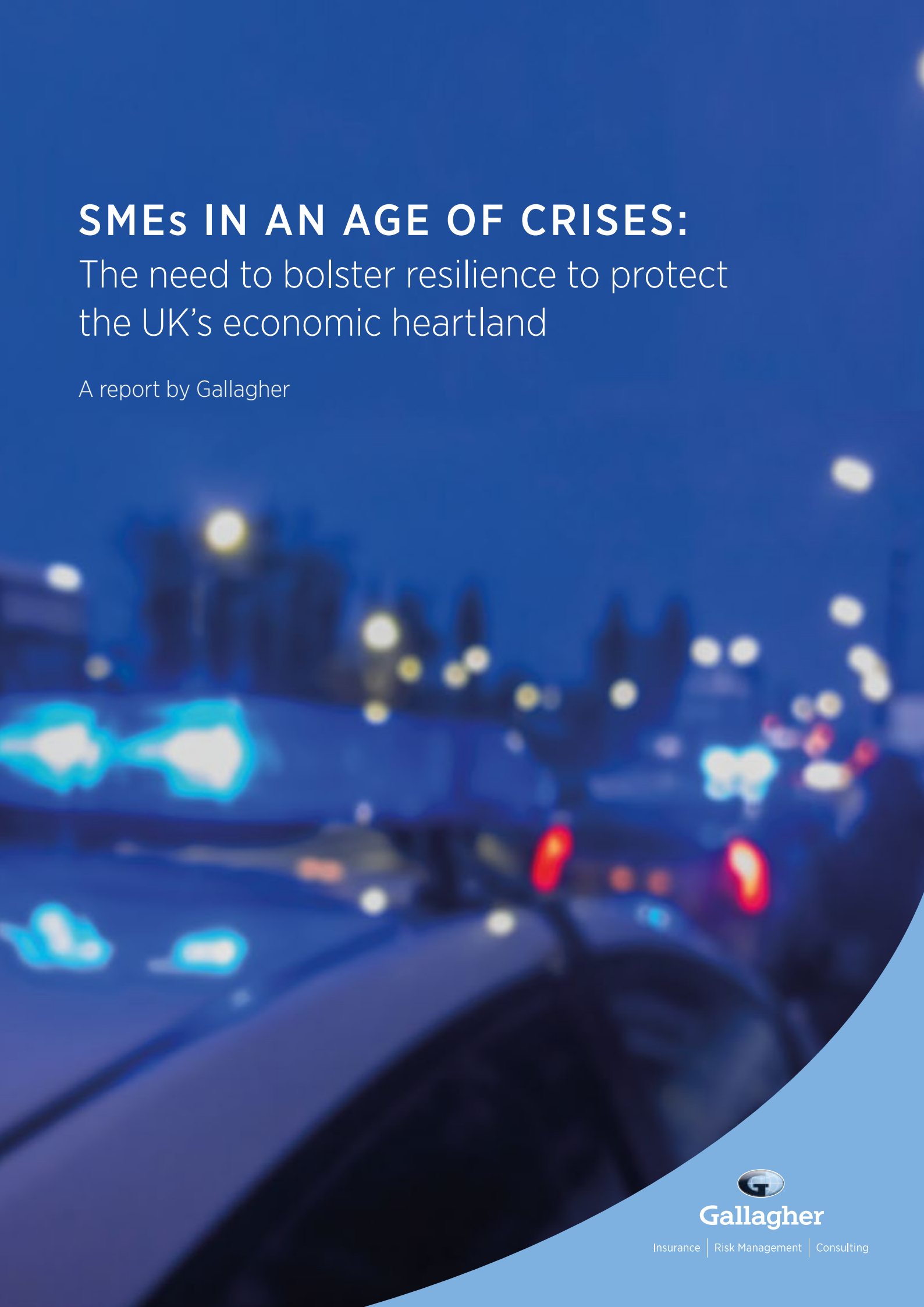
SMEs IN AN AGE OF CRISES:

The need to bolster resilience to protect the UK's economic heartland

A report by Gallagher



Gallagher

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ABOUT GALLAGHER

Founded by Arthur Gallagher in Chicago in 1927, Gallagher (NYSE: AJG) has grown to become one of the largest insurance brokerage, risk management, and human capital consultant companies in the world. With significant reach internationally, the group employs over 30,000 people and its global network provides services in more than 150 countries.

