

UK Business Risk Report

Surveying the business risk landscape
with views of 2,000+ business leaders.

“Risk is very much part and parcel of everyday life and comes with running a business. The ability to understand, manage, and mitigate risk is crucial to long-term success.”

ALISTAIR FRASER
CEO, Commercial & Corporate, Marsh UK



4	Foreword from Alistair Fraser, CEO, Commercial & Corporate, Marsh UK.
6	Executive summary.
8	Sleepless nights - the biggest business risks identified.
12	Tackling the risks - risk management priorities and actions.
16	Planning for growth - business leaders confidence for the year ahead.
20	Unseen action on ESG - doing better than you think?
24	Conclusion.
26	Contributors.

Contents

Foreword from Alistair Fraser

The UK Business Risk Report returns for its third edition. Once again, we're excited to provide you with a window into the minds of UK business leaders as they strive to navigate an ever evolving business environment.

At Marsh we place huge importance on assessing and understanding the risks UK business leaders face. The independents, sole traders, fast-growing, and established corporates up and down the country are the ones driving our national and local economies. It's our mission to back them and to help them thrive, with the best risk advice, risk education, and risk mitigation.

This report is about listening to the heartbeat of British business leaders and understanding what they are focussed on. For that insight, we are truly grateful to the 2,000+ individuals who have been generous with their time and open about their hopes, fears, plans, and priorities for the future.

The findings detailed in this report tell a story of the very broad spectrum of risks facing leaders of many different business shapes and sizes. Those risks range from the well-known to those you may not be aware of and the ones in between. The risks where access to expertise may be help you to realise the full benefits that can flow from strategic risk assessment and management.

That same insight is crucial to our mission. It enables us to work with insurers to address the very real risks facing UK businesses. This will help strengthen the resilience that all businesses need to grow with confidence.

After all, risk is very much part and parcel of everyday life and comes with running a business. The ability to understand, manage, and mitigate risk is crucial to long-term success. This report goes that step further and provides practical advice on how to tackle some of those risks.

We hope the insight and guidance contained in this report will contribute in some way to the success of your business.



Alistair Fraser
CEO, Commercial & Corporate
Marsh UK

About the research

The third edition of the Marsh UK Business Risk Report draws on the views and experiences of 2,145 respondents across the UK (adults aged 18+).

The survey was completed by 104 business leaders drawn from Marsh clients and clients of Marsh's family of businesses (Marsh Commercial, Bishop Skinner Marine, Mercer Marsh Benefits, and Hamilton Bond), as well as 2,041 leaders from the wider population of UK businesses.

Respondents were questioned during May and June 2023 and were qualified by company size, employment status, age, location, industry, business type, and Marsh client status.

Most answers were from leaders whose businesses turnover between £1 million and £10 million (368 responses), those employing 101 to 1000 people (650 responses), and those running Private Limited Companies (985 responses).

For the purposes of this report our business sample has been segmented as follows:



Microbusiness
0 to 5 employees



SME business
6 to 2000 employees



Large business
>2000 employees



Resilience breeds confidence

The 2023 UK Business Risk Report finds business leaders in a surprisingly confident mood, despite the very real challenges posed by issues such as inflation, energy prices, skills shortages, and supply chain issues.

A near majority is bullish about prospects for growth and profitability over the next year. Almost half are planning to make capital investments - a sure sign of a confident outlook.

That confidence is reflected in business leaders' attitude to the current array of financial risks. Financial uncertainty is viewed as the top risk for the next 12 months. It is not however, dominating their thoughts in the way that might be expected.

Instead, many are focused on people and people-related risks, perhaps in the understanding that achieving growth will mean being successful in retaining and attracting the best talent.

Here, the approach is clearly evolving. The focus remains on supporting employees with investments in health and safety as well as efforts to support their mental health and wellbeing.

However, over the next 12 months, many seem to be planning a more holistic approach, pairing those investments with a focus on strengthening workplace culture and leadership.

Finally, this report uncovers the truth about UK businesses' perceptions and action regarding ESG (environmental, social, and governance). Many are doing better than they think but perhaps need to repack efforts to be better able to identify and address gaps in their ESG strategies and reap the many benefits.

Overall the opportunity to amplify the benefits of risk management by taking a more holistic approach to risk emerges as a theme throughout. With more joined up thinking, UK business leaders have an opportunity to generate a snowball effect, not only driving efficiencies, but also establishing risk management as a tool to enhance reputations, realise cost-savings, and drive growth.





Sleepless nights

The biggest business risks identified.

