New world, new risks:
How are businesses' attitudes to risk & resilience changing?

beazley

Introduction

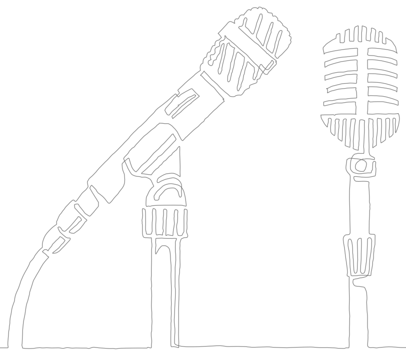
Welcome to the first in our new series of Risk & Resilience reports. Based on a survey of over 1,000 business leaders and insurance buyers from across 10 industry sectors in the UK and the US, and with insights from our experienced panel of insurance industry experts, this report provides a timely analysis of business resilience to risk.

The global pandemic has been the biggest test of business strategy, agility and competence in a generation. A risk that had been on the periphery of risk registers for years – included more for completeness by most than for practical planning purposes – became a terrible global reality within a period of weeks, requiring businesses everywhere to re-examine their operating models and re-work financial forecasts from the ground up.

With the pandemic still in full force, in January 2021, we embarked on an exercise to understand how resilient businesses feel to four categories of risk: technology, business, political & economic and environmental. We asked leaders to rank these categories in terms of severity and to assess their resilience to the various risks within each category.

Our findings demonstrate that the majority (85%) of leaders feel they are operating in a moderate to high-risk environment, but also that they are comfortable in that space. Just under half (47%) feel more resilient than they did before the onset of the pandemic and 84% believe that they will be even more resilient in 12 months' time.

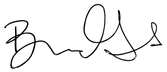
But while such high levels of confidence augur well for a strong recovery, closer inspection of businesses' views on risk and resilience suggests there are some tests for the insurance industry ahead.



The most pressing business risks – the withdrawal of the financial stimulus on both sides of the Atlantic, and the impact on the economy and political stability – will crystallise the challenge for the insurance industry to accommodate emerging and systemic risks in an effective and cost-effective way. However this is accomplished, there is little doubt that we will need to respond in a more tailored and flexible manner if we are to sustain our role as trusted risk partners – a theme which is explored in more detail in our next report in our Risk & Resilience series – *'Risk in a new world order: How can we meet clients' changing needs?'*

This is the first research project of its kind conducted by Beazley and we intend to extend and repeat this research over time so that we can understand how to build the best, most effective relationships for managing and mitigating risk with our brokers and clients. We hope that you will find the insights in this report useful.

Lou Ann Layton
Head of Broker Relations and Marketing



Bethany Greenwood
Interim Chief Underwriting Officer

Post-pandemic risk and resilience

We asked business leaders to identify which risks were their top concern within four risk categories: technology, business, environmental and political and economic. We also asked them to rate their resilience to these risks in terms of their ability to anticipate and respond.

From this we were able to create the Beazley Risk-resilience matrix 2021 based on the percentage of companies ranking a risk as their leading concern and on the percentage of companies feeling 'very prepared' to anticipate and respond to each risk.

Are risk-resilience estimations accurate?

In the high risk, high resilience quadrant (top right of our matrix), businesses consider cyber risk to be on a par with pandemic risk. This is surprising, given the considerable efforts being made by companies and their insurers to combat cyber and in particular, ransomware threats, but indicative of the extent to which cyber has become a problem of modern working life.

While business leaders believe that only these two risks fit the criteria for this high risk-high resilience profile; as insurers we have to question whether perceived levels of resilience – particularly to cyber risk – are well founded. Cyber crime statistics are continuing to go in the wrong direction as the world becomes more digital as part of our response to the pandemic. The risk is certainly significant, but remediation strategies remain a work in progress.

The high risk, low resilience quadrant on the top left is also problematic, but for different reasons. Here we have a much higher concentration of risks, including supply chain, business interruption, regulatory risk, climate change and disruption/disintermediation, where insurance solutions are less obvious and where the insurance industry clearly has work to do.

The question is, are current insurance offerings focused on risk transfer working? Or are clients looking for more from their insurance partners, maybe better partnership, data mastery and knowledge sharing, for example?

Have leaders lost track of the challenges ahead?

The low risk, high resilience quadrant also presents challenges for the insurance sector.

Employer liability, intellectual property, energy transition and crime are risks which companies are less worried by and feel moderately well placed to manage. But both employer liability and crime are likely to rise in the aftermath of the pandemic, should the hoped-for economic recovery falter. Intellectual property challenges are likewise much more likely, based on experience of previous crises.

Are the high levels of business confidence we are seeing in the aftermath of the Covid crisis blinding leaders to the challenges ahead?

Risk-resilience matrix 2021

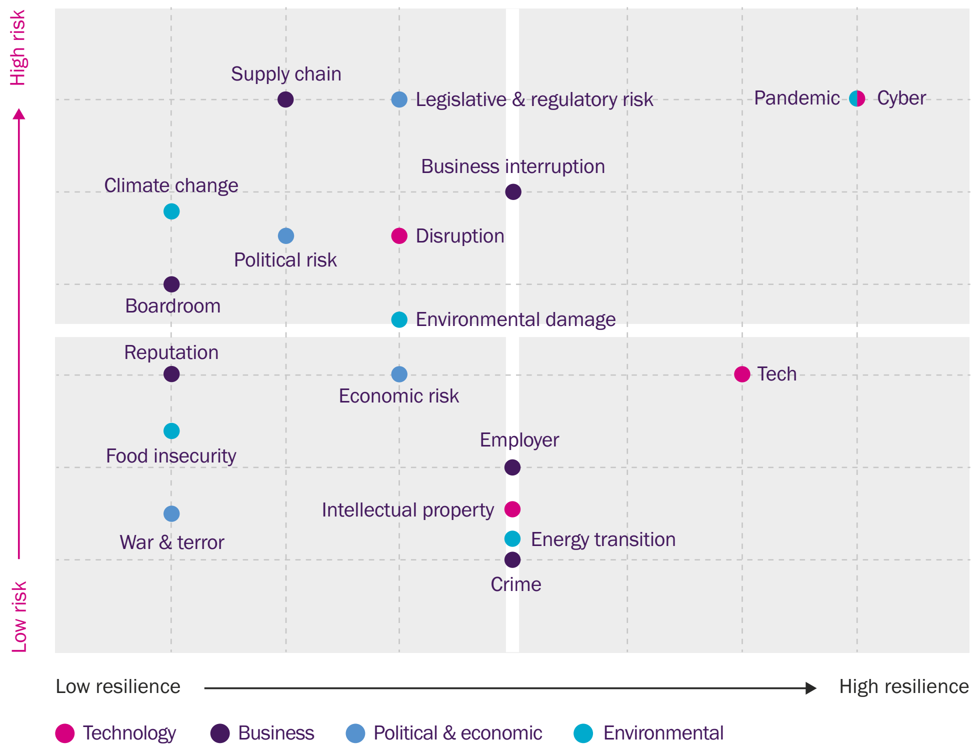


Chart scales are based on the percentage of companies ranking a risk as their leading concern and on the percentage of companies feeling 'very prepared' to anticipate and respond to each risk, standardised across the four risk categories.

Key findings

Risk

85% of business leaders feel they are operating in a moderate to high risk environment

37% of executives rank technology risks as their key concern

Executives are least concerned by political & economic risk (18%) and environmental risk (12%)

34% of respondents rank cyber as their top tech risk now, but 44% feel prepared to respond to it

31% rank supply chain as their top boardroom risk concern now

Resilience

91% of business leaders feel moderately or highly resilient to risk

Tech, media and telecoms and financial institutions are most upbeat – 55% feel more resilient than a year ago

In contrast, only 37% of public sector & education and 35% of hospitality & entertainment companies feel more resilient

47% of US business leaders believe they are more resilient to risk now compared to a year ago

44% of business leaders feel very prepared to respond to both cyber and pandemic risk

Mind the gaps

There are four broad areas where there appears to be a mis-match when it comes to risk protection. Each is complex, interconnected and challenging for businesses to manage. Our survey respondents viewed these as being high risk but believe they have a low level of resilience to them.