In the UK, Gallagher has more than 5200 employees specialising in risk management and insurance solutions for corporate, commercial and personal customers. Through a regional UK network of customer-focused branches in more than 70 locations, and its specialty London market operations, Gallagher offers tailored insurance programmes and coverage for both UK and international clients. It is dedicated to providing local service and support to businesses, backed up by national industry specialism and global reach.

WE HELP BUSINESSES GO BEYOND THEIR GOALS. IT'S THE GALLAGHER WAY.

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FOREWORD

Crisis is a loaded term for businesses. It conjures up images of chaos, confusion and collapse.

It is not a word business leaders like to utter nor, in some cases, plan for, as if by acknowledging even the possibility of its occurrence may somehow trigger an event.

However, a crisis — defined by Gallagher as a major security incident such as a hostile data breach or cyber extortion, terrorist attack, hostage scenario, or an act of industrial espionage or product tampering which incurs financial loss and/or business interruption — is an ever-present risk. The reality is that in today's global, highly digitised, interconnected and volatile world, businesses are more likely to face a crisis event than ever before.

This is not hyperbole. Our research bears this axiom out. We know that SMEs, which account for 99% of the UK's business population, are being negatively impacted by an increase in security incidents and crisis events.

Nearly a quarter (24%) confirmed to us that they had been hit during 2018 — an uptick of 5% on the number reporting they had suffered crisis incidents in 2017.

As our report will demonstrate, the impact of these incidents on SMEs, the lifeblood of the UK economy, can be profound. We are not only talking about the immediate financial impact of crises on SMEs, although this can be significant with one in 10 SMEs hit in 2018 having incurred costs in excess of £20,000 to combat the crisis in question. The bigger issue for many companies is the ability, or lack thereof, to trade following a crisis incident and how much reserve capital they have to remain solvent during a prolonged crisis. Many crises are not temporary in their impact but have medium to long-term trading implications with the ability to sink businesses unprepared for such an eventuality.

And yet, despite this vulnerability, our research found something of an ongoing 'ostrich mentality' among UK SMEs; the sentiment that crises are things that only happen to other, typically larger, companies. Nearly two in five (37%) did not view any type of crisis event as a major risk to their business. And, when asked about their level of preparedness, 60% of UK SME business leaders confirmed they had no crisis protocols in place — or did not know if any existed.

This means a significant proportion of businesses are exposing themselves to severe and lasting impacts of a crisis incident, through lack of preparation, protocols, protection and review.

This compromises their ability to respond and recover effectively. The adage about failing to prepare is to prepare to fail is sound and applicable.

But we are not suggesting SMEs seek to become risk and crisis experts. What is essential is for businesses to invest in cover and counsel specifically designed to support and protect their ability to trade, their intellectual property and their premises and people, should the worst happen.

We hope that you find our report of interest and that the findings resonate with and inform your own experience of managing risk in a volatile business environment.

PAUL BASSETT
Managing Director - Crisis Management
Gallagher

PAUL BASSETT MC

Managing Director - Crisis Management

Paul Bassett is the Managing Director of Gallagher's Crisis Management team, based in London. He heads up activities with regard to risk transfer and risk management solutions for terrorism, kidnap & ransom, crisis resilience and crisis consulting. Prior to joining Gallagher, Paul spent more than 15 years creating and leading specialist crisis management teams within the broking industry and developing risk management capabilities for clients in this area. This followed a 10-year career as an officer in the British Army, where he specialized in bomb disposal and high-risk search and was awarded the Military Cross in 1994.

JUSTIN PRIESTLEY GM

Executive Director - Crisis Management

As Executive Director within Gallagher's Crisis Management team, Justin Priestley heads up the consulting practice. Since joining Gallagher, Justin has pioneered its consultative approach to special risks, acts as project sponsor for all major projects and regularly speaks at risk management conferences worldwide on the subject of terrorism threat. A former British Army officer, with his last six years spent in counter terrorism and bomb disposal duties, Justin was awarded the George Medal for gallantry in 2000 when he then joined Control Risks Group before moving into the broking industry to lead on counter-terrorism risk management.