What risks are of most concern over next 12 months?

34%

Financial uncertainty

(e.g. inflationary environment or the risk of recession and the impact on cash flow or underinsurance)

31%

Employee mental health and wellbeing

23%

Supply chain reliance and disruption

(e.g. logistics, financial or otherwise)

22%

Talent retention, attraction & succession planning

21%

Health and safety of the public and employees

(e.g. slips, trips and hazards)

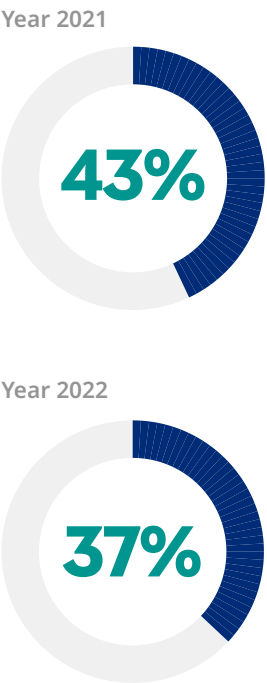
Familiar, but falling, financial concerns

It's no surprise to see financial uncertainty cited as the top risk facing UK businesses this year. However, the issue does not dominate the thoughts of business leaders as much as might be assumed given the impact of issues like high inflation, energy prices and the higher than usual cost of raw materials.

Just over one third (34.4%) of leaders see financial uncertainty as significant cause of concern over the next 12 months - its lowest level for two years (43% in 2021, 37% in 2022).

It's reasonable to suggest that the consignment of COVID-19 to history, at least in terms of unpredictable business disruption, may be a factor. A return to more 'familiar' financial risks, may represent a comfort zone of sorts. The action many businesses took to strengthen financial resilience during the pandemic could also be contributing to a greater sense of financial security.

A look at the differences between businesses of varying sizes supports the idea that enhanced financial resilience may be contributing to greater financial confidence overall. For instance, smaller businesses, which are likely to be proportionately less insulated against financial shocks are far more fearful of financial uncertainty. Almost half of microbusinesses (43.9%) cite financial uncertainty as a key risk compared with 33% of SMEs, while for larger businesses, it is not even the top risk (33.7%) - it's employee mental health and wellbeing.



People, talent and culture to the fore

People-related risks dominate the key risks across the board. In the top five risks, employee mental health and wellbeing (30.8%), talent retention, attraction and succession planning (22.4%), and health and safety of the public and employees (20.9%) take second, fourth and fifth place respectively. Meanwhile, workplace culture and employee engagement (20.2%) sits in sixth place.

This perhaps reflects both an ongoing talent shortage and the ever-increasing focus on employee wellbeing. It is, however, somewhat comforting to see that people are of most concern to leaders. After all, they are any business's most important asset.

Again, the level of concern for these risks varies according to business size. Respondents from larger businesses, which employ more people and face more complex people risks, were the most concerned - in fact they are twice as likely as microbusinesses to cite employee wellbeing as a key risk (40% versus 18.5%). Additionally, workplace culture only features in the top five risks for large businesses (24.1%).



large businesses are twice as likely to cite employee wellbeing as a key risk compared to microbusinesses.



What risks, if any, are of most concern to your business over the next 12 months?





Tackling the risks

Risk management priorities and actions.

What have you reviewed to help alleviate your biggest concerns in the last 12 months?

51%

Health and safety
policy and procedures.

47%

Employee mental
health and wellbeing

46%

Insurance coverage

45%

Cyber controls

43%

Customer contracts

People risk management:
Gathering pace

The overall steps businesses have taken to strengthen resilience over the last 12 months have been diverse. Action has primarily taken aim at employees’ physical and mental wellbeing. Health and safety policies and procedures, and employee mental health and wellbeing offerings were reviewed by 51% and 47% of leaders respectively.

Again, however, there is significant divergence according to business size, with larger businesses facing more complex risks more likely to have taken action. For instance, 39% of microbusinesses have reviewed health and safety, compared with 49.3% of SMEs and 58.6% of large business.

Equally, reviewing employee mental health and wellbeing offerings did not feature in the top five risk management steps taken by microbusinesses. However, 43% of SMEs and 58% of large businesses did review these risk management steps.

How business leaders plan to address people risks over the next 12 months speaks to an evolving approach that is gathering pace. Overall, reviewing employee mental health and wellbeing offerings (34%), and health and safety (29%) remain in the top two spots. Reviewing workplace culture and leadership (29%) takes third place.