- Supply chain and business interruption
- Climate change and environmental
- Boardroom and business disruption/disintermediation
- Political and legislation & regulatory

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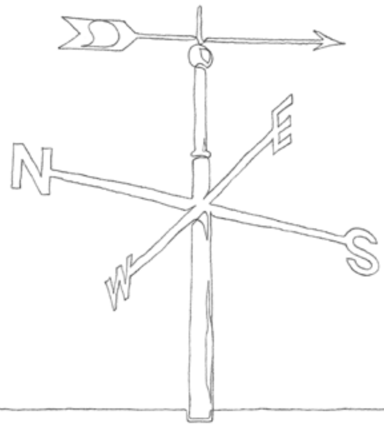


How has the pandemic shifted risk perceptions?

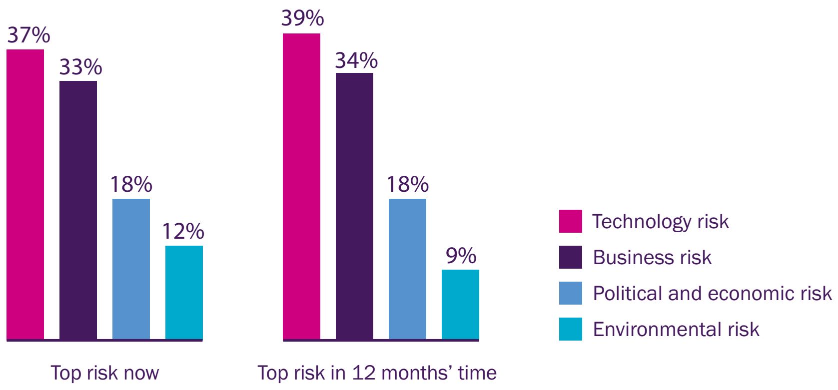
In the coming pages we will delve into the four key areas of risk that we questioned business leaders and insurance buyers about – technology, business, political & economic and environmental. Against the backdrop of an ongoing pandemic and the threat of a global recession generating further instability to come, the findings show they are worrying most about what they can control: namely technology and business risks.

Overall, they are far less concerned by the broader political, economic or climate agenda which they feel they can do little to influence.

Asked to consider which category of risk would be most likely to concern them in 12 months' time, business leaders' commitment to focusing closely on what they can control crystallises even more sharply at the expense particularly of environmental risks.

Technology risks dominate

Which category of risk is most important to business leaders now and in 12 months' time?



Percentage of companies in the US and UK ranking this as their top risk category

Our four risk categories

Technology
Technology risks include the threat of disruption, failure to keep pace with changing technology; cyber risk and intellectual property risk.

Business
Business risks include supply chain instability, business interruption, boardroom risk, crime, reputational and employer risk.

Political & economic
Political, regulatory and societal risks include strikes and civil disruption, changes in legislation and regulation (including ESG), economic uncertainty and war and terror.

Environmental
Environmental risks include climate change and associated catastrophic risks, environmental damage, pandemic risk, food insecurity and energy transition risk.

How has the pandemic shifted risk perceptions?

Agility is essential

The technology risk category is ranked top by some margin for businesses with well over a third of business leaders (37%) perceiving it as their most pressing concern now. That proportion rises to 39% as we look ahead 12 months.

Dig deeper and the picture is particularly revealing of how the experience of the pandemic has sharpened businesses' risk focus.

Organisations on both sides of the Atlantic recognise how the shift to new business models and enhanced reliance on digital working has heightened exposure to cyber risk, exposed technological laggards and increased the threat of disruption from more agile and better prepared competitors.

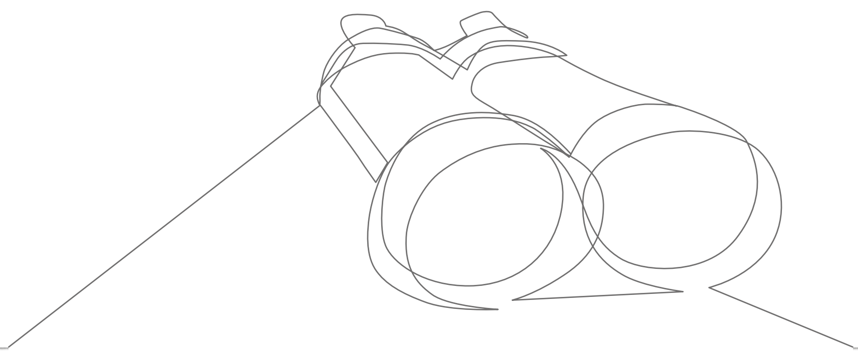
Awareness of business risks is heightened

Business risk is the second highest ranked category of risk overall and a primary concern for one third of US and UK business leaders. Within this risk category, supply chain vulnerability dominates board thinking in the aftermath of global trade stuttering when the pandemic took hold, eclipsing less immediate risks in this category, including boardroom and employer risk and even business interruption (BI).

US and UK leaders broadly aligned

Which category of risk is most important to business leaders now and in 12 months' time?

Percentage of companies in the US and UK ranking this as their top risk category



> *The onus is on us to think through how we can help and how we can put together a product for supply chain risk because it is very material.*
>
> **Adrian Cox**
> CEO, Beazley

How has the pandemic shifted risk perceptions?

Governance is top of mind

While risks in the political and economic risk category are the top concern for just under a fifth (18%) of respondents, within this grouping, governance is very much top of mind.

Growing environmental, social and governance (ESG) reporting requirements, increased exposure to significant data protection fines, compliance with furlough reporting requirements and the threat of future tax pressures are clear and present threats dominating business thinking.

Within this category of risk, local concerns are also a factor. The shift to a Democrat regime in the US and accommodation of new trading requirements post-Brexit in the UK have set in train substantial regulatory and legislative changes that will drive new compliance challenges that are clearly reflected in executives' risk planning in the US and UK.

The environment can wait

Of the four categories of risk, environmental risks including climate change and its associated catastrophic risks, environmental damage, food insecurity, energy transition and pandemic, rank lowest in business leaders' risk estimation.

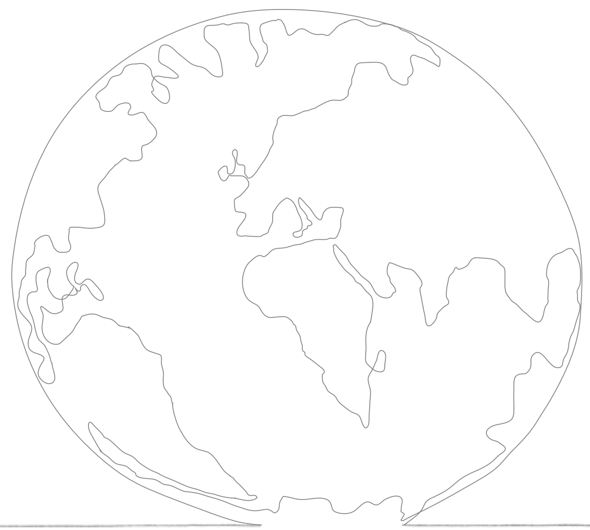
Although the pandemic, which we classed as an environmental risk, has been very much top of mind and is highly ranked within this category, there is also a strong sense among leaders that they have weathered the worst, which explains why this category of risk overall occupies less head space. Indeed, only 12% of UK leaders rank the environmental risk category of primary concern.

12% of business leaders rank environmental risk as a key concern

18% Just under a fifth of leaders we surveyed said risks in political and economic risk category are a key concern

There is this low-grade dread that every business feels that they could be disintermediated, that someone will come up with a better idea and better technology. There's a visibility to it and a notion we can manage it if we focus on it.

Christine LaSala
Non-Executive Director, Beazley



How resilient do businesses feel?

Despite the complex web of interconnected global risks that organisations face as result of the global pandemic, businesses seem confident that they have weathered the storm. Although significant adjustments have been required to re-shape business models and reinvent working practices to accommodate the 'new normal', the majority of businesses feel as, or more, resilient to risk than a year ago.

At the start of 2021, 91% of business leaders felt either moderately or highly resilient to risk. Asked how they expect to feel in 12 months' time and levels of risk resilience are predicted to rise – with 84% of business leaders expecting to feel more resilient.

Such high levels of resilience are particularly impressive when we consider that the majority of business leaders (85%) believe they operate in a moderate to high-risk environment, both now and in 12 months' time.

Many of the leaders we spoke to as part of our research commented on how there is a strong sense of pride and relief that so many businesses are still standing, that operating models adapted, staff were paid, deliveries were made.

However, it is a combination of sheer determination and unprecedented levels of government support that have kept the forces of economic chaos at bay.

