Aviva Risk Insights Report

Analysing the risks facing UK businesses

January 2023

AVIVA

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Foreword

Welcome to the Aviva Risk Insights Report 2023, the third edition of our survey of the views of over 1,200 UK business leaders and senior decisionmakers on the key risks to their operations.

In last year's report we warned businesses to brace themselves for economic uncertainty, particularly around supply chain issues and the UK's ability to trade in a post-Brexit world. Despite early optimism and a post-Covid-19 bounce-back, our bleak forecast has come to fruition, with 2022 proving to be a difficult year economically for companies across the country.

Supply chain issues dominant in 2021 have been exacerbated this year, principally by the war in Ukraine, but also by residual questions around the impacts of Brexit. Businesses are continuing to struggle to find new export markets, while the impacts of soaring inflation and workforce shortages have constrained the UK's economic recovery from its pandemic hangover.

Over the course of 2022, cost pressures for businesses have evolved into a full-blown cost of living crisis across the UK economy, driven by systemic inflation and soaring energy prices, which have been impacted by the war in Ukraine combined with enduring post-Brexit and post-Covid-19 pressures.

The crisis is impacting individuals, communities and the companies they work for in different ways, from increasing supply costs for companies and reducing consumption by customers to creating financial stress at large. Collins Dictionary's word of the year for 2022 was 'permacrisis' – an extended period of instability and insecurity, resulting from a series of catastrophic events – which perhaps encapsulates the current operating environment for UK businesses.

Adam Winslow
CEO, UK & Ireland General Insurance, Aviva

Introduction

Businesses of all sizes, from sole traders to larger corporates across all sectors of the economy, fed into this research, which aims to provide both the UK business community and brokers with insight into the most pressing risks for UK companies today. In this report, Aviva experts will provide insights into the risks and challenges businesses are facing in a tough economic climate and how to manage them.

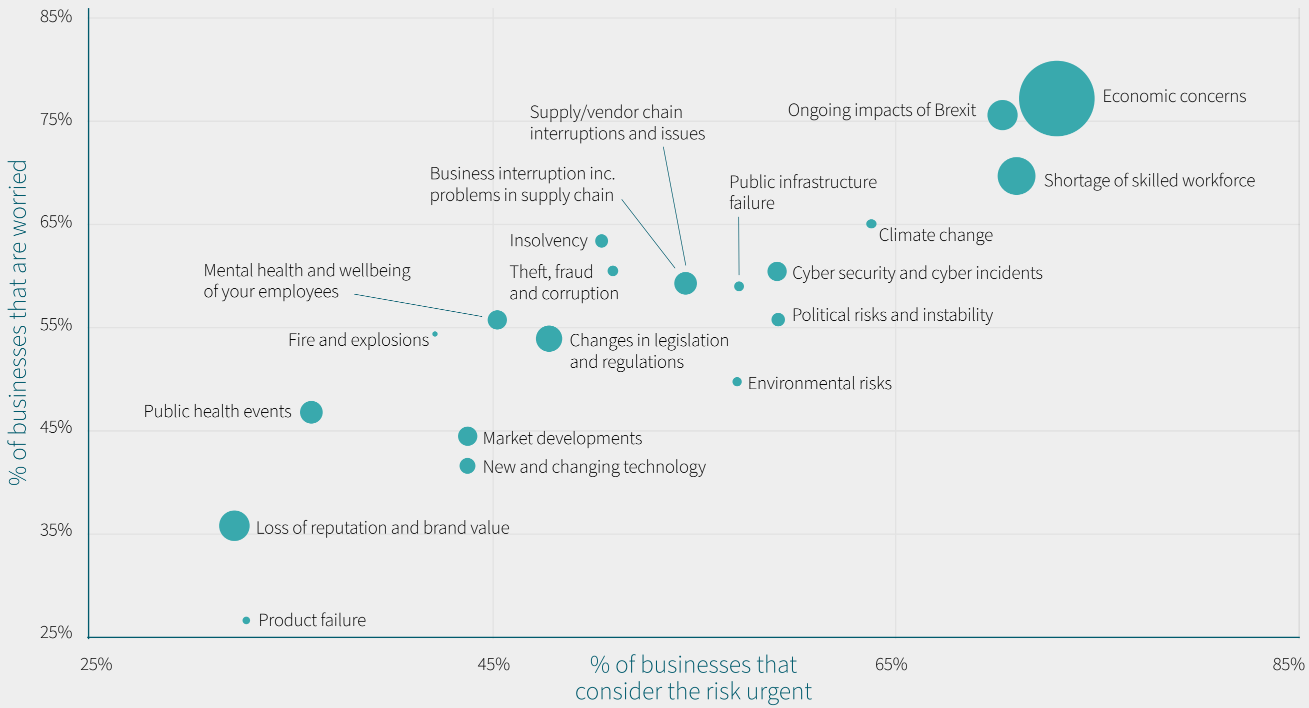
This year, the UK's economic prospects dominate the concerns of UK business leaders. These concerns play out prominently through businesses' focus on the impact of rising energy costs and constraints arising from disrupted supply chains.

We assess the impact of these widespread concerns for businesses, the residual threat of underinsurance, and the knock-on effects of economic pressures on theft risks, including cyber attacks.

We also consider how the current economic crisis impacts people across the UK business community, in terms of businesses' recruitment and access to skills, and employees' mental health and wellbeing.

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. 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).

Key findings 2023

Business confidence in the UK economy has collapsed

Economic concerns are at the forefront of businesses' minds. A host of interconnected economic risks underpin businesses' worries about the macro-economic outlook, evidenced by the half-dozen economic risks that comprise the Top 10 risks British businesses say they are most worried about.

In 2021, we considered businesses' net confidence in the UK economy to be low at +5%. This year's net confidence level of -50% signifies a veritable collapse.

On the prospects and focus for their own business, leaders are not quite as pessimistic, with confidence declining more moderately year-on-year. 40% of businesses are focused on growth, while 22% report that they are struggling but not to the point of closure. This compares to 46% of companies reporting a growth focus and 21% struggling in 2021.

Net confidence in the UK economy plummets*

Supply chain disruption and energy costs are presenting acute challenges

Economic pressures play out most prominently in our findings related to supply chains and energy costs, as existing risks and vulnerabilities in global networks exposed during the pandemic were exacerbated by the war in Ukraine.

- 45% of companies report an impact on their business due to supply chain disruption.
- 38% are experiencing significantly higher supply costs, the result of systemic inflation pressures, while 21% have suffered operational disruption due to supplier interruptions.
- 16% of companies have suffered a total supplier failure over the last 12 months.

In the absence of any more widespread policy support to improve energy efficiency, many UK businesses are taking matters into their own hands and implementing measures to reduce energy costs.

