

# UK SME Risk Report

Attitudes to the risks businesses are facing



# Contents

**04**

COVID-19: SMEs are planning for further change

---

**06**

Focus shifts to Brexit as SMEs adapt to the 'new normal'

---

**08**

Risk Management: UK SMEs key concerns

---

**10**

Insurance brokers prove invaluable to protect SME businesses

---

**14**

Mental health and wellbeing challenges felt at all levels

---

**16**

UK SMEs embrace risk management

---

**19**

Innovation proves essential for resilience

---

**20**

Thriving and surviving

---

**22**

Conclusion: Becoming future-ready



# Surveying the risk landscape

**For many UK SMEs, Brexit was to be the biggest challenge they were likely to face in 2020. Just two months after its 31 January 2020 start date, the world was plunged into a global pandemic.**

Nothing could have truly prepared anyone for what 2020 held, yet businesses were expected to think fast and find a way to survive. And many did.

Through our UK SME Risk Survey, we assess the critical risks the SME market are facing and how they tackled the risks relating to COVID-19 and Brexit, and identify some of the lessons learned along the way.

We surveyed businesses from the UK SME market, and received nearly 1,300 responses; just over a quarter of these were Marsh Commercial clients.

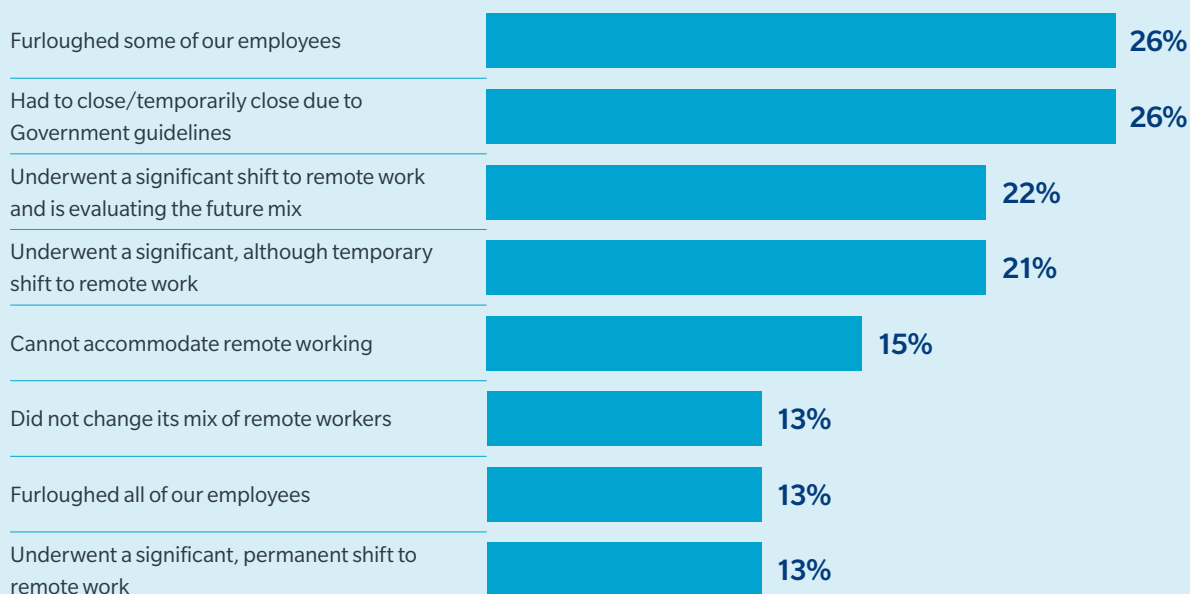
In this UK SME Risk Report, we explore how the last year has impacted the UK SME sector's view and approach to risk and risk management, and look at ways SMEs can evolve what they did to survive into ways to thrive.

# COVID-19: SMEs concerned about potential surge in cases

COVID-19 had a significant impact on SMEs in the UK, with over a quarter (26%) having to close businesses, either temporarily or permanently, due to government guidelines.

Similarly, 26% had to furlough some of their employees. Many had to assess their ways of working, with 42% making a significant shift to remote working. Of these, just over half will be evaluating their future working mix.