There's been a wide safety net that's been deployed by governments to protect businesses from disaster and from ruin. It's yet to be experienced and analysed how things will pan out when the rug is pulled out. Depending on the industries and the type of business, the implications might differ quite significantly and not everybody fully appreciates it yet.

Pierre-Olivier Desaulle
Non-Executive Director, Beazley

How resilient is your business?

Compared to one year ago | Currently | In 12 months' time

Percentage of UK and US businesses feeling resilient

How resilient do businesses feel?

Business continuity plans worked

What is driving these impressively high levels of confidence in business resilience?

Patently, business continuity plans have been tested and for many businesses they have proved effective. While the experience is nuanced, companies that were nimble, better prepared to flex business models and shift to a more digital, environmentally aware, people-friendly mode of operation came out best.

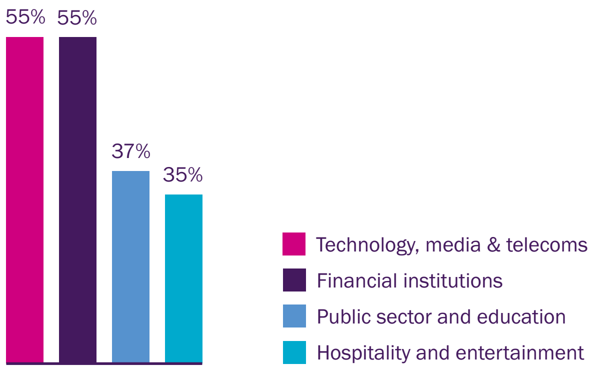
Those with lower resilience scores are the businesses that were already failing to adapt to the new world order, or had business models that could not flex in the face of a lockdown, and are also more likely to be left exposed as economic stimulus is withdrawn.

Sectors feeling particularly upbeat compared to the prior year are technology, media & telecoms businesses (TMT), financial institutions and, to a lesser extent, healthcare and life sciences. All of these were particularly well placed to benefit both from a shift to new business models, including more tech-based working and greater reliance on digital health models.

Unsurprisingly, sectors with much lower resilience scores include hospitality and entertainment – perhaps one of the hardest hit by lockdown restrictions. The public sector, including education, also ranked relatively low on resilience with school building closures causing issues for workers across the board.

Sector resilience varies

Which sectors feel more resilient compared to one year ago?



Percentage of companies within a sector feeling more resilient than one year ago

Perhaps contributing to the overriding high levels of perceived resilience is the knowledge that not all industries were affected equally.

> *C-suites feel resilient. They had to make a lot of very challenging decisions quickly to reshape their organisations, and for that they are stronger and more nimble than they expected to be able to be. I think many companies were surprised that they did as well as they did in 2020 given how the world shut down in such a quick manner.*
>
> **Julie Minor**
> Managing Director, Corporate Segment Leader (South East), Marsh

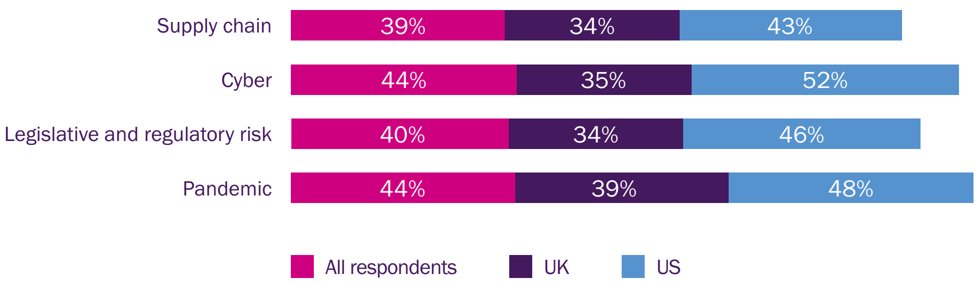
How resilient do businesses feel?

Resilience varies by risk category

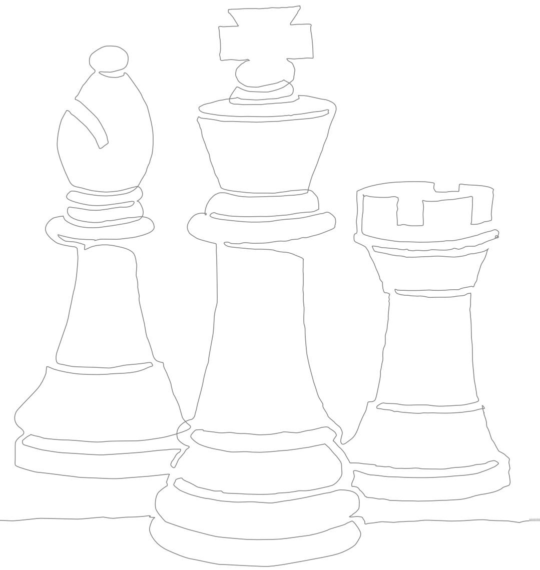
Levels of risk preparedness also vary across our four risk categories. Looking at the top risk within each of our categories, the most severe technology risk – cyber – is perceived to be well covered, for example, as is pandemic risk, the top risk in our environmental category.

Lead risks in our other two categories – supply chain in business risks and legislative and regulatory risk in our political & economic risk category – show much lower levels of confidence. In fact, fewer than one fifth of respondents overall (18%) say they are 'not very' or 'not at all' prepared for supply chain risk and 18% feel similarly unprepared to manage legislative and regulatory risk.

How prepared are business leaders to anticipate and respond to individual risks?



Percentage of businesses that feel 'very prepared' to respond to the named risk



Are businesses complacent?

For the moment sentiment is strong, but our research identifies some alarming mis-matches between risk and resilience which are yet to be tested.

18% Almost one fifth of respondents overall say they are 'not very' or 'not at all' prepared for supply chain risk

18% Feel similarly unprepared to manage legislative and regulatory risk

How can businesses stay ahead of hackers and disrupters?

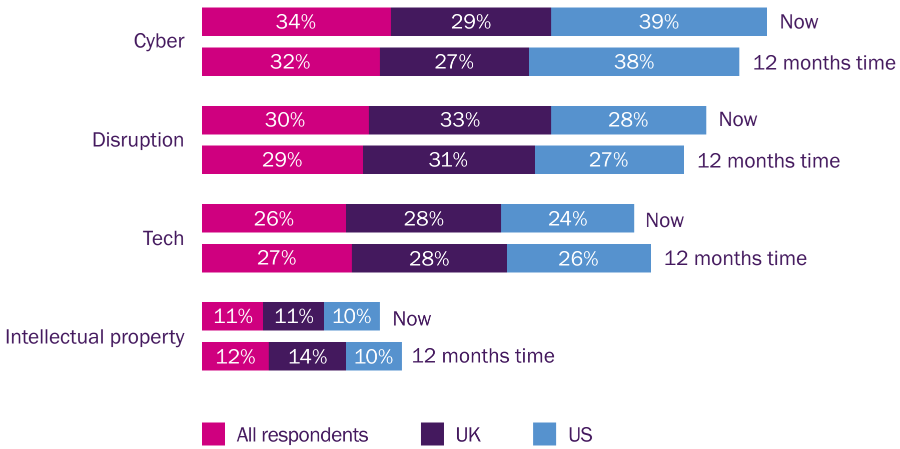
Of the four categories of risk that we researched, technology risks were the top concern among business leaders.

Technology risks were thrown into sharp focus by the mass shift to home working during the pandemic. Almost overnight, businesses became more reliant on technology to underpin new ways of working but were also placed at greater threat of disruption by competitor organisations that were more agile and better prepared for the change.

Simultaneously, the move to remote working signalled something of a bonanza for cyber criminals. Organisations suddenly had more of their operations directly exposed to cyber threats as trading went online, as new business models bedded in and criminals looked for opportunities to exploit exposed staff, processes and networks.

Overall, companies appear to have been satisfied with the way they have adapted to shifting technology risk. When we look ahead 12 months to which they think will we most significant, their attitudes barely shift. This seems to point to a confidence that as they have weathered the storm of the last year and a half, they now feel well placed to face and adapt to whatever technology risk they may encounter next.

Which technology risk is most significant now and in 12 months' time?



Percentage of business leaders that rank this risk top now and in 12 months' time

Technology risks

Technology threats include:

Disruption risk: failure to innovate, to keep pace with new developments, competitor activity, customer demand or market shifts.

Tech risk: failure to keep pace with changing technology developments and opportunities, for example Artificial Intelligence (AI), the Internet of Things and automation.