- Over half of all businesses (58%) would be unlikely to survive beyond a year if energy bills increased in the 5x to 10x range.
- 65% of businesses have taken at least one action to save on energy costs.
- However, financial pressures and ongoing uncertainty have prompted many businesses to attempt to gain some control over their situation by implementing energy-saving initiatives (51%); spending capital to improve energy efficiency (29%); and installing their own renewable energy generation capability (19%).

*Net confidence calculated by taking those businesses confident in the UK economy and subtracting those without confidence in the UK economy.

Brexit remains a major disruptor for UK businesses, particularly exporters

Delays caused by political red tape and limited international trade agreements have disrupted business continuity, particularly for UK exporters.

- Brexit ranks third in terms of businesses' biggest risks, with 23% selecting it as one of their top-five risks.
- Brexit pressures are acute for the retail sector, with 37% of retailers ranking the ongoing impacts of the UK's EU departure as a top-five risk.

Skills shortages and fierce competition for talent is driving a race to the top

Businesses across all sectors and of all sizes are feeling the effects of labour and skill shortages. Attempts to resolve labour shortages are evolving into a 'race to the top' by UK businesses, creating additional inflationary pressures:

- Over a quarter of companies are increasing pay to attract or retain staff (31% to attract and 25% to retain), further impacting an already squeezed bottom line.
- 13% have significantly increased employee benefits to attract new staff.
- 63% of companies have struggled to attract new employees.
- 64% have struggled with staff retention.

Difficult economic times are impacting the workforce across British businesses

- 30% of businesses believe the mental health and wellbeing of their staff has deteriorated over the last 12 months – from what may have been a low post-pandemic starting point.
- One in 10 companies have noticed a recent increase in accidents and near misses at the workplace due to increased employee stress.

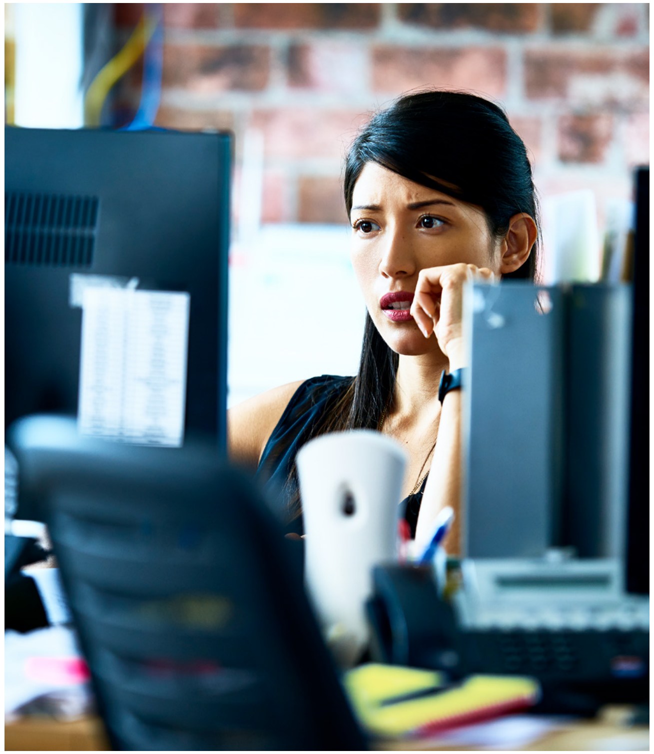
As a result, companies are looking to support their people through financial support and indirectly through mental health support.

- 22% of businesses have offered financial support to staff.
- Of those that have offered financial support, 66% offered it to all employees and 34% targeted the support to those most in need or at junior levels.
- 35% have worked to encourage open conversations about mental health and creating a safe environment in the workplace to discuss any difficulties employees may have.

of businesses believe the mental health or wellbeing of their staff has deteriorated over the last 12 months

"Looking after the people who work for you is as much a moral duty as it is a smart business decision, particularly amid the current skills shortage. A tired, stressed and unwell workforce will be less productive, less creative and more likely to leave for greener pastures."

Georgina Potter
People Director, UK General Insurance, Aviva



The 10 most pressing risks for UK businesses

Economic concerns

2020 **26%** — 2021 **37%**

2022 **56%** selected in top 3

Skilled workforce shortage

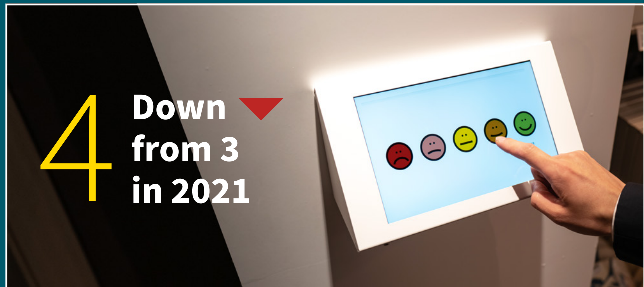
2020 **17%** — 2021 **28%**

2022 **31%** selected in top 3

Impacts of Brexit

2020 **N/A** — 2021 **25%**

2022 **23%** selected in top 3



Loss of reputation

2020 **29%** — 2021 **26%**

2022 **23%** selected in top 3

Supply chain interruption

2020 **32%** — 2021 **24%**

2022 **20%** selected in top 3

6 Down from equal 5th in 2021

Business interruption

2022 **20%** selected in top 3

2020 **32%** — 2021 **24%**

7 Equal 7th in 2021

Legislation and regulations

2022 **19%** selected in top 3

2020 **35%** — 2021 **22%**

8 Down from equal 5th in 2021

Public health events

2022 **17%** selected in top 3

2020 **46%** — 2021 **24%**

9 Equal 9th in 2021

Market developments

2022 **14%** selected in top 3

2020 **19%** — 2021 **16%**

10 Down from 8th in 2021

Cyber security

2022 **14%** selected in top 3

2020 **27%** — 2021 **20%**

10 Equal 10th in 2021

Mental health and wellbeing

2022 **14%** selected in top 3

2020 **16%** — 2021 **16%**

Top risks

How Britain's biggest business risks are evolving

Following another year of global economic disruption driven by systemic inflation, soaring energy costs and political instability, economic concerns dominated business leaders' concerns in 2022.

Six of the top 10 biggest risks identified by businesses in Aviva's third Risk Insights Report are economic in nature.

Economic concerns have been consistently prominent in our list of UK businesses' top 10 risks.

However, the prevalence and strength of concern among business leaders about the UK economy's stability and future prospects have seen rapid year-on-year growth.

56% of businesses selected it as one of their biggest risks, up from 26% in 2020 and 37% in 2021.

Although the ranking of business risks hasn't changed markedly relative to 2021, what has changed is the level of worry and urgency companies report, particularly in relation to economic risks.