## 1 | Due to COVID-19, has your business had to undergo any of the following?





Respondents were most concerned about the prolonged impact COVID-19 may have on the economy (26%) — both globally and in terms of a UK recession. In line with this worry of prolonged impact, “another surge in COVID-19 cases” was ranked as the second highest concern, only marginally less than the top ranked concern, with 25%.

The ‘pingdemic’ is the result of employees in various industries being notified, or ‘pinged’, due to having spent a significant period of time in close proximity to someone who later tested positive for COVID-19. So the ‘pingdemic’ and the possible mandating of vaccines are both examples of by-products of the pandemic that can heavily impact the SME sector. [According to the Federation of Small Businesses](#), smaller businesses lost trade and experienced forced closures due to the ‘pinging’ of staff causing restrictions in operations. While the change in government rules aims to greatly reduce the impact of the ‘pinging’, the issues have not been fully eradicated.

**25%**

**another surge in COVID-19 cases.**

**26%**

**prolonged recession of the UK/global economy.**

**19%**

**rising business costs e.g. business rates, employment costs, property costs.**

**19%**

**economic downturn in the business sector you operate in e.g. physical retail, hospitality and leisure.**

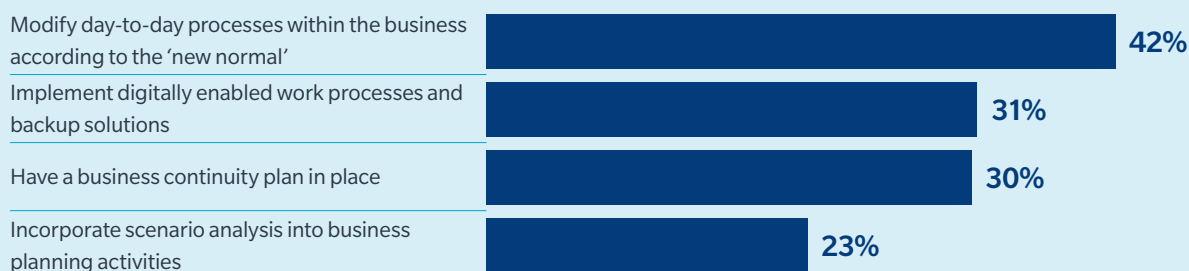
**18%**

**longer term impacts on employee workforce mental health and well being.**

### 3 | In light of COVID-19, which of the following, if any, is your business using or planning to use to enhance its agility and longer-term business planning?

As well as these fundamental changes to where they work, respondents outlined that they were making changes to how they work also. Some 42% have modified or are planning to modify their day-to-day processes in light of COVID-19.

Implementing digitally enabled work processes and backup solutions was also high on the agenda (31%), and will be necessary to support the long-term shift to remote working.



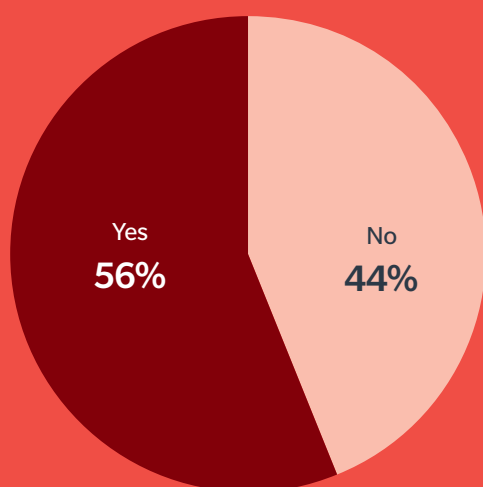
# Focus shifts to Brexit as SMEs adapt to the 'new normal'

With businesses and the public alike adjusting to the 'new normal' in light of COVID-19, many are turning their attentions back to Brexit and the related risks already impacting them or on the horizon.