Cyber risk: IT-based threats affecting anything from national infrastructure, to individual customer data and including data leak and system breach via hack, ransomware or employee error.

Intellectual property risk: failure to recognise and protect the value of intellectual property assets such as know-how, patents or intangible assets.

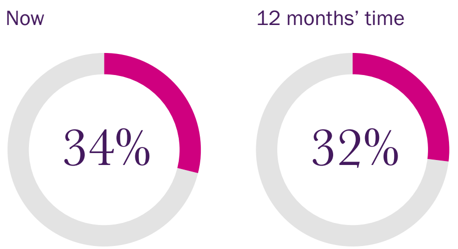
How can businesses stay ahead of hackers and disrupters?

Why is cyber the top risk that doesn't worry business leaders?

It is perhaps unsurprising that cyber is the top-ranked risk in this category overall and by US business leaders in particular. Threats are rising in volume and severity all round the world. As leading businesses continue to fall victim to what is now an established mode of attack for both organised crime gangs and state actors, so the risk of substantial data protection fines for those affected also serves to keep cyber risk front and centre for business leaders. This is particularly so in the US where data privacy has long been a concept rigorously enforced in law.

With cyber attacks regularly making front page news, and advice flowing thick and fast from technology specialists, white hackers, management consultants, professional services firms and of course, the insurance industry, organisations have little choice but to prioritise cyber threats.

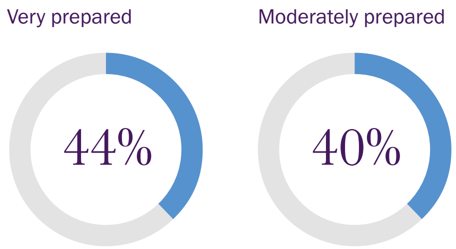
Proportion of businesses ranking cyber as their top technology risk



More surprisingly, however, our research reveals that cyber is also the technology threat to which businesses feel most resilient. As more businesses rely increasingly on digital trading, so there may be a perceived safety in numbers (it won't happen to me) and high levels of confidence that security measures are effective. There is almost a sense that if businesses survived 2020, they can survive anything.

It is notable that US business leaders feel both more exposed to this risk and more resilient than their UK counterparts. Over half (52%) feel very prepared – substantially more than in the UK where only 34% feel this way.

How prepared are businesses to anticipate and respond to cyber risks?



Is confidence around cyber mis-placed?

Even if business leaders feel confident, ransomware statistics paint a different picture. Ransomware and the associated malware component is now the biggest cyber threat that businesses face and the frequency and severity of claims are on the rise. As these threats continue to morph and change it will become increasingly important to focus on building strong resilience and security defences to reduce exposure to cyber risk in all its many forms.

While there is no doubt that companies will need to do more to shore up their defences, our role as an insurer, is to help our clients to set and enforce prudent network security. Only by businesses and the insurance industry working more effectively together will we tackle and improve cyber business resilience and make business, individuals and society safer for all.

Many organisations think they have mitigated all cyber risk, often due to a misplaced confidence in technology solutions. Defence tactics are usually restricted to building a high wall over which attackers must jump, but limited budgets and a constantly shifting attack landscape, means there is always a soft spot that allows threat actors to implement their attack. The reality is that cyber criminals are well-funded and resourced, efficient and innovative and are able to quickly leverage vulnerabilities for maximum gain.

Raf Sanchez
Beazley Breach Response Service Manager, Beazley

[1] Ransomware Attacks Grew by 485% in 2020 - Infosecurity Magazine (infosecurity-magazine.com)
[2] The Rise of Ransomware in the Era of Covid-19 (simplilearn.com)

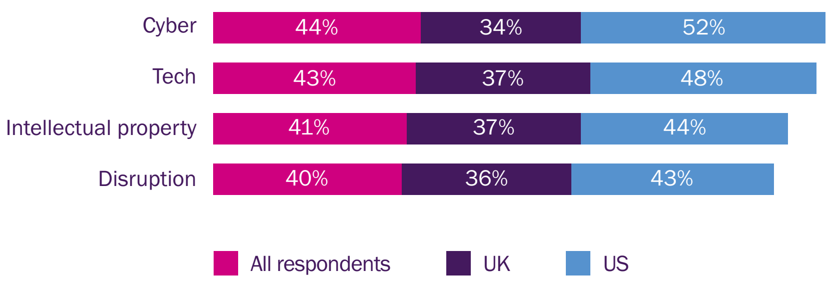
How can businesses stay ahead of hackers and disrupters?

Disruption and tech risks are embedded in the risk mindset

Within the technology risk category, disruption and tech risks are the second and third highest ranked threats respectively, both now and in 12 months' time, with disruption of particular concern to UK business leaders.

Disruption is also the risk that businesses feel particularly ill-prepared to face. By its very nature, disruption is hard to anticipate. It challenges the status quo, reconfigures the value chain and can be difficult to respond to, particularly if businesses have a poor track record of managing the risk of their tech firepower being out-gunned by others with sharper vision or deeper pockets.

How prepared are businesses to anticipate and respond to technology risks?



Percentage of business leaders that feel 'very prepared'

Is IP risk a risk blind-spot?

Intellectual property (IP) is the risk that business leaders worry about least in this risk category. This is a concern given that intangible assets account for 75% of business value globally,[3] and are the predominant source of economic value for many businesses large and small.

Although businesses may think that a patent is sufficient protection for intellectual property, the sad reality is that a patent is only effective if a business has the means (often only accessible via an insurance policy) to enforce and defend it in court. In the recession which followed 2008–2009's financial crisis, there was a boom in patent infringement filings as companies sought to protect value in their business.

Although we are still adapting to the impact of Covid-19, we can expect that courts around the world may become busier as the recession bites and organisations look to see what sources of value they can exploit – either from their own resources or from third parties.

Can businesses manage technology risk effectively?

Given the high level of interconnectivity between individual technology risks and the likelihood that all are set to grow as the world goes inexorably more digital, how realistic is it to expect the majority of businesses to manage this range of risks successfully? Our research suggests that this is one area where businesses recognise the value of long term insurance partnerships.

SME businesses in particular value the support services available as part of their cyber cover – these enable them to scale up for a rapid and effective response when threats arise. Larger risk-managed businesses also like to partner with insurers for risk insight, as well as for risk transfer in this complex space. But given that this is one area where the threat of disruption or a technology miss-step is never far away, it would seem perverse that businesses do not pay more attention to protecting the enormous value in intangible assets such as intellectual property that their technology investments have created.

[3] https://www.burgisbullock.com/intangible-assets-make-75-business-deal-values

How do businesses balance operational and strategic challenges?

We asked businesses about a range of challenges both at the operational level – supply chain, business continuity and staff welfare, for example – through to the strategic level, including reputation and boardroom risk.

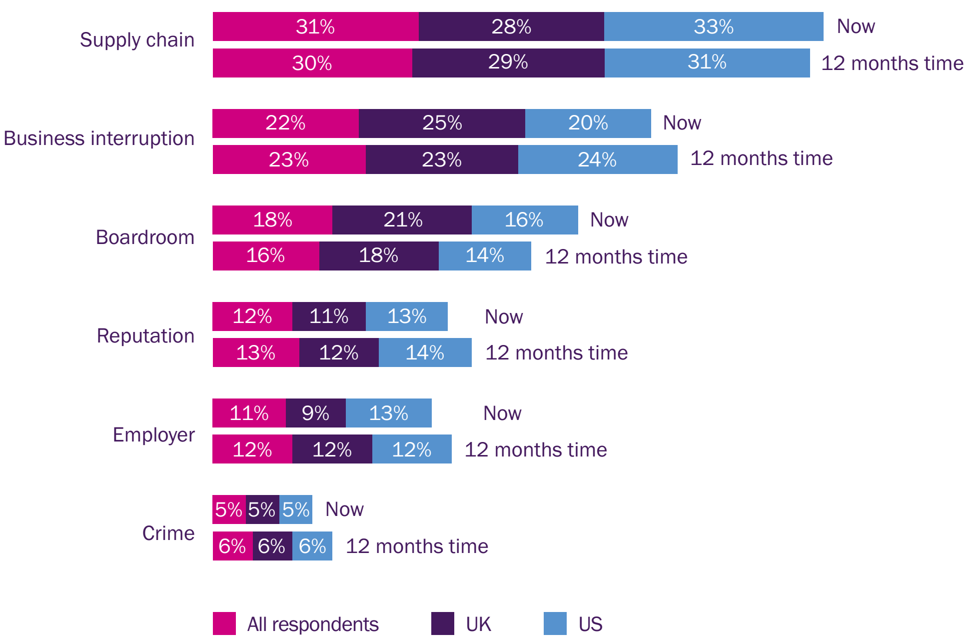
Within this broad category of business risk, supply chain emerged head and shoulders above the rest as the most acute risk for organisations of every size on both sides of the Atlantic. Concerningly, it also stood out as a risk that businesses feel ill-prepared to manage, with only 39% saying they felt 'very prepared.'