Business worry levels

Economic concerns

Businesses selecting it as a top-three risk

2020 **26%** — 2021 **37%**

2022 **56%** selected in top 3

"In challenging economic times it's understandable that businesses shift to survival mode and focus on getting through the crisis. However, when we come through the current difficulties, the businesses that will be best placed to grow will be those that have taken this opportunity to examine their place in the supply chain. This could include spending time renegotiating and working with their key suppliers, partners and clients, and ensuring the whole value chain is in a position to survive today and thrive tomorrow. This can be done through co-operation, fair dealing and understanding across the business community."

Matt Washington
Managing Director, UK Commercial Lines Underwriting and GCS, Aviva

Nearly three years on from the first UK national lockdown, 54% of companies are still making changes to their supply chains (53% in 2021) and 38% of businesses are struggling with increased supplier costs, up from 26% in 2021. Despite the prominence of climate change in the national conversation following record-breaking temperatures this summer, just 8% of UK businesses rank climate change among their biggest risks, down from 11% in 2020. More immediate economic issues remain front of mind for businesses. However, as in previous years, those that do call out climate risks are both worried about it (65%) and consider it urgent (64%).

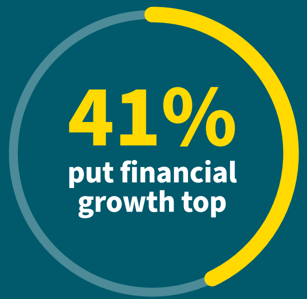
As might be expected, concerns around public health events and Covid-19-related risks have declined. In 2020, 46% of businesses identified the pandemic as one of the biggest threats they faced; this year, this figure has declined to just 17%. However, there is not a consistent decline across businesses by size; just 9% of corporate businesses select this as one of their biggest risks, compared to 21% of small businesses and 17% of medium-sized businesses, potentially indicating that larger corporates feel more confident in their processes, systems and ability to handle a new dangerous Covid-19 wave or similar public health event.

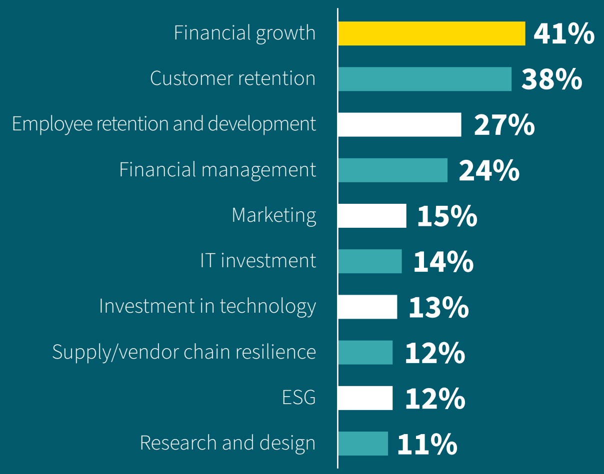
What remains clear about Britain's biggest business risks is just how deeply interconnected they are. A shortage of skilled talent, the ongoing impacts of Brexit, supply chain issues and business interruption all combine to influence, impact and underscore the seriousness of the headline risk of economic concerns.

Top priorities for businesses in terms of investment

Those that topped the list mirror both 2020 and 2021: financial growth, customer retention, and employee retention and development.

Chart shows those who selected each priority as one of their top three





> "Over the last three years, businesses have had to face into a new headline crisis in each new edition of the Aviva Risk Insights Report – from Covid-19 and Brexit in 2020, to the emergency of a shortage of skilled workforce and concerns about the economy in 2021. Those risks have become more material through the course of 2022 and, on the basis of recent forecasts, look set to worsen into 2023.
>
> While headline economic risks and the knock-on impacts on operations quite rightly occupy the focus and attention of business leaders, ongoing management of the traditional risks faced by businesses and ensuring safe systems of work is of vital importance, particularly as pressures ramp up on margins, budgets and the bottom line.
>
> While not always high on boards' agendas, or as prominent as the risks in our top 10, the perennial risks of fire, theft and water damage remain significant threats to businesses, causing hundreds of millions of pounds of damage each year. I would encourage all businesses, large or small, to maintain their vigilance in these areas."

Chris Andrews
Director, Aviva Risk Management Solutions

Aviva claims paid out

Aviva has paid out
£267m
since 2019 in escape of water claims

£6,744 per claim on average

Aviva has paid out
£606m
since 2019 in fire claims

£116k per claim on average

Economic concerns dominate the horizon for UK businesses

Businesses lack confidence in the UK economy

Confidence in the UK economy among businesses is remarkably low.

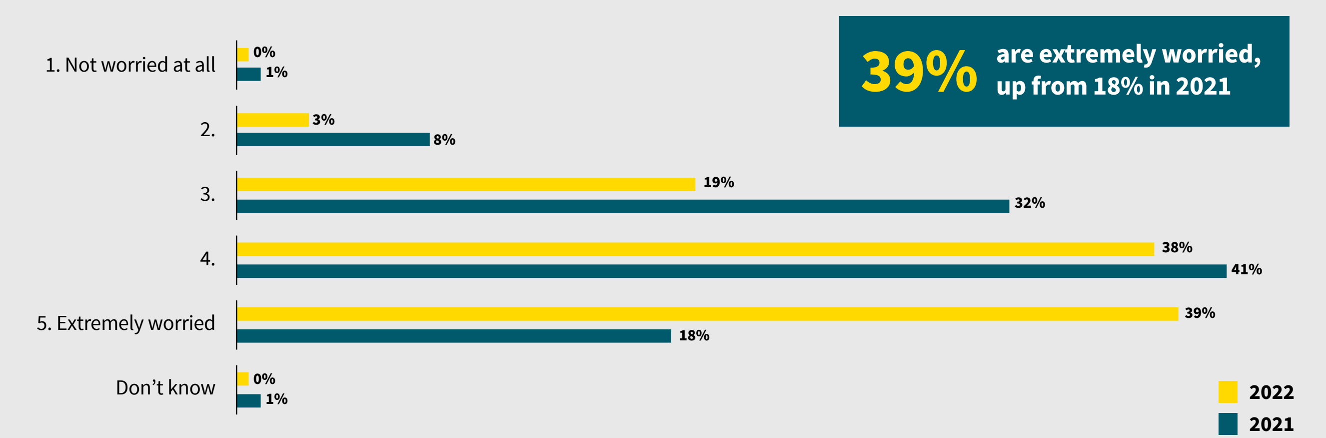
- Only 12% of businesses said they had confidence in the UK economy compared to 63% of businesses saying they did not have confidence in the prospects of the UK economy.

Businesses were slightly less pessimistic about their own businesses than the UK economy, with responses charting a more moderate decline in confidence relative to 2021.