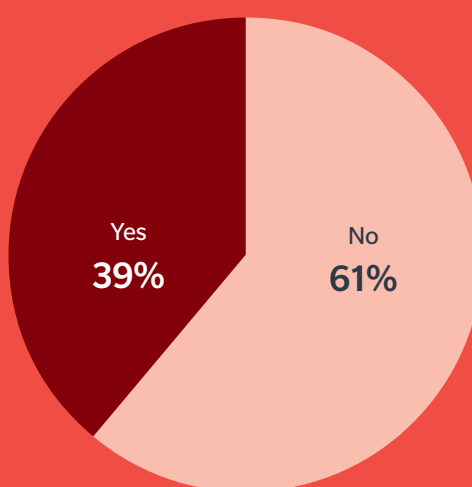
The majority of respondents (56%) said they were worried about Brexit-related risks. Interestingly, of those respondents that were Marsh Commercial clients, 61% said they were not worried about Brexit-related risks. It's our hope that this is a reflection of the support provided by their team of specialists who help them to understand this risk and put in place plans to mitigate it.

## 4 | Are you worried about any Brexit-related risks?

UK SMEs



Marsh Commercial Clients



● Yes  
● No

It is no surprise the risks significantly concerning respondents are “ability to trade in Europe” and “border delays”, in equal measure (25%). According to the survey, 31% experienced supply chain delays due to Brexit; these logistic challenges have led to some SMEs exploring onshoring — [sourcing or relocating a business’s production operations within domestic national borders](#). To add to this, 22% saw reduced trade, while nearly a fifth (19%) have seen a decrease in cash flow.

The number one risk worrying respondents however, was the impact of Brexit on the economy (29%). As COVID-19 pulled focus in 2020, it provided SMEs with a real-time example of the fallout caused when global economies stall — even for the smallest of enterprises. And for those businesses that sought opportunities during the pandemic, there is a strong fear that Brexit challenges will indeed cut their margins.

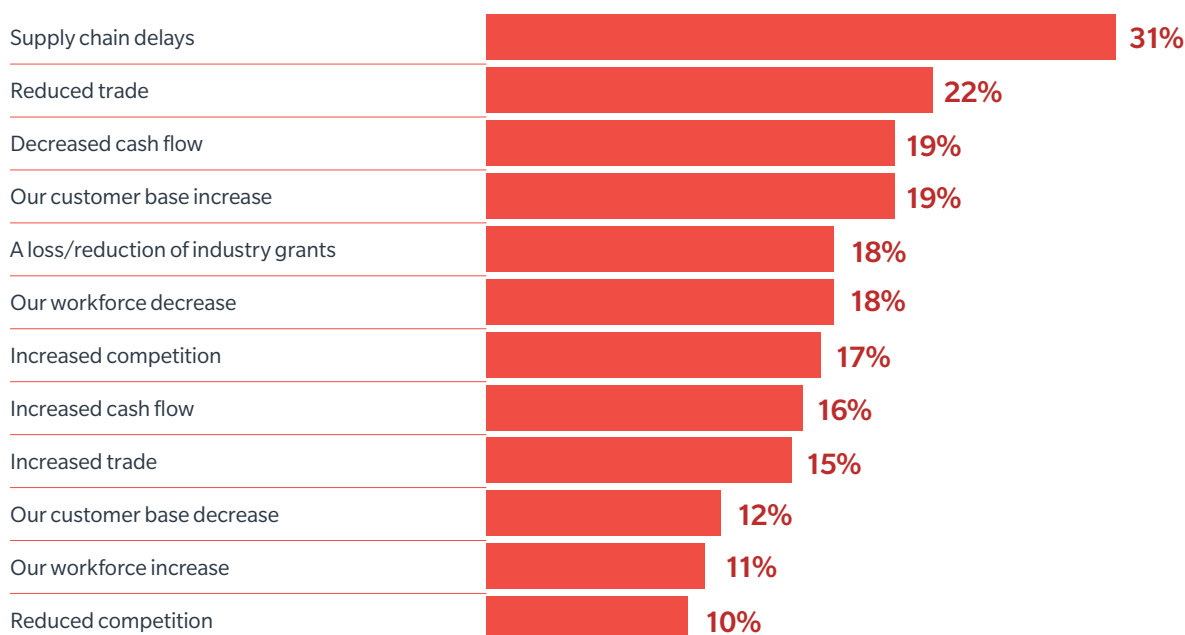
While COVID-19 has given rise to mental health and wellbeing issues among employees, it is Brexit that is causing significant worry among directors and business owners, with 56% saying they are worried about the related risks.