Within this risk category, business interruption and boardroom risk also attract relatively high levels of concern and score relatively low in terms of their level of resilience.

Looking ahead 12 months, concern around business interruption dips in the UK but rises in the US. The FCA business interruption test case may provide an explanation on both counts, with UK companies thinking they have greater certainty around this issue while their US counterparts may be anticipating upcoming fallout from regulatory intervention on the issue.

Meanwhile, concern around employer risk in the UK rises next year as companies contemplate managing a return to the office or a shift to a hybrid working model. In contrast, the US view is one of declining employer risk with businesses having faced less disruption from lockdowns and remote working than those in the UK.

Which business risk is most significant to you now and in 12 months' time?



Percentage of business leaders that rank this risk top now and in 12 months' time

Business risks

Business risks include a range of threats from operational right through to strategic.

Operational risks

Supply chain: instability including vendor or supplier insolvency, disruption to trade routes or trade mechanisms.

Business interruption: inability to access business premises or to trade as usual.

Employer risk: failure to support staff appropriately, for example to manage stress and mental health issues, or to facilitate safe working conditions under new normal working practices.

Crime: including organised crime, fraud or social engineering.

Strategic risks

Boardroom risk: failure of director or corporate decision-making, including poor governance.

Reputational risk: damage to brand value and customer trust.

How do businesses balance operational and strategic challenges?

Why are businesses threatened by supply chain?

Supply chain issues came to the fore through the pandemic and were further reinforced by the temporary grounding of the Ever Given in the Suez Canal. From persistent chip shortages that closed many car plants through to shipping delays and soaring storage costs, what has rapidly became apparent is that complex global supply chains with little 'slack' are extremely vulnerable to change and surprisingly opaque to their leadership team.

While companies may have direct relationships with their tier-one suppliers (which for some businesses can number in the hundreds), they are unlikely to be able to track tier-two (suppliers' suppliers) or their raw material producers. Furthermore, it's not just automotive companies that have been exposed by recent events. Any companies that conduct advanced manufacturing, food retailers and of course life science vaccine manufacturers are particularly exposed to supply chain vulnerabilities.

Supply chain also ranks among the risks that businesses feel least well prepared to manage – particularly in the UK. As a trading nation, it seems possible that the combined impact of the pandemic and Brexit have made business leaders who depend on the stability of external trade relationships feel particularly vulnerable to this risk. Only just over a third (34%) of UK leaders feel 'very prepared' to manage supply chain risk compared to 43% of US business leaders.

> *Supply chain risk has been a big boardroom question. Questions are being asked about how the pandemic affects supply chain, where the business is seeing problems; whether business continuity planning catered adequately for this? Such questions will become particularly challenging for directors and officers if they become linked in due course to a business unit failure or full blown corporate insolvency.*
>
> **Catherina McCabe**
> Focus Group Leader – International Management Liability, Beazley

Has business interruption risk been 'hyped' by the pandemic?

While business interruption risk has been a point of contention for the insurance industry following a series of legal actions internationally due to Covid-19 related claims, our research shows that for clients it ranks second to supply chain risk. This lower ranking may be because despite repeated lockdowns or changing policy, many businesses have either continued to trade or have been supported via furlough schemes and other government support packages.

Companies in the most badly affected sectors, like entertainment and leisure, with more agile, tech-enabled business models have been able to find workarounds. Gyms have gone online. Restaurants, cafes, pubs and bars have embraced novel delivery options. Even the hardest hit performance-based industries have found ways of delivering performances virtually. Such solutions are not permanent, but they have filled a gap and for some, have shone a new light on alternative sources of revenue.

Despite support, however, a relatively low percentage (41%) feel 'very prepared' to manage business interruption in the future.

41% feel 'very prepared' to manage business interruption in the future

Do boards risk complacency?

The third-ranked business risk by some margin is boardroom risk, primarily management liability risk, which was prioritised by only 18% of business leaders. Given the complexity of this risk, many leaders that we interviewed for this report were surprised that it did not rank more highly.

A couple of reasons were offered for this – the first is that boardroom risk is personal and the dynamics of some boardrooms can make it difficult to confront. The second is that unlike supply chain risk, boardroom risk is a slow burn. Typically, it arises as the impact of poor decision making elsewhere in the business becomes apparent, so is almost a consequence of other failures, rather than a risk driver in its own right.

Even though boardroom risk has a relatively low ranking, it is still a concern in terms of business resilience. UK and US businesses are united in marking themselves hard on their ability to anticipate and respond to this risk, with only 38% on average feeling 'very prepared'.

18% of business leaders prioritised boardroom risk

How do businesses balance operational and strategic challenges?

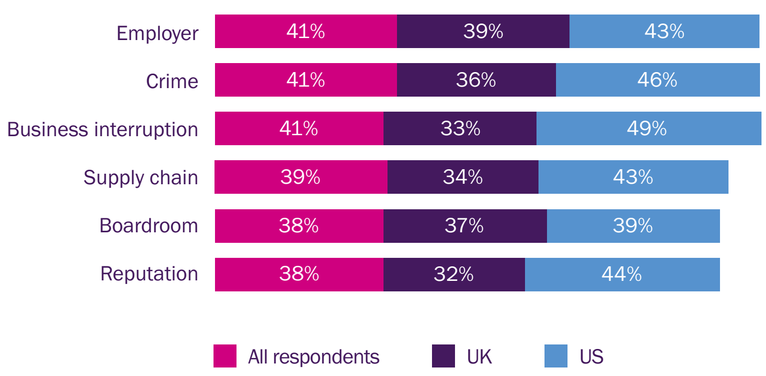
Will reputation and employer risk catch companies out?

Reputation, employer risk and crime are the bottom three concerns in this risk category.

Reputation, like boardroom risk, is a slow burn but still not one that businesses feel comfortable managing. In a fast-moving world, stakeholders expect businesses to perform seamlessly and transparently in a customer centric, worker-friendly and climate-aware manner. They are quick to judge and happy to challenge corporate behaviour as part of activist shareholder or protest groups.

Little wonder then that only 38% of business leaders feel 'very prepared' to manage reputation risk – which is right at the bottom of the comfort range expressed by participants in our research. UK businesses in particular rank their competence particularly low. Fewer than a third (32%) feel 'very prepared' compared to the US where at 44%, confidence levels are much higher.

How prepared are you to anticipate and respond to business risks?



Percentage that feel 'very prepared'

Of these low-ranked business risks, employer risk also stands out as a particular risk-resilience gap and one that may haunt businesses as we move forward and the social impact of pandemic recession and the withdrawal of stimulus measures bites. People issues have been prioritised through the pandemic with much public debate around the conditions of frontline workers and the acceptability of the business models relied on by 'gig economy' employers. This will remain an issue to watch in its own right and a potential driver of reputation and boardroom risk going forward.

Is crime a gap on the radar?

Typically, crime goes up in a recession but only 5% of companies ranked crime as their top risk in January 2021 and only 6% expect it to rank top in 12 months' time.

Conversely, crime is one of the risks which businesses feel better prepared to anticipate and manage. On average, 41% of business leaders felt 'very prepared' suggesting a high level of confidence. Dig a little deeper however and there is a wide market variance between UK and US responses. Just over a third (36%) of UK business leaders felt 'very prepared' for crime risk compared to almost half (46%) of US leaders.

Anything that impacts business reputation could result in allegations that directors and officers didn't anticipate or didn't react quickly enough or in the right way. Insolvency is also a big risk from a D&O point of view. Likewise, companies that already had financial issues or weren't sufficiently prepared to weather the Covid storm, are more likely to now find themselves in an insolvency situation, which could lead to claims against the D&Os.

Wayne Imrie
Focus Group Leader –
London Market D&O, Beazley

Why are governance and regulatory concerns dominating risk planning?