- Confidence levels for their own business sector were higher than the overall economy, but still low with an average net score of +20%.
- Professional and Business Services companies were most confident in the prospects of their own sector at 52%, while Retail businesses were the least confident at 29%.
- Overall, 40% of businesses are focused on growth, while 22% report that they are struggling but not to the point of closure. This compares to 46% of companies reporting a growth focus and 21% struggling in 2021.
- The proportion of businesses struggling is concentrated among smaller firms, where 30% are struggling and 23% are focused on growth. By contrast, just 12% of larger corporates are struggling, while 62% are focused on growth.
- Businesses are increasingly prioritising financial management over the next 12 months, with an eight-percentage-point increase year-on-year in the number of businesses placing it as one of their top priorities for the next year.

However, through what many hoped would be a year of recovery, current confidence levels are particularly concerning given the scale of economic challenge forecast in 2023 and beyond.

Businesses are worried about the UK economy



Of those businesses that selected economic concerns as a key risk, how worried about it are they?

"Confidence in the UK economy has fallen across the board this year, with businesses' net confidence rating slumping to -50%, compared to last year's rating of +5%. The prominence of economic and related concerns among UK business leaders' key risks reflects the challenges that ongoing economic uncertainty presents to day-to-day operations.

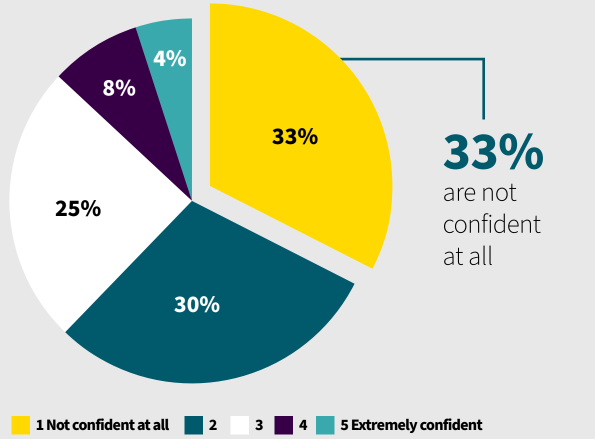
UK companies are having to strike a balance between finding their footing in the current economic crisis – be that a path to survival or finding a way to grow – and continuing to protect their existing business and assets. Companies of all sizes will face tough decisions in the coming months, and I would urge all businesses to work with their insurance brokers to understand the risks they face and how insurance and risk management can best protect them through the challenges ahead.

Our research shows that 68% of businesses have a positive view of the insurance industry and see value in the insurance they purchase. It's critical that brokers and insurers work hard to maintain and improve that number by helping businesses find the right cover to suit their needs, supported by management solutions in what is forecast to be a difficult year."

Marc Lewis
Chief Underwriting Officer, Commercial Lines, Aviva

Confidence in prospects for UK economy

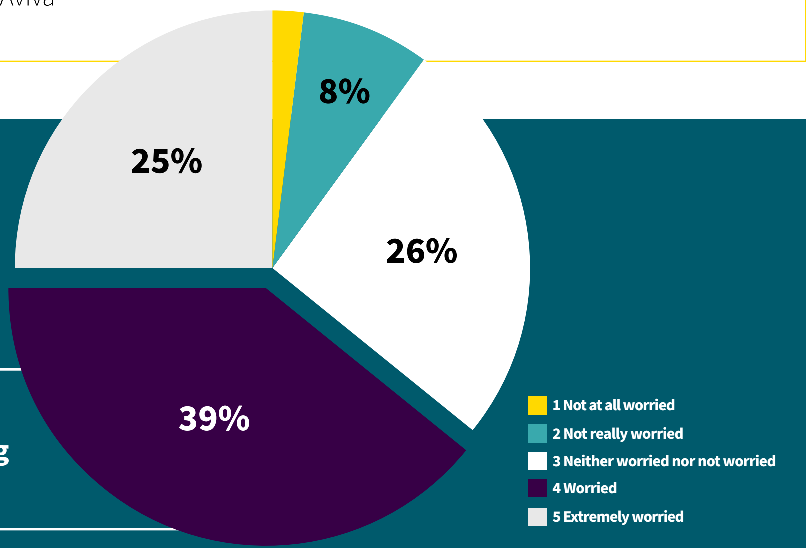
On a scale of 1 to 5, how confident are you in the UK economy?



Impact of cost of living on your business

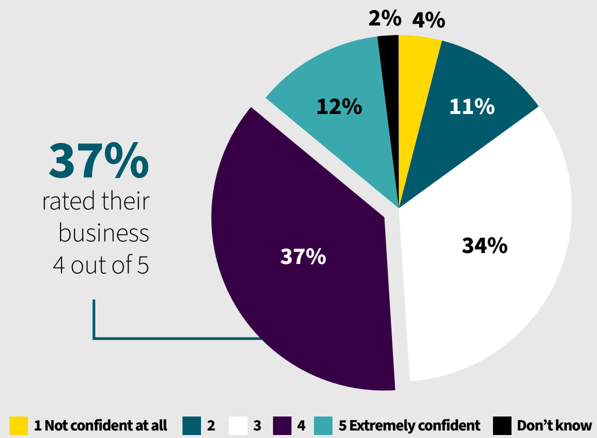
On a scale of 1 to 5, how worried are you about the impact of the recent rise in the cost of living on your business?

39% **are worried about the impact of cost of living on their business**



Confidence in prospects for your business

On a scale of 1 to 5, how confident are you in your business?



Energy costs have turned up the heat on British businesses

Spiralling energy costs have underpinned much of the cost of living crisis during 2022, with suggestions of commercial energy rates increasing between five and 10 times the already-elevated levels seen in 2021. Government support has been provided for both households and businesses, yet the tenure and scope of support remains unclear.

Most recently, the certainty required by businesses for planning and budgeting purposes has been undermined by repeated changes of government and the associated financial market turmoil. Solutions to energy security pressures do not seem imminent, with widespread expectations of higher energy costs being here to stay.

- Should energy costs increase by five to 10 times their 2020 rates, 12% of businesses, including 19% of small businesses, report they would be likely to close immediately, while 45% of businesses believe they would be unlikely to last a year without additional support.
- The Arts (21%), Motor (20%) and Public sectors (19%) are facing acute challenges; a fifth of businesses in these segments would not be able to survive long at all if energy bills increase significantly in the next 12 months.
- In the face of rising energy costs 65% of businesses have taken action to save energy, such as implementing energy-saving initiatives (51%); spending capital to improve energy efficiency (29%); and installing their own renewable energy generation capability (19%). These efforts are concentrated among larger businesses.
- The Manufacturing sector (77%) and the Public sector (76%) are the most likely to have undertaken energy-saving activity.