For those directors with financial streams and business owners that have weathered the COVID-19 storm, which hinged on operational and logistics challenges, there is a belief that they have the tools to continue surviving and possibly thriving. Brexit, however, with its many unknowns is a source of pressure.

## 5 | What risks related to Brexit are you most worried about for your company?

Impact of Brexit upon the economy	29%
Ability to trade in Europe	25%
Border delays	25%
Customs/border tariffs	22%
Impact on supply chain	24%
Red Tape/Regulation	20%
Increase in operating costs	23%
Increasing supplier costs	24%
Changing customer behaviour	17%
Late payments	15%
Competition	14%
How to take my business to the next stage in its journey	14%
Recruitment/Retaining Talent	14%
Access to funding	13%

## 6 | Due to Brexit, has your company seen...?



# Critical risks for UK SMEs

**Extreme weather events and climate change have become points of high concern for UK SMEs. These major global threats are being considered against the backdrop of the major trials of the past few years. Both Brexit and the pandemic have influenced the market's view of risk across the board.**

According to the survey respondents, continued fallout from COVID-19 or a new pandemic was the most critical external risk (36%). Extreme weather and climate change ranked second highest (20%), while sustainability and ESG requirements was close behind with 19%. This is indicative of the global perspective businesses of all sizes now have after 2020. Still, local challenges are a firm fixture on the risk landscape, and Brexit ranked a close fourth with 18%.

## 7 | What are the critical risks, if any, to your business?

### Internal business risks

Financial uncertainty/cash flow concerns	43%
Failure to innovate in response to changing client demands	24%
Failure of business operations, e.g. business continuity plan and operational resilience	21%
Supply chain concerns (including outsourced providers)	17%
Failure of urban planning and lack of investment in towns/the 'high street'	16%

### External risks

Continued fallout from COVID-19 or new pandemic	36%
Extreme weather events/climate change	20%
Sustainability including stakeholder expectations/requirements for ESG (Environmental, Social and Governance)	19%
Impact of Brexit	18%
Cyber-attacks/data fraud or theft	17%
Changing socio/political environment	10%
Terrorist attacks/social unrest	9%

### People risks

Employee mental health and wellbeing	30%
Health and Safety/compliance e.g. fire risk assessment	29%
Talent retention/acquisition	25%
Succession/key person risks	19%
Flexible working/property issues	14%
Employee benefit governance/compliance	8%



### Climate change ranks as high concern for UK SMEs

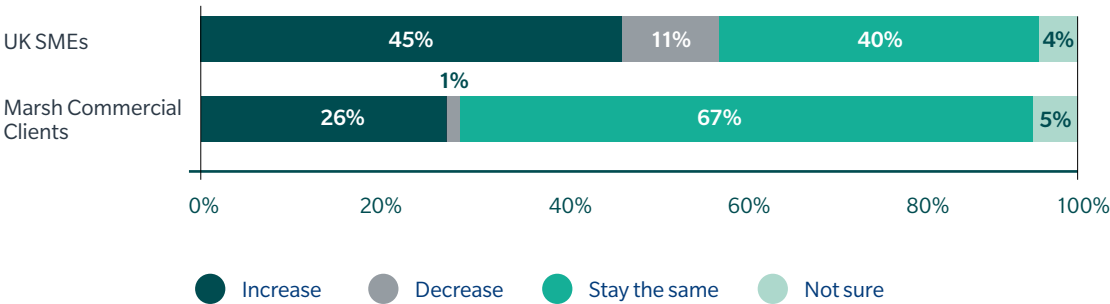
The efforts of larger businesses working to combat climate change and working towards net-zero are well documented, but 20% of UK SMEs we surveyed were also concerned about extreme weather and climate change. 19% also feel that sustainability is a key issue, and in particular the expectation to meet ESG requirements.

Going green can make your business more attractive to stakeholders and customers, but it can be daunting for smaller businesses to tackle their carbon footprint. Alongside boosting your company image, there are additional benefits for SMEs in becoming more sustainable.

For example, by reducing emissions most businesses can save money. Companies can consider recyclable packaging, energy-efficient lighting, or switching to renewable energy sources, and using electric vehicles. Businesses can also review their supply chains and try to source materials locally where possible, which could save them money on transport costs but will also boost local communities.