THE FACTS SPEAK FOR THEMSELVES

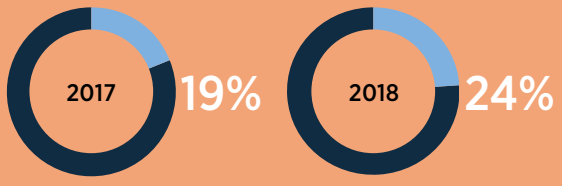
£8.8bn

Cost of crisis incidents to UK SMEs in 2018

1.4m

Number of UK SMEs hit by a major security incident or crisis in 2018

Has your business been affected by a major crisis event in the last 12 months?



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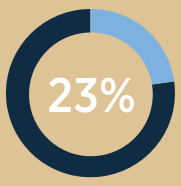

Nearly a quarter (23%) of UK SMEs say they could survive for less than one month if unable to trade following a crisis

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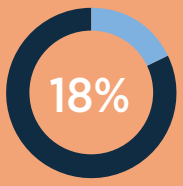
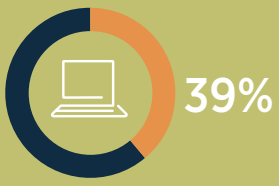


Nearly 1 in 5 (18%) of those UK SMEs hit by a crisis were negatively impacted for more than one month



39% of SMEs felt that their business was at major risk of a cyber-attack or data breach over the next 12 months

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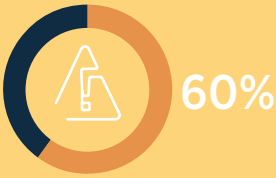
of UK SMEs either admitted to having no systems in place to ensure a swift on-the-ground response to a crisis incident (38%) or conceded they did not know of any such systems (11%)



60% of UK SME business leaders confirmed they have no crisis protocols in place — or did not know if any existed

74%

74% of UK SMEs have not reviewed their crisis planning or insurance cover as a result of the UK's high-profile major terror attacks in London and Manchester, or Skripal nerve agent poisoning in Salisbury, despite the significant and prolonged business interruption caused locally

EXECUTIVE SUMMARY

- The UK's small and medium-sized companies were significantly impacted by major security incidents last year — with approximately 1.4 million SMEs hit by crises in 2018, costing a collective £8.8bn (average of £6,416.50 per business).
- Crisis events are becoming more prevalent — a quarter (24%) of UK SMEs surveyed were affected in 2018 — a 5% increase on the previous year.
- Major crisis events are not only costing UK SMEs large sums of money, they are also interrupting trading for prolonged periods of time. Nearly a fifth (18%) of those who reported having experienced a crisis event were negatively impacted for a month or more.
- This is particularly concerning when a quarter (23%) of SMEs believe that they would go bust in under a month if they were unable to trade due to an incident or crisis event in the coming year. Based on these findings, we anticipate that nearly 57,000 UK SMEs could collapse in 2019 due to an inability to trade following a crisis event.
- When it comes to crises, cyber and IT security are revealed as the "soft underbelly" of SMEs. Data breaches, cyber-attacks, malware and ransomware accounted for 15% of all crisis events experienced by our survey respondents in 2018 — double the number recorded in the previous year (7%).
- Despite the rise in crisis events, a significant proportion of UK SMEs remain relatively complacent — with 37% unconcerned about any major crisis risks impacting their business in the coming year and 74% of those surveyed having not reviewed their crisis planning or insurance cover in the wake of the UK's high-profile terrorist and state-sponsored attacks of 2017 and 2018.
- The survey evidence also points to a worrying lack of crisis preparation — 60% of UK SME business leaders confirmed they have no crisis protocols in place or did not know if any existed; two in every five (38%) admitted to having no systems in place to ensure a swift on-the-ground response to a crisis incident, with a further 11% conceding they did not know of any such systems. This is despite high-profile events such as the Novichok nerve agent attack in Salisbury in March 2018, which saw SMEs in the cathedral city significantly impacted for months following the initial incident.
- Our research also found 58% wouldn't use social media to update customers and suppliers on the situation, despite the realistic prospect of systems and more traditional communication channels such as email being compromised or entirely knocked out by a crisis, Given that cyber-attacks and data breaches are the most frequent type of crisis incident incurred, this seems like a serious planning oversight.
- However, on a more positive note, insurance buying appears to have risen in light of the heightened risk environment. More than a fifth (22%) of UK SMEs said they have some form of standalone crisis protection — more than double last year and an increase of 13%, with the biggest percentage among this group (54%) having sourced their cover through a specialist insurance broker.
- Of those that had reviewed their insurance cover as a result of recent high-profile terrorist and denial of access events, a significant proportion had taken wider action to boost their crisis resilience — with 38% having subsequently trained employees to respond to a crisis or major incident; 35% implementing a crisis response plan; and 34% ensuring they had effective cover for non-damage business interruption such as denial of access.
- That said, there is a mistaken belief amongst UK SME owners and directors in the power of insurance alone to protect their business. An over-reliance on insurance may generate a false sense of security and the survey findings suggest SMEs may not completely appreciate what insurance can and can't do. Nearly half (47%) think that business insurance alone will protect them against crises — a fallacy.