The Brexit spectre endures

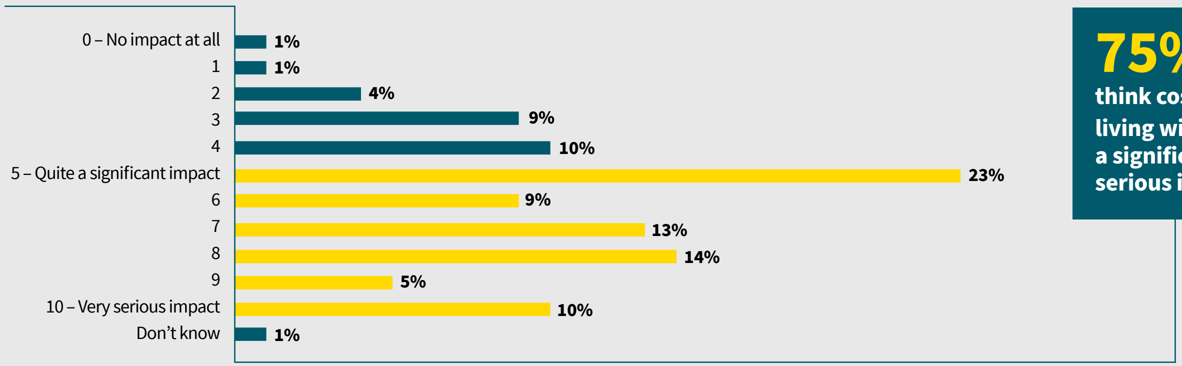
Brexit continues to be an unknown quantity for many businesses, as delays caused by political instability and limited international trade agreements disrupt business continuity, particularly for UK exporters.

- Brexit remains one of the biggest risks facing UK businesses, with 23% selecting it as one of their top five risks. Of those that selected it, 76% of businesses are worried about its impacts and 70% believe it is urgent.
- The Retail and Arts, Entertainment and Leisure sectors are those most concerned about the impacts of Brexit.

Turbulence and difficulty in the home market has, historically, been offset by a focus on exports, particularly during periods of sterling weakness against the US dollar and euro. However, following Britain's exit from the EU and the dearth of free trade deals to compensate for the lost opportunity of the EU market, many businesses are facing severe difficulties in securing export-based growth.

Businesses expect significant impacts from the cost of living crisis

On a scale of 1 to 10, how much of an impact do you think the recent rise in cost of living will have on your business?



75% think cost of living will have a significant to serious impact

76% Brexit remains a concern, with 76% of businesses selecting it as one of their biggest risks

The threat of underinsurance

The current economic backdrop may force many businesses into cost-cutting mode; sometimes, creative approaches to insurance and risk management can become a part of broader reductions across cost bases. But one pre-existing problem exacerbated by the current macro-economic circumstances should not be ignored or underestimated: underinsurance.

Our research indicates that many businesses are far from clear on the scope of their insurance, suggesting that some may be leaving themselves exposed to the risks of underinsurance:

- While two-thirds of businesses are confident that they have the right level of coverage in place (with 13% not confident and 21% unsure), Aviva estimates 50% of UK businesses to be underinsured. Some 40% of policies with buildings have at least one premises suspected to be underinsured by 20%. Similarly 40% of properties haven't updated the amount it's insured for within the last three years.
- A fifth of businesses (21%) have reduced, or considered reducing, their insurance cover over the last year.

While the vast majority of customers and brokers experience smaller claims – with less than 1% of commercial claims reported to Aviva being classified as large (costing in excess of £100,000) – the rapid increase in inflation this year means that the value of businesses' sums insured may need to be updated to ensure they have cover suited to their needs.

When those rare events do occur and a large loss is experienced, perhaps a total loss of stock, equipment and premises through a fire or flood, the issue of underinsurance comes to the fore. It typically plays out in the form of shortfalls in the costs of rebuilding and replacing buildings and equipment relative to the amount insured, or the indemnity period (covering costs while the business cannot operate) being too short to support a business through full recovery and back to normal operations.

This picture is compounded by current economic pressures, with high levels of inflation pushing up costs across the supply chain, driving higher replacement and materials costs. Supply chain disruption not only raises costs but often results in difficulties acquiring both standard and specialist parts, causing delays in recovery and extending the time through which a business is unable to operate.

Labour shortage issues can also cause significant delays when specialist skills are not available at short notice or in line with project planning, increasing the amount of time a business needs to be covered under its business interruption policy.

50%

Aviva estimates 50% of UK businesses may be underinsured*

"In the current context, the challenge of asking clients to increase cover levels and spend additional money on insurance premiums is not taken lightly. Yet underinsurance remains a real and existential threat to businesses of all sizes across the UK and it is vital that businesses, brokers and insurers take it seriously.

It's critical that brokers and the insurance industry work with clients to ensure they are insured at the right level, so that they are not left short at their most vulnerable moments. Here at Aviva, we are working on resources to help our broker partners support their clients better, including automated technology that explains on a client-by-client basis why and where we think a particular business might be uninsured. This allows the broker and client to conduct a targeted investigation into the issue and make the right decisions around the cover and level of insurance the client purchases."

Maria Crockart
Managing Director, SME, Commercial Lines, Aviva

*Based on internal Aviva claims and policy data.

Supply chain issues

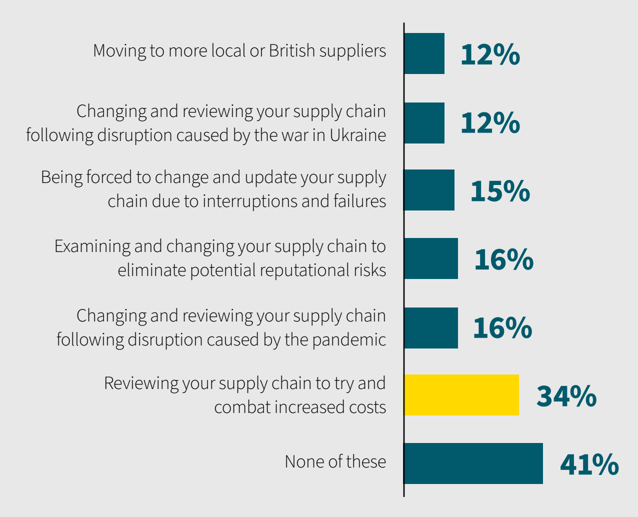
A multitude of economic pressures have impacted businesses in different ways this year but play out most prominently in our findings related to supply chains. In 2022, the outbreak of war in Ukraine and widespread implementation of economic sanctions on Russia exacerbated the risks and vulnerabilities in supply chains exposed during the Covid-19 pandemic.

- Increased supply costs are a key challenge for many businesses, with 38% experiencing significantly higher supply chain costs. 34% of companies are reviewing their supply chains with the goal of reducing these costs, while 59% of businesses are predicting further increases in supply chain costs over the next year.
- 45% of companies report a supply chain impact on their business which form higher costs to interruptions and failures impacting on operations and the ability to service customers.
- 54% of businesses are undertaking changes to their supply chains, from cost reviews to finding alternative suppliers due to disruption or failure.
- 16% of companies have suffered total supplier failure over the last 12 months, while 15% of companies have been forced to find alternative suppliers due to interruptions.
- Manufacturing (79%), Public Sector (65%), Construction (62%) and Retail (61%) are the sectors most likely to have taken action around their supply chain.