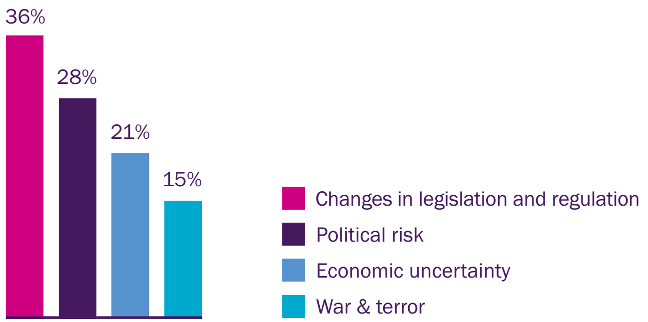
Never have political, regulatory and economic risks been more challenging to manage. Since the pandemic, business leaders have come to accept and even expect high levels of government intervention in the economy and in their day-to-day business operations.

Against this backdrop, it is perhaps unsurprising that concern over regulatory and legislative change has come to the fore within this risk grouping. Over a third (36%) rank this as their primary concern, 15 percentage points higher than economic uncertainty, for example.

War & terror ranks bottom, a full 21 percentage points behind changes in legislation and regulation. This is surprising given the fluid nature of this risk; a conflict or attack can erupt without warning. Furthermore, with the rising awareness of bio-hazards post-pandemic, companies should be aware of a different kind of physical threat.

Political and economic risk occupy the middle ground in this category, with economic concerns in particular something of a 'sleeping giant' reflecting the uneven recovery from the recession caused by COVID-19. As inflation begins to rise in the US and UK, debates are growing about how long the trend may last and its likely impact on the economy.

Which political, regulatory or economic risk is most significant now?



Percentage of business leaders that rank this risk top

> *Central banks and governments around the world have responded to the pandemic with support measures that have dampened any negative fallout from the shock of Covid. There will be a point, probably this year rather than next, where those support measures must be withdrawn.*
>
> **Roddy Barnett**
> Political Risk and Trade Credit Underwriter, Beazley

Political & economic risks

This risk category includes:

Regulatory and legislative risk: these include failure to comply with new requirements (for example ESG reporting), tariff and trade sanctions, environmental standards or financial reporting requirements.

Political risk: this includes strikes, riots, protests, civil commotion or interventions by overseas governments in business operations.

Economic uncertainty: includes the risk of global or local recession; reduced lending, austerity, inflation, unemployment, commodity price increase, monetary or fiscal policy responses.

War & terror: includes invasions, insurrections, revolutions, military coups, and terrorism.

Why are governance and regulatory concerns dominating risk planning?

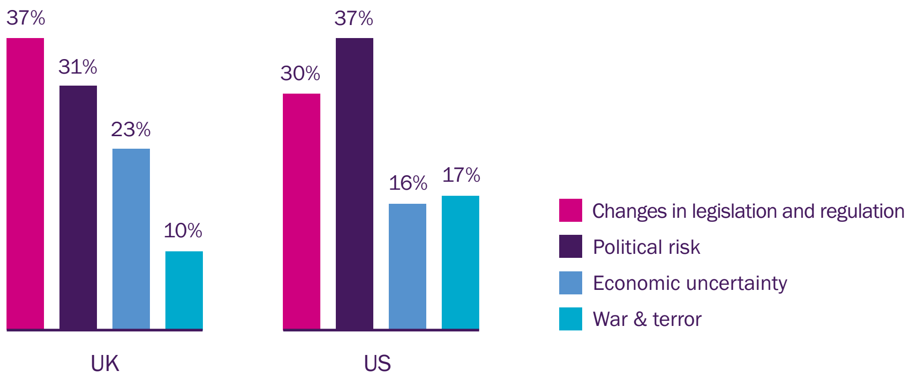
What is driving regulatory risk?

Every aspect of business – how, when and where to trade; how to manage the customer interface; how to enforce or adapt employment contracts; reporting and accountability have all come under scrutiny as a result of the pandemic. Add to this the rising tide of ESG and climate change reporting and it is little wonder that business leaders are concerned about regulatory risk.

Reporting rules relating to both the Taskforce on Climate related Financial Disclosure (TCFD) and the new EU Corporate Accountability Directive will come into effect from 1 January 2022. These will require many companies to report at a level of detail never before imagined on a wide range of areas that were previously not subject to scrutiny.

GDPR rules, although familiar, also create a 'fear factor' for many businesses. The rising incidence of cyber crime makes it inevitable that in our technology-dependent world they will be exposed to threats outside their control, substantial fines and the associated risk of reputational harm.

Which area of political and regulatory economic risk will be most significant in 12 months' time?



Percentage of business leaders that rank this risk top

Why is political risk set to rise?

As we look ahead 12 months, the picture changes somewhat, with political risk trumping regulatory risk in the US.

Political risk is an inevitable consequence of challenging economic times. Social unrest is rising, racial inequality is a persistent and increasingly destabilising force in society while the threat of nationalism stalks every Western democracy.

Local factors are also a concern in the US the return to power of the Democratic party is expected to bring in many changes, including a resurgence of State power and a more interventionist role in business. In the UK, Brexit and its impact on UK political norms is still unfolding.

ESG, from my perspective, has suddenly shot up the rankings in the last six months, with interest going beyond my expectations. I think that's due to a combination of Covid, an increased focus on climate change, and more open discussions around a variety of social issues.

Chris Illman
Head of Responsible Business, Beazley

Why are governance and regulatory concerns dominating risk planning?

Resilience sentiment is low, particularly in the UK

Neither UK or US businesses feel particularly resilient to regulatory or political risk.

Overall, only 40% feel 'very prepared' to anticipate and respond to regulatory risk and at 39%, political risk also gets quite a low resilience score. Of course, neither risk is easy to anticipate and in practical terms, political risk in particular is very difficult to manage.

However, the geographic split is telling – UK business leaders are at least 10 percentage points less likely to feel confident they can anticipate and mange threats in this category, compared to their US counterparts.

Why is economic uncertainty not looming large on the radar?

Only a fifth of businesses rank economic uncertainty as their primary concern in this category – and more so in the UK than the US. Some 40% feel 'very prepared' to anticipate and respond to it, and a further 40% feel moderately confident.

But while the UK and US economies currently appear poised for an economic recovery post Covid, the mere suggestion of inflation and concomitant interest rate rises is enough to plunge markets back into negative territory. However, US businesses in particular are discounting economic risk in 12 months' time with almost half – 45% – strongly backing their ability to anticipate and respond to this risk.

War and terror threats do not alarm leaders

Our research suggests that businesses in the UK and US are not particularly unsettled by the prospect of war or terror, with only 15% citing this as their primary risk in this category in 2021, declining to 13% in 2022.

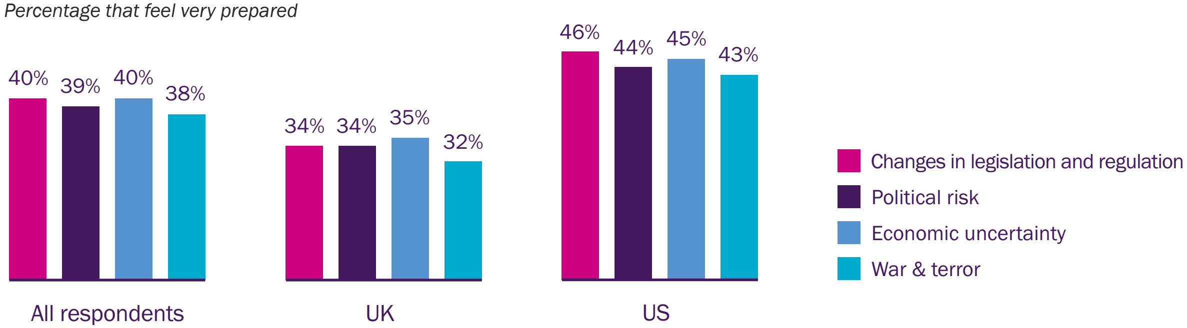
Although the risk appears particularly remote to UK business leaders, it concerns their US counterparts more, despite the fact that, (as in so many areas) they are much more confident of their ability to anticipate and respond to the threat.

Whenever you have economic uncertainty, and possible high levels of unemployment, there's increased potential for knock-on effects in terms of strikes, riots, civil commotion.

Roddy Barnett
Political Risk and Trade Credit Underwriter, Beazley

How prepared are businesses to anticipate and respond to political, regulatory and economic risks?