- In the event of a crisis, SMEs most value insurance to cover financial loss, even in the first 24 hours, whereas standard business insurance is highly unlikely to pay out quickly enough to assist in those crucial few days after an event.
- To best anticipate, prevent, respond to and recover from crises events, SMEs must take a cross-functional approach to their crisis planning and consider investing in wider solutions such as 24-hour access to crisis experts or access to emergency funds if they are suddenly unable to trade due to denial of access or systems paralysis.
- The good news is that businesses have employees front and centre of their minds when it comes to major incidents. Aside from human casualties, UK SMEs listed the impact on employees, in terms of emotional or psychological well-being following a serious security incident or terrorist event taking place near their premises, as their biggest concern (39%). This was the same proportion as those citing financial loss and being unable to trade, when asked to state their greatest concerns.
- Furthermore, 44% have already trained some or all of their employees to respond to crisis incidents, underlining the importance UK SMEs place on preparing their people to respond in worst-case scenarios to protect both themselves and bolster the resilience of the business.

INTRODUCTION: CURRENT OPERATING CLIMATE AND CHALLENGES FACING UK SMEs

In the decade since the financial crisis, UK SMEs have demonstrated remarkable resilience.

Through an age of political austerity and buffeted by the structural shifts of a new, digital age, this crucial segment of the UK economy has grown from strength to strength.

In 2018, small business accounted for 99.3 per cent of all private sector businesses, employing 16.3 million people across the country and generating £2 trillion for the UK economy — 52% of private sector turnover.[1]

SMEs are often referred to as a single category, but beneath this label, the depth and diversity of business models, expertise and ambitions, which are often re-shaping industries and employment patterns, is impressive.

Up and down the UK, entrepreneurial businesses are expanding their commercial horizons and taking advantage of the new opportunities afforded by more connected ways of working.

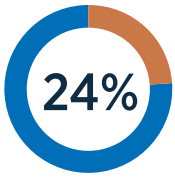
Of course, doing business in a digital era has brought a raft of new challenges for smaller businesses to contend with. The rise of cyber and IT security risks, malware viruses and data breaches present particularly acute risks to SMEs, many of which do not have a dedicated IT or risk management function.

But beyond the tests presented by new technology, smaller businesses are facing up to the realities of fast-changing consumer trends, struggling high streets and, increasingly, exposure to geo-political headwinds. Brexit and the potential fallout of this unprecedented political process is expected to have wide-ranging ramifications for UK smaller businesses, from logistical challenges to civil unrest.

Brexit has brought geo-politics closer to home for UK SMEs, but small businesses have also been caught in the crossfire of terrorist activity and state sponsored assassination attempts.

In 2018, the Skripal attack in Salisbury powerfully demonstrated the fact that no UK business is safe. In today's heightened terrorism threat environment, most UK cities are well-primed to respond to a major incident, but no one could have anticipated that a quiet cathedral city in Wiltshire would be the centre of a major nerve agent attack.