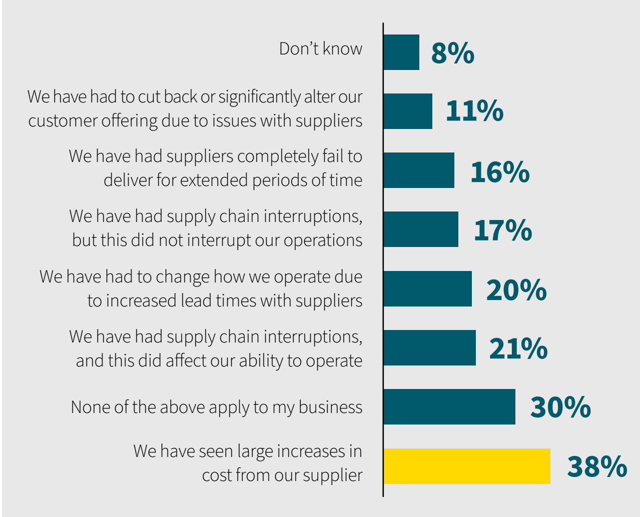
Due to a more fundamental reconfiguring of global supply chains through near-shoring and on-shoring of suppliers, combined with the idiosyncratic challenges of Brexit, UK businesses may face a 'double dose' of disruption relative to international competitors for the foreseeable future.

16% **of companies have suffered total supplier failure over the last 12 months**

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



Has your business experienced any of the following issues with its supply chain?



The risk of theft

While just 5% of businesses identify theft as one of the biggest risks they face, it remains a perennial threat for all businesses, from physical theft of items such as stock, fuel, metals and plant to newer online threats such as cyber-based fraud, which can affect any business.

- In the last 12 months, more than a fifth of businesses (22% total, 14% small, 28% mid-sized, 31% corporate) have suffered some kind of theft.
- Corporates (31%) were twice as likely to suffer theft than SMEs (14%).
- 35% of businesses in the Retail sector and 34% in Motor have been affected by theft in the past 12 months.
- Stock theft is most the prevalent (55%), followed by fuel theft from company vehicles and machinery (20%), and metals theft (16% overall but 44% in Technology and Electronics, 27% in Manufacturing and 24% in Construction).

"An increase in violence in relation to theft is a concerning trend we are seeing from our public-facing clients. According to the British Retail Consortium, incidents of violence and abuse soared to 1,301 incidents a day in 2020-21, up from 455 the previous year.[1] It's critical that staff at these companies are taught how to recognise the early signs of an interaction with a potential shoplifter that may turn violent, that they know how to diffuse the situation and, ultimately, remove themselves from harm's way. While our larger clients may deliver professional training in this regard, smaller companies are advised to have a conversation with their staff about what is expected of them and how to avoid getting into a violent situation in the event of criminal activity. Thankfully, weapon- or knife-based incidents remain incredibly rare, but they still happen, and no amount of stock is worth risking the lives of staff members."

Gill Milner
Technical Practice Leader, GCS Casualty, Commercial Lines, Aviva

Tips to reduce risk of theft

Basic procedures such as keeping keys in a key safe out of sight, regularly checking the perimeter of any premises for gaps or damage that could be used for entry, monitoring who enters and exits the premises and generally being observant are key to combatting theft.

For businesses with expensive equipment or plant machinery, DNA tagging and modern tracking devices are a cost-effective way to enhance security and greatly increase the likelihood of recovery in the event of theft.

If your business has suffered from theft in the last 12 months, which of the following types of theft have you experienced in that time?

55% **Stock theft**

20% **Fuel theft** (e.g. petrol or diesel from company or staff vehicles and machinery)

16% **Metal theft** (e.g. copper from construction sites or buildings)

[1] https://brc.org.uk/media/679978/crime-survey-final-report.pdf

Cyber remains a stealth risk

Cyber crime, particularly theft and ransomware, was not prevalent when we last faced an increase in theft during the 2008 economic downturn in the wake of the global financial crisis. However, cyber crime is one of the top ten risks facing businesses today.

- Just half (53%) of businesses are confident in the effectiveness of their cyber security protections (45% of small businesses are confident, 61% of medium-sized businesses and 62% of corporates).
- Nearly half (44%) believe that their business is at risk of loss of data. Four in 10 believe they are at risk of operational disruption in the event of a cyber attack.

Given that a fifth (21%) of small and medium businesses have been the victim of a cyber incident in the last 12 months, both insurers and brokers must do more to help smaller businesses with their cyber risk.

- One in 10 businesses has suffered a cyber attack in the past year, rising to 16% of corporates and a fifth of public sector companies.
- 27% of small businesses believe cyber cover isn't relevant to their business and 38% believe they are not a target for cyber criminals, sending a clear message to insurance brokers that they must do more to educate their clients on the true extent of the risks they face.
- 13% of small companies believe they won't be hit by a cyber attack so there's no need to insure against it.
- 18% of small companies don't know cyber insurance exists.

"Cyber crime is a modern threat that all businesses must face up to. While our larger clients tend to be aware and focused on the risks presented by the digital age, many smaller businesses are leaving themselves open to attack due to misconceptions about the reality of cyber crime. I often speak with small businesses that believe, due to their size, they are unlikely to be targeted. I feel this stems from a perception that hackers and cyber criminals operate as they frequently do in films or TV dramas, where a person in a hoodie sits down in a dark room and sets out to hack into a specific business.

In reality, cyber criminals operate by scanning and attacking all the systems they can find. Many times they may not know whose system they have penetrated until they are already inside. They will then work out what kind of system it is and act accordingly. Many cyber criminals operate with the idea that it's easier to steal £5,000 each from 100 small businesses than £500,000 from a single larger business."

Stephen Ridley
Head of Cyber, Commercial Lines, Aviva

Tips to combat cyber crime

Putting the basics in place to combat cyber crime makes a huge difference to a business's vulnerability. These include strong passwords, multi-factor authentication, regular data backups, a firewall and antivirus software, and a strong culture around combatting phishing and not clicking suspicious links.

People risks

Skills shortage

In last year's Risk Insights Report, a shortage of skilled workers, including HGV drivers, was viewed as an emerging risk, and labour shortages stemming from Britain's exit from the European Union dominated the news agenda.

In Britain, shortages of skilled labour have, historically, been concentrated in specific sectors – from manufacturing and nursing to tech industries.

Just 12 months on from the report, businesses across all sectors and of all sizes are feeling the effects of labour and skill shortages.