Percentage that feel very prepared



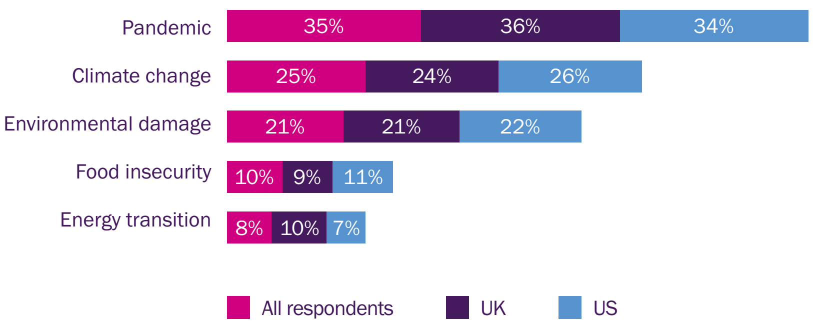
Ostrich or elephant?

Environmental risks sit firmly at the bottom of the ranking for business leaders in the US and UK. This is concerning, since threats in this category, for example climate change and pandemic risk, are systemic, existential concerns with the potential to dwarf all others.

Discussions around this finding with our expert panel suggest the question is not so much whether businesses have their heads in the sand regarding environmental risk, but whether they are the elephant in the room, in other words – significant, but for now at least, relatively easy to ignore.

While technology risks are a clear and present threat, with the potential to spell disaster if they are not appropriately managed and mitigated, environmental risks seem to be perceived both as less pressing and much harder to influence. There is also a possibility that concern over this category of risk has effectively been displaced into the more near-term threat – failure to manage enhanced regulatory requirements.

Which environmental risk is most significant now?



Percentage of business leaders that rank this risk top

> *The sharks near to the canoe are the ones you need to worry about. Others are further off, you can't see them clearly and probably insurance isn't your first port of call because the product hasn't been developed yet.*
>
> **John Ludlow**
> Former CEO, Airmic and Risk Advisor

Environmental risk

Environmental risks include:

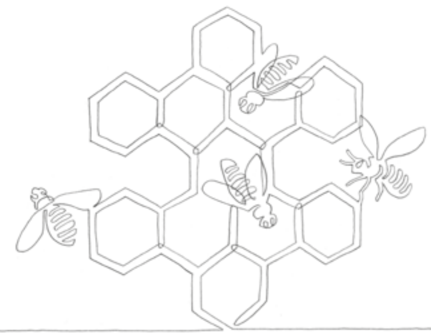
Climate change: this term encompasses a broad spectrum of risk including the immediate climate change-associated catastrophic risks, for example, flood, hurricane, drought, wildfire and wind-storm.

Environmental damage: failure to prevent or manage environmental loss, biodiversity damage, pollution or harm caused by, or to, a business.

Pandemic: this includes Covid-19 or other communicable disease.

Food insecurity: includes failure to provide sufficient food for the local population as a result of climate damage.

Energy transition risk: includes the impact on businesses of moving away from carbon fuels and associated risks including stranded assets.



Ostrich or elephant?

Why are UK business leaders more sensitive to energy transition risk?

The slightly higher sensitivity to energy transition risk in the UK may reflect fast-changing government policy targeting a green recovery from Covid, which has been lent greater urgency by the UK hosting the Glasgow COP 26 event in November 2021. However, this research was conducted before President Biden's energy statements.[4] There is also significant stakeholder interest in as rapid a transition as possible to clean energy, which is likely to have increased US business leaders' focus on energy transition risk.

As we look ahead 12 months, while the risk ranking remains unchanged overall, concern over the pandemic recedes somewhat and attention is turned toward climate change and, to a lesser extent, environmental damage and food insecurity.

Could environmental risks drive future reputational damage?

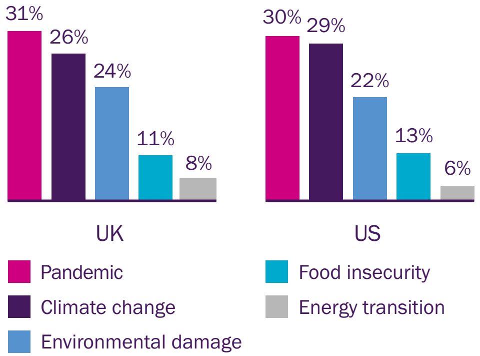
As we look ahead more generally, it seems likely that another 'elephant in the room' is the potential reputational risk that directors and officers will face if they have not made obvious and systematic attempts to address risks in this category.

As insurers, it has been impossible to ignore the repeated protests outside the Lloyd's building in the form of heaps of coal, whiffs of stink-bomb and a Father's Day protest to highlight the need to protect the future of the next generation.

But it's not just the market that is under scrutiny. The recent case requiring Shell to reduce its CO_2 emissions in the District Court of the Hague was another example of how stakeholder dissatisfaction is spilling over into direct action. Shell was sued by Milieudefensie, the Dutch arm of Friends of the Earth on behalf of no fewer than 17,000 Dutch citizens.

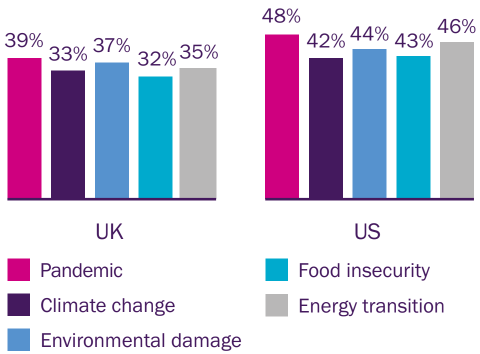
Legal firm Clyde & Co notes these decisions are likely to spur more litigation against companies using human legislation to engineer climate policy change. Indeed, the number of human-rights-based climate change cases is rising exponentially, with more than 1,500 claims filed in 38 countries in 2020.

Which environmental risk will be most significant in 12 months' time?



Percentage of business leaders that rank this risk top

How prepared are you to anticipate and respond to environmental risks?



Percentage that feel very prepared

Why do US businesses feel more resilient to environmental risks?

There is a notable difference between US levels of perceived resilience to this category of risk compared to the UK, with US business leaders feeling on average 10 percentage points more resilient across all areas of risk that we asked them about. The threat where confidence levels are slightly more in line across the two territories is environmental damage, which is only 7 percentage points higher in the US compared to respondents in the UK. In light of the level of damage created over the past few years by extreme weather events this levelling up of views across the two territories on this point should not come as a big surprise.

As recently experienced, even pandemics can be managed by closing borders and local vaccination strategies; climate change and to a lesser extent, food insecurity, are very much global risks, which business leaders appear to feel less resilient against. With only 32% in the UK and 43% in the US feeling 'very prepared' to anticipate and respond to food insecurity risk, and 35% in the UK and 46% in the US to energy transition, this risk pairing sits towards the bottom of the preparedness range.

[4] 9 Key Elements of Joe Biden's Plan for a Clean Energy Revolution | Joe Biden for President: Official Campaign Website

How do we build resilience?

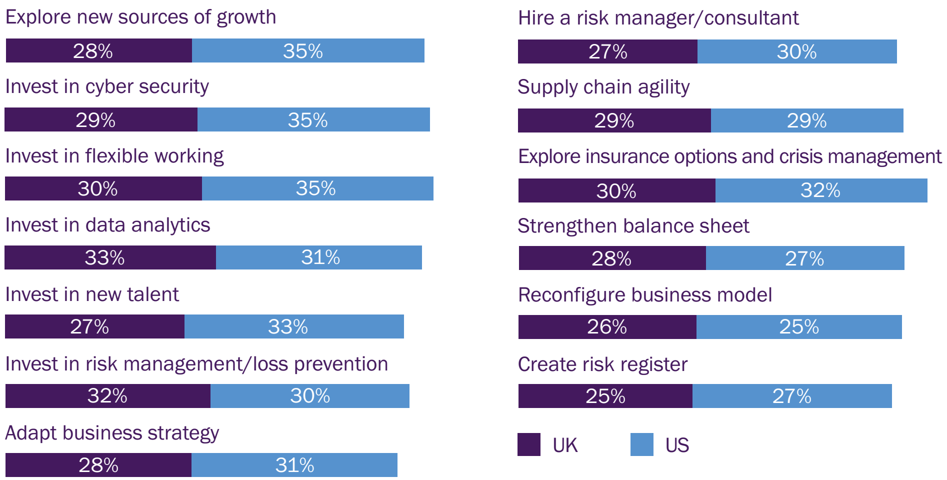
The key learning from the pandemic has been that businesses generally in the UK and US feel resilient. By and large, most have survived and many have thrived with almost half (47%) of businesses feeling they are more resilient than one year ago and 84% confident they will be more resilient still in 12 months' time.