Businesses in central Salisbury continue to be significantly impacted by the loss of attraction caused by this incident, and few were adequately prepared for the prolonged closure of the main economic thoroughfare and resulting denial of access. Fundamentally, the risks to SMEs have escalated rapidly over the past ten years and, in the coming months, may spike sharply again. Looking ahead, businesses must think critically about their resilience to a worst-case scenario and how such an incident would impact their people, premises and logistical operations.



of UK SMEs were affected by a major crisis event in 2018

1. https://www.fsb.org.uk/media-centre/small-business-statistics

01. CRISES: AN ESCALATING PHENOMENON

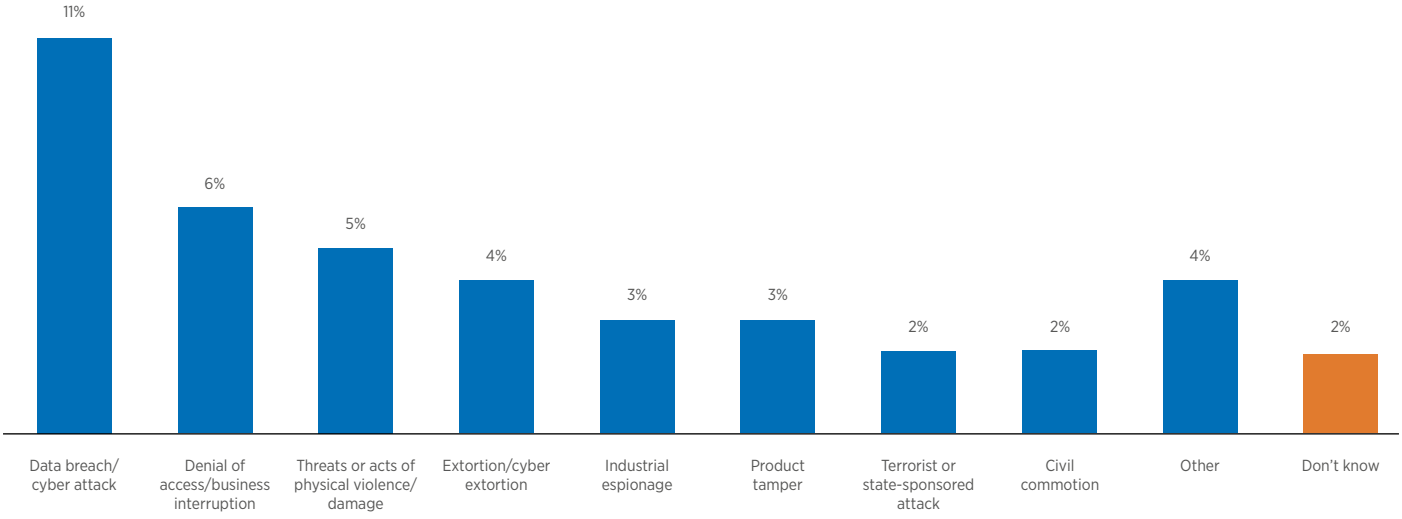
£8.8bn
the cost of crisis incidents to UK SMEs in 2018

Gallagher's research suggests that UK SMEs had a challenging year in 2018, riven with crises of various types. A quarter (24%) of the 1120 SMEs surveyed confirmed they had been impacted by a major crisis event last year, equating to 1.4 million UK companies[2]. This statistic is not only startling in isolation, but indicative of an escalating problem. In 2017, 19% of SMEs experienced a crisis event — meaning a 5% increase in crises was recorded in 2018.

London saw the lion's share of crises, with over a third (34%) taking place in the UK's capital. A quarter of all attacks were clustered in the Midlands, the next most prevalent nexus of attacks. In sector terms, financial services companies suffered the highest frequency of crises, accounting for 37% of all attacks or incidents, the reasons for which will be explored further in this chapter.

A year in crisis: SMEs on the front line

Was your business affected by a major crisis event in 2018?



Drilling down to analysis of the type of crisis affecting businesses, a clear front runner emerges: cyber-attacks. Data breaches, cyber-attacks and cyber extortion accounted for 15% of all crisis events last year, more than double the proportion recorded during the previous year (7%).