Staffing and turnover pressures often leave companies unable to perform key duties and meet customer demand. This results in knock-on effects up the supply chain, with 31% of businesses selecting a shortage of skilled workforce as one of the five biggest risks to their firm, positioning it as the second biggest risk to UK companies overall.

31% **of businesses selected shortage of a skilled workforce as one of the five biggest risks**

Attempts to resolve labour shortages are evolving into a ‘race for the top’ by UK businesses, creating additional inflationary pressures:

- A third of companies are increasing pay to attract or retain staff (31% to attract and 25% to retain), further impacting an already-squeezed bottom line.
- 13% have significantly increased employee benefits to attract new staff.
- 63% of companies have struggled to attract new employees.
- 64% have struggled with staff retention.
- A fifth of businesses (20%) reported targeted headhunting of their staff by competitors.

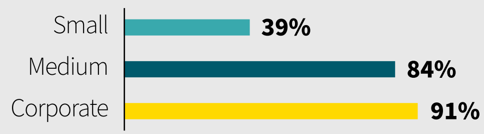
In the last year, businesses have faced difficulties both in hiring new talent and retaining existing staff.

- 78% have had to adapt how they recruit to market circumstances.
- 31% have had to increase pay.
- A fifth (21%) have had to recruit less-experienced staff than they would have liked and 16% have focussed on hiring apprentices and training people.
- A quarter (23%) of companies are struggling to retain staff despite their best efforts, primarily in the larger business space, with 36% of both medium-sized companies and corporates encountering difficulties in staff retention.

63% **of businesses have struggled to attract new employees**

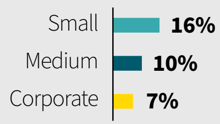
Hiring by size

Had difficulties recruiting

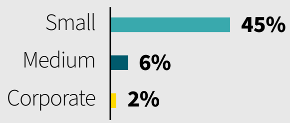


67% **in total have had some form of difficulty with recruiting**

Had no recruitment issues



Haven’t looked to recruit



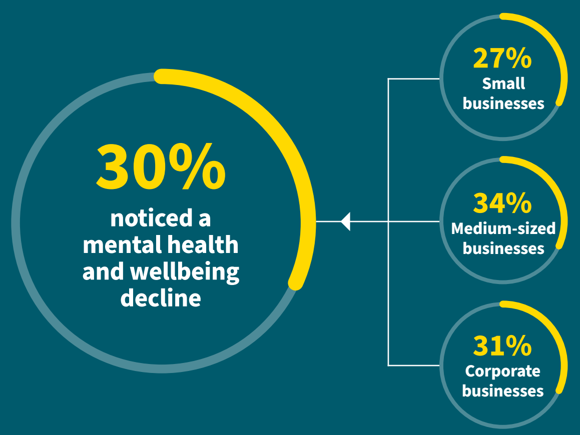
> “We are currently working in an employee’s, rather than an employer’s, market. Between Covid-19, Brexit-related labour shortages across industries, inflation and the cost of living crisis, and several public disputes between companies and unions, people are realising their value and companies are realising the need to invest in their people.
>
> The recovery from the current economic challenges is unlikely to resemble the recovery from the 2008 financial crisis, through which the labour market experienced a surplus and the recruitment of talented employees was relatively easy.
>
> Today, short-term costs will be higher, with larger salaries and better benefit packages required to attract experienced staff, or increased training and runway costs if a business decides to hire less-experienced people and focus on training. Over the long term, those companies that work with their staff to create a flexible, enjoyable working environment will succeed.”
>
> **Jonny Briggs**
> Diversity, Inclusion & Resourcing Director, Aviva

Your people and the cost of living

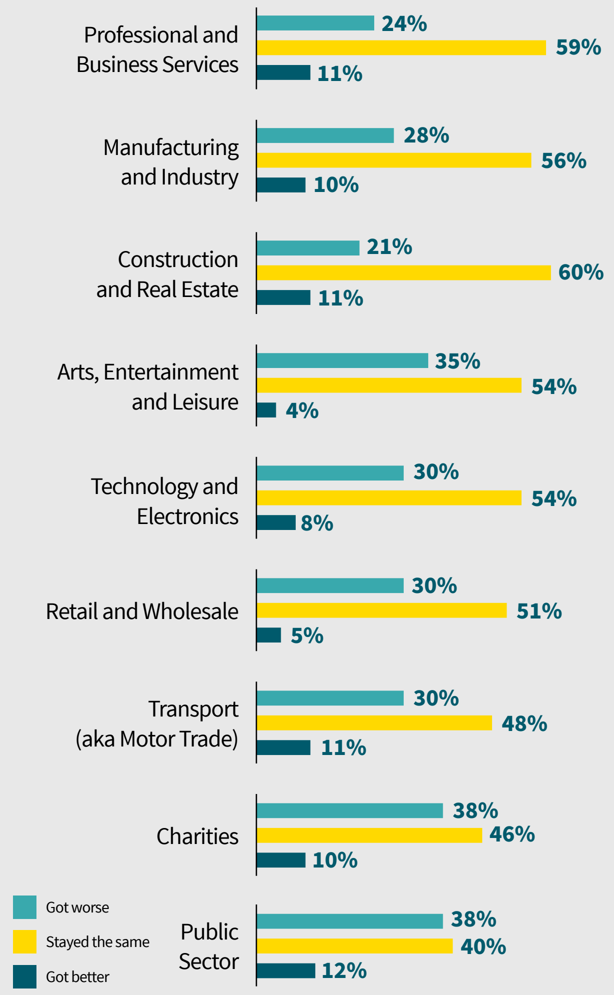
Difficult economic times don't just impact businesses, they also affect the people who work for them. Right across the country, we have all been through very difficult times; from the worry and isolation of Covid-19 to an often-bumpy return to 'normal' office life and then right into a cost of living crisis, economic uncertainty and soaring inflation. This journey has taken its toll on everybody.

- 30% (27% small, 34% medium-sized, 31% corporates) of businesses believe the mental health and wellbeing of their staff has deteriorated over the last 12 months – from what may have been a low post-pandemic starting point.

Mental health and wellbeing decline in 2022



Changes in staff mental health in the last year



Financial strain

Financial difficulties and the associated worry and stress they bring is one of the biggest factors affecting mental health, driving secondary conditions including insomnia, depression and anxiety.

Beyond the impact on individual and collective wellbeing, tired and stressed employees are more likely to make mistakes and have accidents or near-misses.

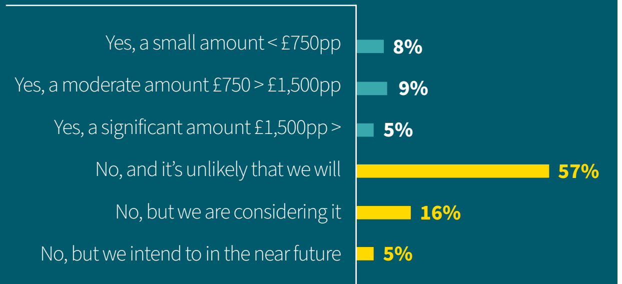
- Our research indicates that one in 10 (10%) companies have noticed a recent increase in accidents and near misses.
- One in five (20%) have reviewed and updated their risk management plans in anticipation of this increase in risk.