The transport industry is one that will be heavily affected by [government legislation to end the sale of petrol and diesel cars and vans in the UK by 2030](#). So even smaller businesses within this industry will need to make a plan to address this.

8 | In 2021, your business’s investment in risk management/health and safety will:



Marsh Commercial clients have a strong sense of their cyber risk, and a clear awareness of the growing sophistication within the cybercrime space — second to the pandemic (35%), cyber-attacks and data fraud or theft was deemed critical at 28%.

In line with critical risk concerns, respondents outlined that managing the COVID-19 fallout would be their top risk management priority for 2021 (29%), followed by improving IT and its security (22%), and addressing the current economic climate (21%).

Nearly half of respondents plan on increasing risk management spend in 2021 (45%), but work still needs to be done to close risk management performance gaps in adoption of new behaviours (31%), education of employees in key risk management practices (30%), and implementing formalised risk management programmes (28%).

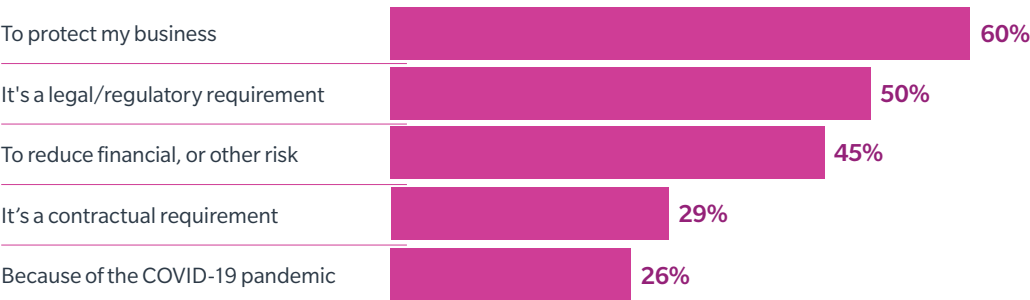
# Insurance brokers prove invaluable to protect SME businesses

This survey shows that businesses are no longer viewing the purchasing of insurance as merely a tick-box exercise satisfying regulatory requirements.

Respondents flagged protecting their businesses as the number one reason for purchasing insurance (60%). Though “legal requirement” still features highly (second, with 50%), respondents further demonstrated their understanding of the value of insurance with their third-ranked reason for purchasing — “to reduce financial and other risk” (45%). This supports the view that respondents are purchasing insurance because it will help them, and not just because they have to.

When asked what informs their insurance decisions, 72% of Marsh Commercial client respondents felt their insurance brokers informed their insurance decisions, compared to 40% of the overall group.

## 10 | What are your top 3 reasons for purchasing insurance?



# 72%

**of Marsh Commercial client respondents felt their insurance brokers informed their insurance decisions compared to 40% of the overall group**

The value of having a strong relationship with your broker plays out significantly in the understanding of risk and how to mitigate it. Furthermore, this relationship is beneficial to the understanding of risk management as a whole, particularly as more SMEs embrace more advanced risk management practices.

With that said, there are still some misconceptions about managing some of the risks relating to COVID-19 and Brexit.

Half of those surveyed have adjusted their business insurance coverage as a result of the COVID-19 pandemic. In fact, 26% of respondents highlighted that the pandemic was one of their top three reasons for purchasing insurance.

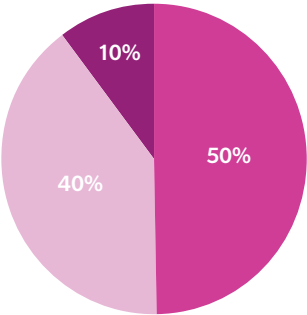
It is important to note very few insurance programmes currently include cover for the pandemic — indeed, 49% of respondents have seen increases in pandemic specific exclusions, and 42% have found it challenging to find the insurance they need. This highlights the value of using an insurance broker who can help businesses to acquire appropriate cover.

## 11 | Our insurance decision-making is informed via...

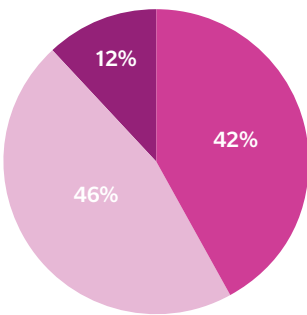


12 | Have you...