This points to a more holistic view of people risks, with businesses taking a more joined up approach to addressing them. These positive actions can create a snowball effect, amplifying the benefits associated with taking action and extending them into areas like talent retention and attraction, productivity and reputation.



Many health and safety incidents can arise from inadequate employee training – despite your best efforts. Safety incentive programmes, safety culture and behaviour surveys, and accredited training courses are three great ways to adopt health and safety compliance in your business. Get more tips with our [free guide](#).

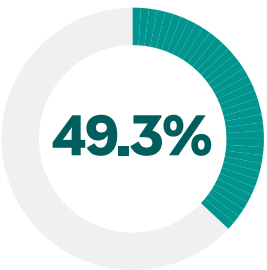
Julianna Forsyth,
Risk Management Leader, Marsh UK

Reviewing health and safety:

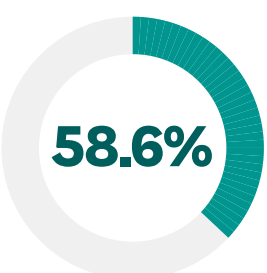
Microbusinesses



SMEs



Large businesses



Property valuations:
We’re in the eye of the storm

One area that UK businesses may need to give more attention to is property risk. This includes a range of factors – from skills shortages and the high cost of building materials, to the need to comply with environmental standards - which are driving up the reinstatement costs on which property cover is largely based.

In fact, some insurers estimate that between 50%¹ and 83%² of the commercial properties they cover are currently underinsured, due to out of date rebuild cost valuations. This is further supported by the fact that 75% of businesses who responded to our survey have not reassessed property rebuild costs in the last 12 months – and 10% have never done so. Furthermore, only 16% of leaders plan to review their rebuild costs in the next 12 months.

This is a significant risk, given that insurers commonly apply a ‘condition of average’ to claims where a property is underinsured. As a result, an affected business suffering significant property damage could find that any subsequent insurance settlement is insufficient to cover the cost of reinstating its premises. The financial impact of this can be devastating. In turn, the need to self-fund the shortfall and potential delays in getting back to business as usual could threaten a business’s ability to continue.



We highly recommend you consider your property reinstatement values, the adequacy of your indemnity period, and reconsider potential reductions in cover. Work with your broker periodically and adjust property insurance coverage accordingly.”

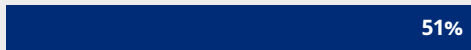
David Scutt
Managing Director, Marsh Commercial

1 | Aviva ‘Underinsurance – the rising threat’ Sept 2022 <https://connect.avivab2b.co.uk/broker/articles/news/underinsurance---the-rising-threat/>

2 | RebuildCostASSESSMENT.com ‘Underinsurance gap widening as costs increase’ Oct 2022 <https://www.rebuildcostassessment.com/post/underinsurance-gap-widening-as-costs-increase>

Top steps taken to
alleviate biggest concerns
in the last 12 months:

Health and safety policy and procedures
(people and process)



Employee health and benefits offering
(including mental health support)



Insurance coverage (suitability of
coverage and/or uninsured risk)



Cyber security controls



Customer contacts
(including terms and conditions)



Top steps planned to
alleviate biggest concerns
in the next 12 months:

Employee health and benefits offering
(including mental health support)



Health and safety policy and procedures
(people and process)



Workplace culture and leadership



Cyber security controls



Supplier contracts and relationships





Planning for growth

Business leaders are confident about the year ahead.

How, if at all, do you think the following will increase, remain the same or decrease over the next 12 months?

50%

Say they expect productivity to increase

47%

Expect turnover to increase

46%

Expect improved profit margins

44%

Expect capital expenditure to increase

44%

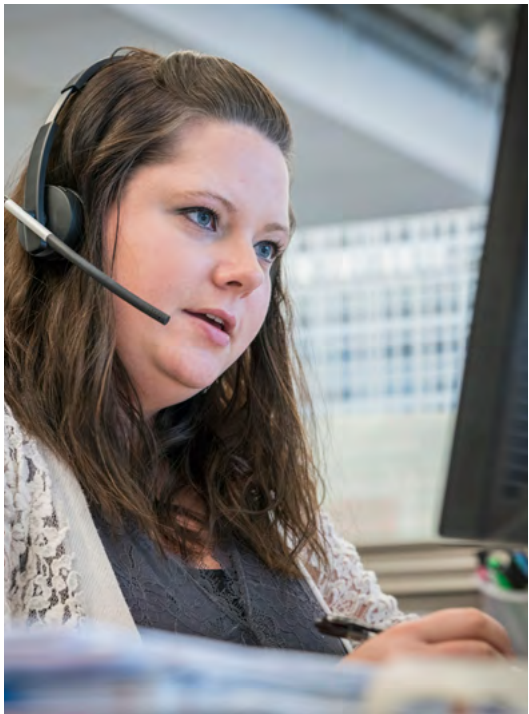
Expect improved workplace culture & employee engagement

A dividing line in confidence

UK businesses may be operating in a challenging trading environment, but their leaders are surprisingly optimistic about their prospects for the year ahead. A near-majority is expecting improvements across a range of commercial metrics, while close to half expect to increase capital investment over the next 12 months.