But with 85% of businesses acknowledging that they operate in a moderate to high risk environment, many are seeking to build out their resilience to risk by a variety of means. These include everything from adapting their business strategy through to reconfiguring business models and promoting supply chain agility.

US respondents are particularly focused on exploring new sources of growth, investing in cyber security and building out opportunities for more flexible working.

UK respondents favour investment in risk data and analytics, risk management and loss prevention strategies.

How do businesses plan to retain or improve resilience to risk?



Percentage of business leaders exploring each option

What does the future hold?

As we look to the future, some of the most pressing risks businesses must contend with will be the withdrawal of financial stimulus and the resulting economic instability. Society has got used to a significant level of state intervention. Expectations are running high that even without this, businesses will continue to support workers and that they will operate in a people and planet-friendly manner.

But there is real concern too that businesses which were not performing strongly before the pandemic have simply been given a stay of execution and will fail once the safety net is withdrawn. Against this backdrop, it seems almost inevitable that political instability, reputational risk and boardroom risk are set to rise as we adjust to life on the other side of Covid-19.

How do we build resilience?

As we move into this 'new normal', it also seems inevitable that there will be a growing tension between the risks which businesses can foresee and insure against – boardroom risk, employer liability and business interruption for example, and those which are either harder to foresee or harder to insure against – including broader economic risk, climate change, supply chain and disruption or disintermediation by more agile competitors.

What role should the insurance sector play?

Insurance is not a panacea for risk. But our research suggests that there are aspects of the way it works that can be improved.

The area of greatest insured need and therefore perhaps the most fertile ground for the insurance industry to explore are the risks that appear in the high risk-low resilience quadrant of our Risk-resilience matrix 2021 featured on page 2, and are highlighted in colour on this graphic.

The high risk-low resilience threats should be a priority for companies – as risk mitigation solutions for them are less obvious and the potential for loss is therefore significant.

What are the high risk-low resilience threats challenging insureds?

Overall, the business risk category has the most high risk-low resilience risks. Supply chain comes out top, followed by business interruption and boardroom risk, and these are clearly the areas where executives feel most exposed.

Concern over legislation and regulatory risk is a key concern in the political and economic risk category. Political risk is the other high risk-low resilience risk that features, driven up by concerns about social unrest linked to a post-pandemic economic downturn, and growing global protectionism.

Climate change and environmental damage are risks that feature in the high risk-low resilience environmental line up. In contrast, businesses appear bullish around technology resilience, with only disruption risk appearing in this risk category's list.

Business risk and resilience threats

- Supply chain
- Business interruption
- Boardroom
- Reputation
- Employer
- Crime

Political & economic risk and resilience threats

- Legislative & regulatory risk
- Political risk
- Economic risk
- War & terror

Environmental risk and resilience threats

- Climate change
- Environmental damage
- Food insecurity
- Energy transition
- Pandemic

Technology risk and resilience threats

- Disruption
- Intellectual property
- Tech
- Cyber

In most transferable areas of risk, where insurers lead with consultancy services that diminish the chance of a loss, fewer risks manifest themselves as loss events. Part of this process is taking existing reactive insurance products and considering how to turn them into proactive risk management tools; for example, if we can empower clients by offering access to data analytics to aid their risk awareness, and this reduces the likelihood of a loss payout that's good for everyone.

George Beattie
Head of Incubation Underwriting, Beazley

Insurance industry considerations

There are a number of risks we have identified in our research that may be amenable to a combination of traditional and novel risk transfer.

Supply chain is business leaders' biggest ask and to an extent coverage already exists in the form of marine cargo insurance and potentially non property/physical business interruption, but it is not 'packaged' in a way that is accessible to buyers and is therefore a complex purchase negotiation with no certainty that risks will not slip between the gaps. Among the industries reporting greatest anxiety in regard to supply chain risk are manufacturing, energy and utilities and retail. Marine and warehousing businesses also register higher than average levels of concern.

Business interruption, although marginally lower on the risk ranking, BI achieves a low resilience score. This has been an area of intense industry innovation and has seen the introduction of various parametric covers for economic loss due to reduced footfall.

- Are these covers not being 'sold' effectively?
- Do they need longer to mature in the market place?
- Do traditional property covers need to carry a specific exclusion of non physical BI in order to build awareness and trigger purchasing?

Unsurprisingly, the hospitality and leisure sector is the sector most concerned by this risk.

Climate change encompasses three classes of risk – physical, transition and liability risk – and is rapidly becoming a driver both of reputation risk and potentially in due course D&O risk. The industry is under intense pressure (via the regulator) to drive change through underwriting policy – withdrawing or restricting cover for businesses without a clear plan to manage their CO_2 emissions. Is this an area the industry wishes to underwrite positively or via exclusion? Healthcare and life sciences, hospitality and leisure are the sectors reporting highest levels of concern regarding climate change.

Boardroom and legislative and regulatory risk fall within traditional D&O cover and have been an area of recent industry innovation with several parametric reputation products out in the market. Is this an area which requires further work or is there an education gap regarding the potential risk transfer options that exist? Financial institutions and energy and utilities are among those giving a high ranking to boardroom risks.

Disruption risk is very challenging from every perspective. It is the technology threat that businesses feel particularly ill-prepared to face. Hospitality entertainment and leisure is the sector which is particularly exposed, with business leaders ranking this both a high risk and an area of poor resilience. Marine and warehousing and to a lesser extent retail are also in a similar position. Real estate and manufacturing are among the sectors most concerned by this risk.

Buyers are looking for a lot more data, tools and analytics to help with insurance purchasing and with the claims process. As an industry we need to get better at being able to identify the data within the business that quantifies their business impact and aligning that with the insurer's models. I am seeing a shift, particularly in the buyers from a generational prospective with less patience, looking for more efficiency and alignment in the process and it all starts with the data piece.

Julie Minor
Managing Director, Corporate Segment Leader (South East), Marsh

About our Risk & Resilience research

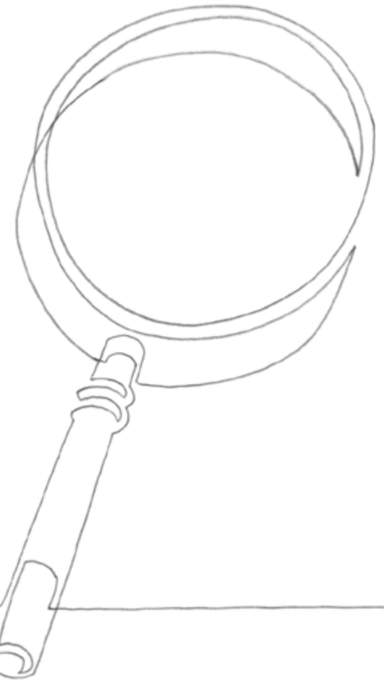
During January and February 2021 we commissioned research company Opinion Matters to survey the opinions of over 1,000 business leaders and insurance buyers of businesses based in the UK and US with international operations. With a minimum of 40 respondents per country per industry sector, respondents represented businesses operating in:

- Healthcare & life sciences
- Manufacturing
- Retail, wholesale, food & beverage
- Real estate and construction
- Hospitality, entertainment and leisure (including gaming)
- Financial institutions & professional services
- Energy and utilities (including mining)
- Public sector & education
- Tech, media & telecoms
- Marine & warehousing.

Survey participants were asked about their views on insurers and insurance, as well as on four categories of risk:

- **Technology** – including the threat of disruption, failure to keep pace with changing technology, cyber risk and intellectual property risk.
- **Business** – including supply chain instability, business interruption, boardroom risk, crime, reputational and employer risk.
- **Political & economic** – including strikes and civil disruption, changes in legislation and regulation (including ESG), economic uncertainty and war & terror.
- **Environmental** – including climate change and associated catastrophic risks, environmental damage, pandemic risk, food insecurity and energy transition risk.

Of the firms surveyed in both the US and the UK there was an equal split of respondents across company sizes of: $250,000 - $1 million, $1,000,001 - $10 million, $10,000,001 - $100million, $100,000,001 - $1 billion, more than $1 billion.



Our panel of contributors

We would like to thank our panel of insurance and risk management experts whose insight about our quantitative research has informed our findings throughout this report.

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