When it comes to most-impacted sectors, financial services sustained the highest number of attacks by a significant margin. More than a quarter (27%) of financial services SMEs were hit by a cyber-attack or cyber extortion in 2018. Nearly one fifth (18%) of the construction sector experienced a crisis cyber event in 2018 — which may be more of a surprise given the nature of the work being undertaken.

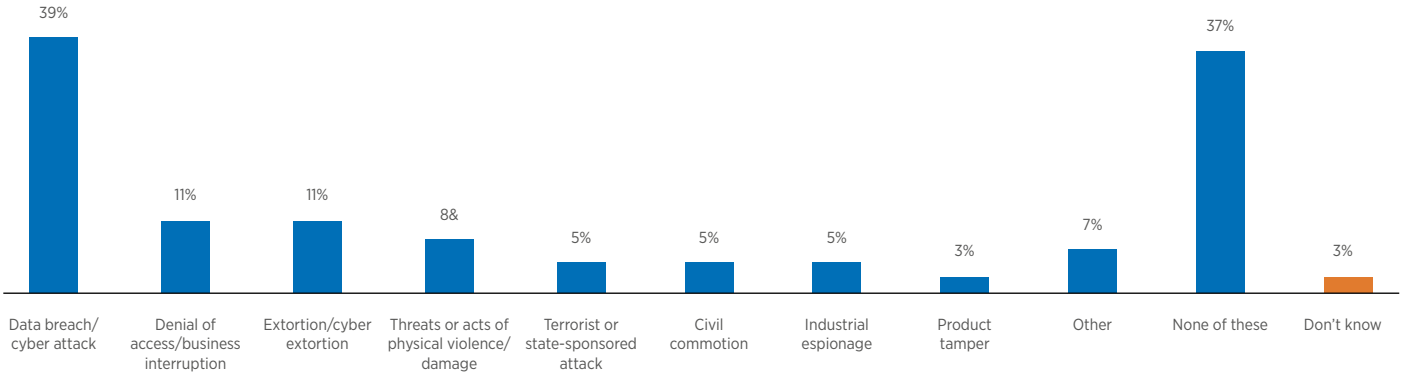
According to the research, London is the cyber attack capital of the UK for SMEs. It accounted for 19% of all cyber-attacks in the UK last year, followed at a distance by the Midlands at 12%.

Cyber-attacks, data breaches and cyber extortion are clearly the areas of greatest concern for companies in 2019 too. When asked what situation or threat most concerned them, 39% said a data breach or cyber-attack — a rise of 12% on the previous year, while a further 11% are most concerned about cyber extortion; half of SMEs are therefore most concerned about a cyber crisis event. From the research, cyber-attacks and extortion emerged as the crisis events UK SMEs are most specifically concerned about.

2. There are 5.7 million SMEs in the UK. 24% experienced a crisis event, equating to 1.4 million companies. https://researchbriefings.files.parliament.uk/documents/SN06152/SN06152.pdf

What next? Crises expected in 2019

During 2019 which of the following situations or threats are you most concerned about as a major risk to your business?



Commenting on these findings Paul Bassett, Managing Director of Crisis Management at Gallagher, said:
"It is concerning to see crisis events on the rise and cyber is clearly at the sharp end of that curve for many of the UK's smaller companies. When it comes to crises, cyber and IT security is the "soft underbelly" of SMEs. Given the make up of the UK economy, heavily tilted as it is towards services, it is understandable that cyber-attacks present such a grave threat to the SME market. This segment presents a ripe opportunity for criminals and cyber terrorists.

"Unfortunately, the reality is that SMEs will always be playing catch up against the increasingly sophisticated world of the cyber criminal. It is impossible to be 100% secure and prevent cyber-attacks and extortion of SMEs entirely — these attacks routinely impact companies ten times larger than those we polled. The important thing is to know what to do when your business is attacked and how to mitigate the impact. This can only be done with holistic planning and 24-hour emergency support of expert counsel and assistance if an attack takes place. Businesses who leave themselves exposed in this area are playing with fire — they must look at cyber first and foremost as a major risk for their business and seek third-party support to make their businesses as safe and responsive as possible."