Once again, closer inspection highlights real disparities between businesses of different sizes – and a clear dividing line between the smallest businesses and the rest. In fact, SMEs are the most confident in their future prospects – 52% expect productivity to improve, 49% think turnover will rise, and 48% think profit margins will widen.

By contrast, microbusinesses are far more cautious. Just 38% pointed to increased productivity, 37% to rising turnover, and 31% to improvements in profitability. At the same time, 20% expect profit to fall, leaving a net 11% expecting improvement in this area – well behind SMEs with a net 27% and larger businesses (23%).



How, if at all, do you think the following will increase, remain the same or decrease over the next 12 months in your business?



Increase

- Their productivity (50%)
- Their turnover (47%)
- Their profitability (46%)
- Their capital expenditure (44%) or their workplace culture engagement (44%)
- Diversification of their business operations (40%)



Stay the same

- Risk transfer, such as insurance to transfer risk from their balance sheet (46%)
- Diversification of their business operations (43%)
- Hybrid working (41%)



Decrease

- Their staffing levels will decrease (20%)
- Their profitability (16%)
- Trade within the EU (15%)
- Their turnover (15%)

Access to talent remains a concern

One area where business of all sizes broadly agree is access to talent. The majority in each category expects headcount to stay the same or fall – 53% of microbusinesses, 55% of SMEs and 55% of larger businesses.

This expectation, viewed alongside expected gains in productivity and turnover, perhaps explains the significant effort businesses are putting into employee safety and wellbeing, as a newer less skilled workforce can lead to an increase in errors and accidents. It also explains the growing focus on workplace culture – all of which can, in theory, help with both staff retention and attraction.



Recent events have forced HR and benefits professionals to respond reactively to acute employee needs. Organisations have approved, funded, and introduced health and wellbeing benefits at extreme speed to support employees at critical times. This report helps leaders to create a sustainable and forward-looking health and wellbeing strategy.

Rachel Riley,
Commercial and Consumer Leader,
Mercer Marsh Benefits





Unseen action on ESG

Leaders are doing better than
they think.

55%

Understand ESG and
related requirements

50%

Incorporate ESG into
business strategy

48%

Review supplier ESG
strategy & credentials

45%

Have an ESG
governance structure/
risk register

37%

Have a Task Force on
Climate-related Financial
Disclosures plan

Why ESG is important?

Environmental, social and governance (ESG) standards for UK businesses are becoming increasingly important. For instance, reporting on ESG performance is already mandatory for large businesses (those with turnover of more than £500m, or more than 500 employees).¹

However, that doesn't mean ESG is only an issue for larger firms alone. Many smaller firms are already voluntarily monitoring and/or reporting on ESG, as well as passing those expectations down through their supply chain. Be it as part of the process of securing ISO14001,¹ to improve their ability to access finance and funding,² or to avoid paying higher insurance premiums which can flow from poor ESG performance.³

What is ESG?

In simple terms, ESG is a measure of an organisation's sustainability, assessed across:



The environment: Steps taken to safeguard the environment, including policies addressing climate change and protecting nature.



Social factors: Relationships with employees, suppliers, customers and communities, including labour standards, diversity and inclusion, and health and safety issues.



Governance: From leadership and pay, to internal controls and behaviours including cyber protections and conduct.

How are UK businesses getting on with ESG?

On the face of things, the understanding and application of ESG among UK business leaders is patchy. Just over half (55%) of respondents understand ESG requirements and half (50%) have incorporated ESG into business strategy. What's more, even among those businesses for whom ESG reporting is mandatory, only 65% say they understand the requirements, despite the majority of this group having made ESG part of their strategy.

Understanding and action declines further among smaller business sizes. Just 29% of microbusinesses understand ESG and 24% have embedded ESG in business strategy, while SMEs and larger businesses are in line with the average at 54% and 50% respectively.

