs to corporations. Without adequate and tested plans, businesses experiencing major disruption could fail to recover.

Encouragingly, in light of climate events and COP26 our research shows that more and more businesses are seeing Environmental, Social and Governance (ESG) criteria as a part of the solution, a route to growth and a viable mitigation to some of the biggest risks businesses are facing. The ESG agenda will become more important for organisations of all sizes, and insurers have a role to play in helping all businesses, particularly SMEs, through their ESG journeys.

## Contact us

We hope this report has helped you understand and consider some of the risks to your business in 2021 and into the future. For more guidance on key risks, you can access our library of Loss Prevention Standard documents free of charge on our website – or speak to our in-house team of risk management experts.

Visit the Aviva Risk Management Solutions website at [aviva.co.uk/risksolutions](https://aviva.co.uk/risksolutions)



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