02. TIME IS MONEY: THE COST AND TIME IMPACT OF CRISIS EVENTS ON SMEs

Our research has already established that 24% of SMEs surveyed were impacted by a crisis event in 2018, equating to an estimated 1.4 million SMEs across the UK. But what was the cost of these crises?

When asked roughly how much the crisis event cost their company, the average was a not insignificant £6,416.50 per business. Extrapolated to project the total cost to UK SMEs, our research indicates that, in 2018, crisis events cost SMEs an aggregate £8.8bn — a vast sum.

Nearly one in five (18%) affected SMEs spent £10,000 or more to combat crises and one in 10 (9%) paid out more than £20,000 in response to a crisis. Both sums constitute a substantial outlay for any business, but particularly for smaller companies with limited working capital.

The financial impact of a crisis event is perhaps unsurprising given the outlay required to tackle a cyber-attack or major incident such as a product recall following malicious tampering. By contrast, the time-cost of crisis events is often under appreciated in the context of business impacts. Many businesses may find themselves disabled and unable to trade due to operational or access to premises issues.

Major crisis events are not only costing SMEs large sums of money, they are also interrupting trading for prolonged periods of time. We asked those UK SMEs that had experienced a crisis event in 2018 roughly how long they were affected for — the results give cause for concern.

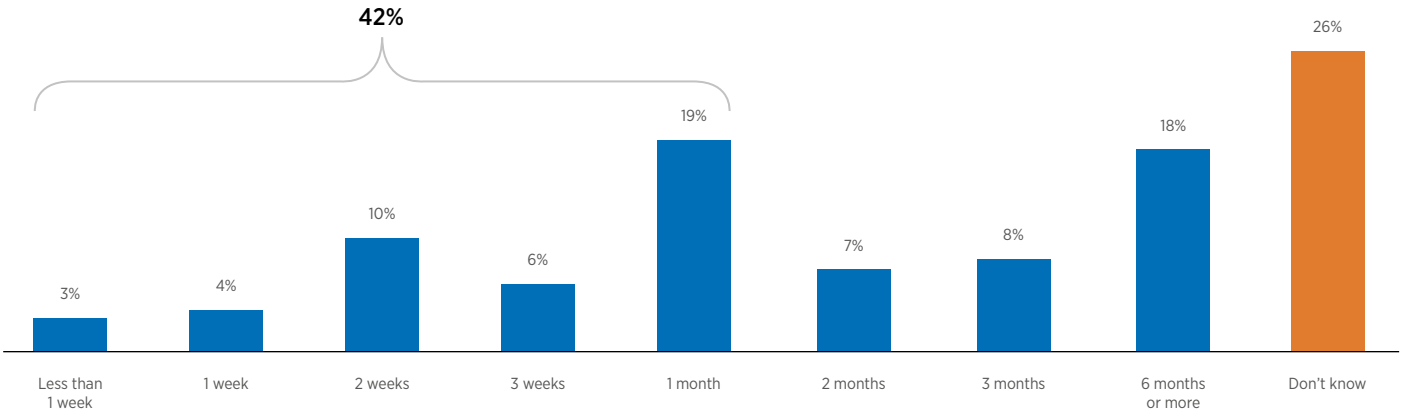
Nearly a fifth (18%) said that they were negatively impacted for a month or more.

At sector level, more than a quarter (27%) of construction companies were affected for a month or more, with 3% impacted for over a year. Retailers (20%) and hospitality and leisure companies (19%) were also still facing the fallout from crises a month or more after the event.

These findings have particular resonance when they considered relative to responses to another question. When we asked businesses how long they thought they would be able to survive if rendered unable to trade by an incident or crisis event, more than four in ten (42%) believe that they would go bust in a month or less. And a not insubstantial quarter of SMEs (23%) think they would not even last the month. Based on these findings, we estimate that nearly 57,000 SMEs could be at risk of collapse in 2019 due to an inability to trade in the aftermath of a crisis event[3].