Leaders are doing more than they think

Based on those perceptions of ESG and ESG-related activity, it would be easy to conclude that businesses are simply not doing enough. However, many are unknowingly taking action in areas that directly contribute to ESG risk management, such as:

Environmental: Over the last three years, almost three quarters (70%) have undertaken property risk management, reducing the chance of a serious incident, which can also be a highly polluting event; 72% have reviewed supplier contracts and relationships and 48% have reviewed supplier ESG strategies; and 38% expect to improve carbon neutrality over the next 12 months.

Social: The attention businesses are paying to health and safety, employee wellbeing, and workplace culture all contribute to social performance, while 63% have reviewed their corporate social responsibility (CSR) strategies over the last three years, which can help to ensure they have a positive impact on wider local communities.

Governance: Over the last three years, 71% have reviewed business contingency plans; 73% have reviewed cyber security controls; 72% have checked their compliance with employment law; 73% have checked the suitability of insurance coverage; 72% have reviewed leadership performance.

The snowball effect: Time to think differently about ESG?

This disparity between what leaders think they are doing to address ESG risks, and what they are actually doing suggests that UK businesses need to think differently about ESG.

Shifting their perspective on the many standalone actions businesses are taking to address risks would provide an excellent foundation for solid ESG performance. This would make it easier to identify and address gaps, as well as amplifying the benefits that flow from actions businesses are already taking.

Those benefits could include better access to finance, better insurer perception of your ESG risks, improved employee satisfaction and retention, and an enhanced reputation among customers, suppliers, regulators, and the wider community. This is all crucial to business resilience and growth.



It is impossible to get away from the Environmental, Social & Governance (ESG) agenda. Insurers, stakeholders, financiers, employees and insurers are increasingly using ESG compliance to make decisions about who to work with. By using the Marsh ESG Pulse Checker tool, you can assess your company's level of compliance & maturity and start your journey in a prioritised manner."

Eric Alter
Risk and Cyber Engagement Leader, Marsh UK

¹ | <https://environmental.org.uk/LYE/ESG/ESG-home.aspx>

² | <https://www.pricebailey.co.uk/blog/reporting-esg-will-affect-access-capital/>

³ | <https://www.icaew.com/insights/viewpoints-on-the-news/2023/jul-2023/esg-for-smes-insurance-premium-rise-key-to-change>

Confident on the front foot

UK business leaders are focused on people and growth

This year's UK Business Risk Report finds businesses still facing tough trading conditions, but with greater resilience. Battle-hardened from two years of unprecedented disruption, they're looking to the future with renewed confidence – they expect growth and improved profitability.

In combination with that bright outlook, business leaders' concerns around financial uncertainty continue to recede. The risk remains the top concern, but it no longer dominates business leaders' thinking.

Instead, many are investing in growth. People are the beating heart of any business, so the first priority for the majority is to protect employee wellbeing. Close behind is a desire to foster greater productivity and retain and attract more talent, for instance through more sophisticated action on workplace culture and leadership.

Capital investment is also part of growth planning for almost half of UK businesses – another sign that confidence is returning, despite the challenges ahead.

There's positive news when it comes to ESG too. Many UK businesses are making real strides towards solid ESG performance. To realise the benefits, many simply need to stop thinking of ESG as a risk, but rather as an opportunity to close gaps and to realise disproportionate benefits from the investments they are already making.

This is where businesses can benefit from expert advice and support from industry associations, professional advisers, and their insurance brokers.

That advice can, for instance, help businesses to take more holistic approaches to risk management – from property and people, to leadership, environmental, and cyber risks. This can create a compounding effect from which the benefits fan out to reputation, talent acquisition and retention, growth, and ultimately profitability.

What's more, expert advice can play a vital role in helping businesses to navigate emerging challenges – from the journey to net zero to generative AI. This not just helps to manage risks, but also helps seize their transformative potential and gain lasting competitive advantage.



Contributors

A huge thank you to our business experts across Marsh McLennan for their valuable insights. Please do not hesitate reach out if you have any questions about your business’s biggest risks.



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About Marsh

Marsh is the world's leading insurance broker and risk advisor. With around 40,000 colleagues operating in more than 130 countries, Marsh serves commercial and individual clients with data-driven risk solutions and advisory services. Marsh is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people. With annual revenue over \$17 billion, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment through four market-leading businesses: Marsh, Guy Carpenter, Mercer and Oliver Wyman. For more information, visit mmc.com, follow us on LinkedIn and Twitter or subscribe to BRINK.

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