Some companies are looking to address this issue, both directly through financial support and indirectly through mental health support.

- 22% of businesses have offered financial support to staff, with another fifth (21%) giving it serious consideration or intending to in the near future.
- Of those that have offered financial support for staff, 66% offered it to all employees and 34% targeted the support to those most in need or at junior levels.

of businesses have offered financial support to staff

Financial support for staff



78% **of businesses have done nothing to help staff with the cost of living crisis**

For those companies that looked to support their staff through mental health difficulties, the most common actions implemented focussed around company culture:

- 35% have worked to encourage open conversations about mental health and creating a safe environment in the workplace to discuss any difficulties people may have.
- 31% of businesses have focussed on awareness of mental health and ensuring employees know how best to get any help they might need.
- 28% have ensured mental health is an important issue in their company and managers regularly speak about it in meetings, while 27% implemented specific mental health and wellbeing training.
- 27% of companies have not taken any action to support the mental health and wellbeing of their staff.

"Companies can take a range of approaches towards supporting their employees, though one of the most simple and effective is the tone set and reinforced by existing leaders. It's important to make mental health a safe topic of conversation for your people, whether by checking in with employees regularly as part of one-to-one conversations or allowing them to be vulnerable and share stories of their own struggles. Open and honest leadership is a powerful tool that can make a real difference to your employees.

Supporting your managers and leaders with training and advice in this area can pay dividends in productivity and staff loyalty. This can include teaching them how to spot when someone is struggling and what they should do to support them, whether that is medical support or an extra day or two off to deal with home issues. This should help ensure your business is a place that people want to work."

Georgina Potter
People Director, UK General Insurance, Aviva

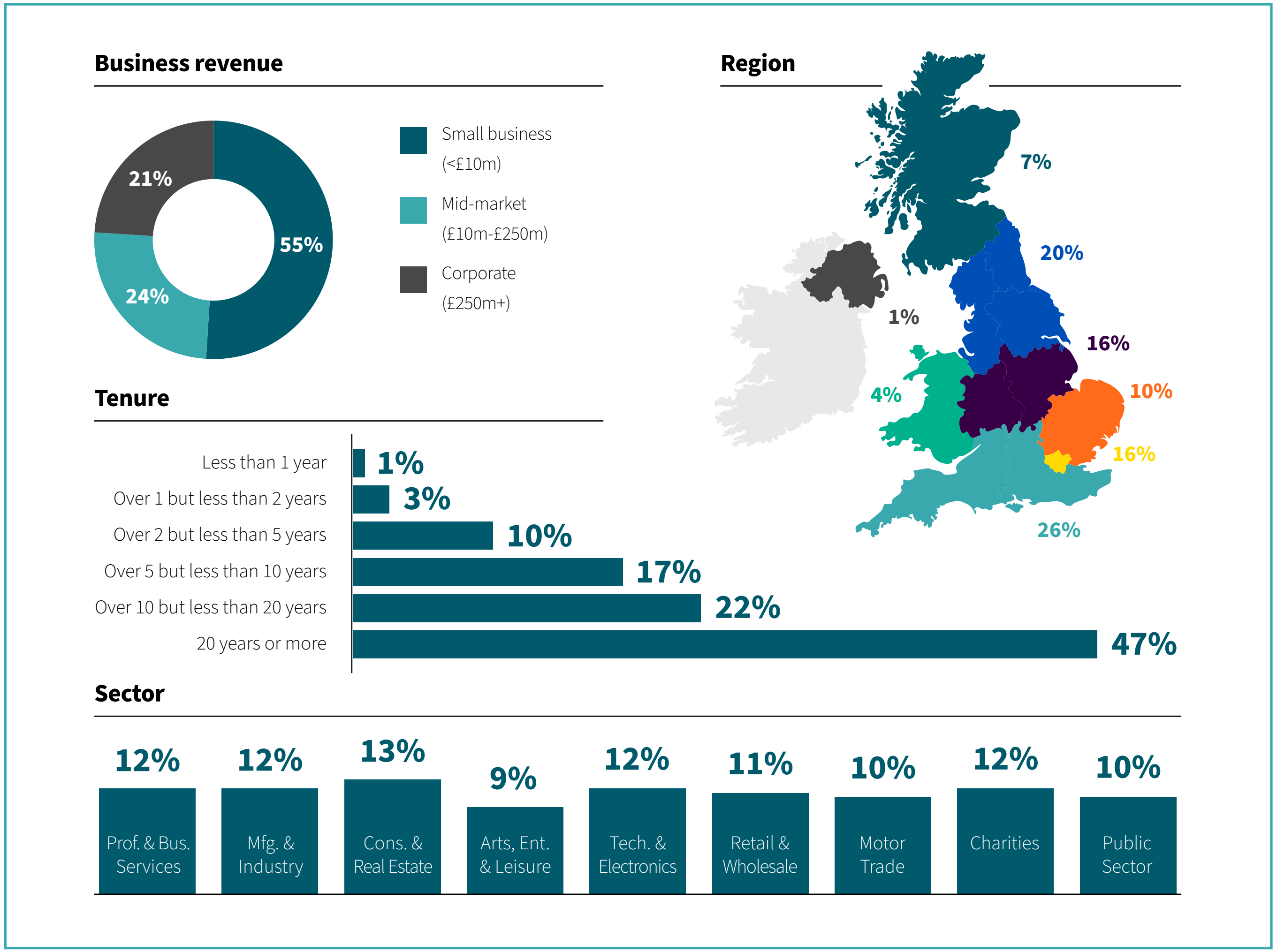
Methodology

This research was carried out in partnership with YouGov during August and September 2022. 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.

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.



Contact us

We hope this report has helped you understand and consider some of the risks to your business. 2023 promises to be a challenging year for businesses of all sizes and sectors. Whatever the future brings, Aviva is here to support the business community with insurance and risk management.

For more guidance on key risks, including practical prevention solutions, head to the Aviva Risk Management Solutions website. It's a free resource for Aviva clients and brokers, providing access to risk guidance for all UK businesses, regardless of size or sector. From the latest news and updates to a library of Loss Prevention Standards and innovative Specialist Partner solutions, you'll find best-practice content written by our risk managers themselves.

Visit the Aviva Risk Management Solutions website at **aviva.co.uk/risksolutions**

Further Help

If you think your business could benefit from further information and advice on the financial issues raised in our report, publicly available resources such as the Government's Business Support Helpline provide free, impartial advice and guidance.

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