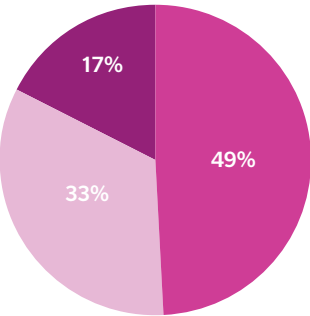
Readjusted your insurance coverage overall?



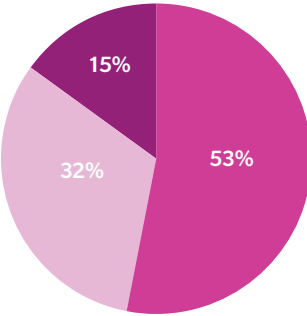
Found it more challenging to find the insurance you need?



Seen an increase in pandemic-specific exclusions in your terms and conditions?



Noticed an increase in premiums for your insurances?



● Yes    ● No    ● Not sure

Equally, nearly a quarter (24%) of respondents said they incorrectly intended to use business interruption (BI) insurance to protect their businesses against Brexit. This percentage fell to 9% among Marsh Commercial clients.

It is a common misconception that BI insurance will protect businesses against Brexit - either due to a lack of understanding of BI coverage, or of the risks associated with Brexit.

13 | In light of Brexit, what is your business using or planning to use to protect your business against any impacts?







# 49%

have seen increases in pandemic  
specific exclusions

---

# 42%

have found it challenging to find the  
insurance they need

# Mental health and wellbeing challenges felt at all levels

The number one critical people risk among respondents was “employee mental health and wellbeing” (30%). This comes as no surprise, given the challenges of the past year.

Additionally, just under one fifth (19%) also acknowledged the pandemic is having longer term impacts on employee mental health and wellbeing, and the risk of this to their businesses.

Despite nearly a third of respondents identifying employee mental health and wellbeing as the number one critical people risk, only a fifth (19%) will be prioritising measures to support the mental health and wellbeing of their employees in 2021.

The need for support and investment in this area may be being over looked, and this could have repercussions further down the line, particularly with employee retention, recruitment or health care cost containment.

**29%**

measures aimed at managing COVID-19 fallout

**19%**

hiring additional staff

**19%**

measures to support the mental health and wellbeing of employees

**18%**

integrating risk management/ health and safety into business planning

**21%**

measures aimed at addressing the impact of the current economic climate

**18%**

measures to diversify your business

**22%**

improving IT/security



For Marsh Commercial client respondents, employee mental health and wellbeing is their fourth most critical people risk (14%) — their ranking is topped with talent retention and acquisition (32%), succession (31%), and health and safety and compliance (19%). This comfort in managing employee health and wellbeing could be due to the people support tools available to them, particularly as they are looking forward to retention and succession.

---

# 14%

of SMEs plan to decrease their investment in risk management in 2021.



# UK SMEs embrace risk management

**Being hit with both Brexit and COVID-19 was devastating for many businesses of all sizes, and only the truly resilient survived.**

Those that were able to tackle these trials head-on and survive are no doubt happy to pause and take stock while the dust settles during this current lull. However, there is no time for complacency.

The pandemic has helped all businesses better understand risk management, as well as the importance and value of it. This was a universal push from the Government, the media, and service industries like insurance.

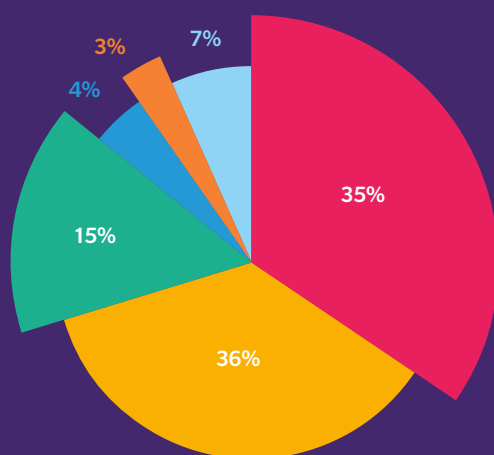
The pandemic has proved somewhat of a watershed. Prior to COVID-19, risk management was generally considered as the territory of corporate businesses and enterprises. Many small businesses may have had risk assessments in place, but they could have been outdated, or basic and not comprehensive enough.

During the pandemic, many small businesses had to be agile and they used the tools they had to great effect. Now, businesses of all sizes — including sole traders — understand the importance of developing business continuity plans (BCPs).

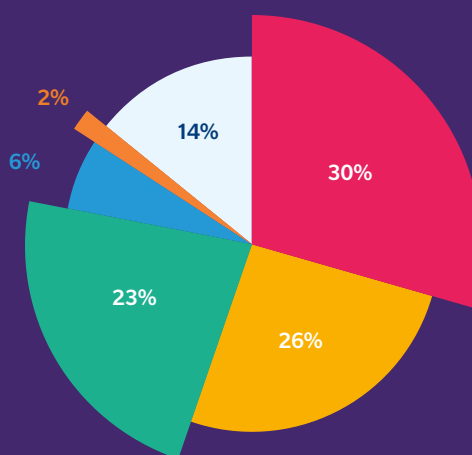
The majority of respondents agree that their business continuity plans responded well to the COVID-19 pandemic (71%). Further to this, more than half (55%) of respondents agree that their businesses have responded well to the impact of Brexit. Most, however, would acknowledge that there is scope to make their plans even more effective.

To what extent do you agree or disagree with the following statement?

**16 | “Our business continuity plan responded well to the COVID-19 pandemic.”**



**17 | “Our business responded well to the impact of Brexit.”**



- Strongly agree
- Somewhat agree
- Neither agree nor disagree
- Somewhat disagree
- Somewhat disagree
- My company didn't have a business continuity plan
- My company is not impacted by Brexit



The success experienced by SMEs responding to COVID-19 and Brexit could create a false sense of security though: 11% plan to decrease their investment in risk management in 2021. In comparison, just 1% of Marsh Commercial client respondents plan to decrease their investment.

# 11%

of SMEs plan to decrease their investment in risk management in 2021.

---

# Just 1%

of Marsh Commercial clients plan to decrease their investment.



# 24%

of SMEs ranked a failure to innovate in response to changing client demands as the second most critical internal business risk

---

# Innovation proves essential for resilience

**Respondents ranked failure to innovate in response to changing client demands as the second most critical internal business risk (24%), with financial uncertainty or cash flow concerns at number one (43%). As little as two years ago it is unlikely innovation would have ranked so highly on a list of critical internal business risks from SMEs.**

This is indicative of a climate where even micro-businesses have to change their business operations to remain relevant. In many cases, businesses have to embrace some discomfort or change in order to survive.

According to the survey results, as company turnover increases, so too does the critical need for innovation; companies with lower turnover have greater risks relating to financial uncertainty.

Many SMEs have had to pivot in order to survive the trials of the pandemic. Sectors like hospitality have had to make wholesale changes to business models, while others have had to embrace technology either through e-commerce or remote working. Many have contacted their brokers to find out the risk implications of the changes they have made to their businesses.

Businesses have been quick to innovate and evolve their business models, products and services. However, as much as this survival activity has been reactive, it is very easy to not recognise or acknowledge it as innovation.

It could also be said that those that have not ranked innovation highly — particularly those with a company turnover of £100,000 or less — are viewing their innovation as a completed activity. For many, COVID-19 will be one of the largest challenges they experience, and surviving it could give a false sense of security, or instil a level of complacency.

Unfortunately, innovation cannot be seen as a 'one and done' activity. Businesses should learn from the trials of 2020, and a proactive approach to innovation and change should ideally become a part of a business's culture.

Businesses should look to continually evolve and improve in order to help build resilience, so they are robust enough to manage any unforeseen circumstances or crises.

For many SMEs, it has been about adopting a new mindset, and their continued, proactive innovation is helping them to move from surviving to thriving.

# Thriving and surviving

**While both Brexit and COVID-19 are extraordinary challenges, the crux of business resilience is understanding that you will be tested again.**

Some businesses are not planning for the challenges ahead because they believe they will not surpass the trials presented by COVID-19 and Brexit. Due to the magnitude of both key events, it's not unreasonable for businesses to feel they have all the tools they need to navigate future trials. This type of thinking, however, leaves businesses open to vulnerabilities and blind spots.

Also, continuing to focus on a narrow view of COVID-19 fallout as a risk management priority (such as concerns of another surge in COVID-19 cases), rather than broadening the scope of activity to address other types of challenges, could leave businesses exposed.





# Risk landscapes are changing presenting new opportunities for SMEs, and new risks.

Global and local risk landscapes are changing, with new forms of mobility, new ways of shopping and receiving services, and modern spaces to live and work in – like remote and hybrid working. All of these present opportunities for SMEs, and with these opportunities come new risks.

Adding to this, we have the major challenge of climate change and sustainability, which is increasingly filtering down from governments, to corporates and SMEs.

SMEs should be considering the impact of sustainability on their businesses, particularly as expectation of environmental, social, and governance (ESG) conscientiousness grows among customers and stakeholders.

While COVID-19 and Brexit remain the behemoths on the risk landscape, they mustn't distract us from other issues on the horizon. Those in the agriculture sector, for example, should be just as concerned about extreme weather patterns and changes as they are about another surge in COVID-19 — if not more so.

Just as the world around us is evolving, business resilience needs to become a consistently developing piece of work.



# Conclusion: Becoming future-fit

**Surviving COVID-19, and the early stages of Brexit, have been no mean feat.**

These events and other critical risks businesses have altered the way we live and work immeasurably — and beyond the creation of the ‘new normal’, they have provided businesses with a much greater understanding of the need for resilience and the value of risk management.

Through agility and the ability to adapt, many UK SMEs have survived the past few challenging years, but in order to thrive they need to embrace the innovative mind-set they tapped into to achieve this.

UK SMEs will need to take a more proactive approach to risk management, and not view it as a cost but as a true benefit to their business. The form and severity of challenges may change, but there will inevitably be other trials. It is also worth assessing whether your risk management and business continuity plans are as robust as is required by your industry and by insurers. Plans must be fit for purpose and be able to respond to future risks; not a plan for plans sake.

Lean on your team of specialists for support in establishing a road map for resilience that will guide you through your current challenges and the ones that lie ahead.



## Key Takeaways

# 71%

The majority of SMEs believe their business continuity plan responded well to the COVID-19 pandemic (71%) and Brexit (55%). Now, businesses of all sizes — including sole traders — understand the importance of developing business continuity plans.

---

# 56%

The majority (56%) admit they are also worried about Brexit-related risks. While COVID-19 has given rise to mental health and wellbeing issues among employees, it is Brexit that is causing significant worry among directors and business owners.

---

# 51%

More than half (51%) now plan to decrease or keep the same their investment in risk management, leading experts to express concern over a 'false sense of security'.

---

# 24%

Nearly a quarter (24%) of SMEs incorrectly intend to use business interruption insurance (BI) to protect their business against Brexit related risks. It is a common misconception that BI insurance will protect businesses against Brexit.

---

# 36%

Continued fallout from COVID-19 or a new pandemic is considered the top critical external risk (36%) to businesses right now. And for those businesses that sought opportunities during the pandemic, there is a strong fear that Brexit challenges will indeed cut their margins.

# Say hello to helpful

Visit [marshcommercial.co.uk](https://marshcommercial.co.uk) for more expert insights.

This is a marketing communication.

The information contained herein is based on sources we believe reliable and should be understood to be general insurance and risk management information only. The information is not intended to be taken as advice and cannot be relied upon as such.

Statements concerning legal, tax or accounting matters should be understood to be general observations based solely on our experience as insurance brokers and risk consultants and should not be relied upon as legal, tax or accounting advice, which we are not authorised to provide.

Marsh Commercial is a trading name of Jelf Insurance Brokers Ltd, which is authorised and regulated by the Financial Conduct Authority (FCA). Not all products and services offered are regulated by the FCA (for details see [marshcommercial.co.uk/info/regulation](https://marshcommercial.co.uk/info/regulation)). Registered in England and Wales number 0837227. Registered Office: 1 Tower Place West, London EC3R 5BU.