3. 57000 is calculated by: 24% of 5.7m UK SMEs experienced a crisis in 2018 = 1.368m. Of this number, 18% were negatively impacted by a month or more = 246240. 23% of those affected said they would be able to survive for less than a month if unable to trade in the aftermath of a crisis = 56635.2 (rounded to 57,000)

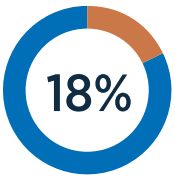
How long could your business survive if a crisis event stopped you from trading?



Commenting on these findings, Justin Priestley, Executive Director of Crisis Management at Gallagher, said: *"Our research illustrates the scale of the challenge facing UK SMEs. We know that crises are occurring at an increasing rate. We now know that they are costing SMEs significant sums to stay afloat, particularly when businesses are paralysed and unable to trade for extended periods of time after an event. If you take the example of the Salisbury Novichok poisoning, some businesses in the town centre were significantly impacted for many weeks or even months after the event. Even when the cordon lifted, people were reluctant to return to the scene of the nerve agent attack, causing huge damage to local businesses caught up in this black swan event.*

"For companies with tight margins and limited working capital, a delay of even a week can be a crippling, possibly fatal, blow. We would urge all businesses to ensure that they have the crisis cover in place to ensure that they are not only insured against a major crisis incident, but also have access to emergency funds, helping them to stay solvent in what could be a protracted recovery process. While insurance might pay out in the longer term, it is access to cash that small businesses often require most immediately.

"Businesses should bear in mind that negative publicity can make matters even worse than temporary business interruption, as what we term 'loss of attraction' presents longer term challenges to customer footfall or commercial demand. However, with appropriate cover you should be able to combat these problems whilst continuing to operate, as a comprehensive crisis product should include 24/7 access to crisis consultants, as well as legal and PR counsel to assist in combating reputational issues."



Nearly one in five (18%) affected SMEs spent £10,000 or more to combat crises

03. ENDURING COMPLACENCY: THE DANGER OF "IT WON'T HAPPEN TO US" THINKING

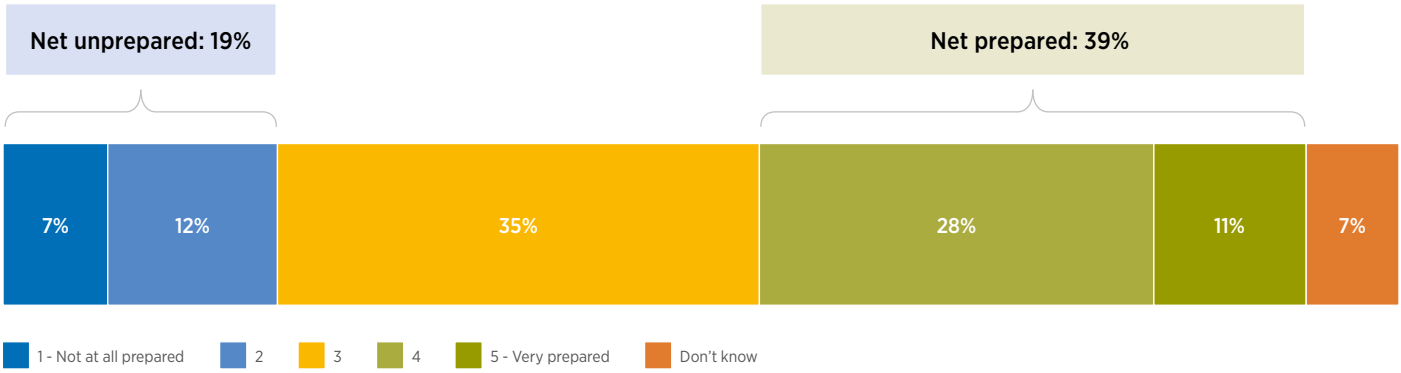
Despite the rise in crisis events, and the large costs associated with tackling them, a significant proportion of UK SMEs appear to be somewhat complacent. Over a third (37%) say that they are unconcerned about any major crisis risks impacting their business this year.

This may help to explain the fact that one in five (20%) SMEs say that they are unprepared for a major crisis event; if it doesn't worry them, the chances are they have not prepared for such an eventuality. Construction and retail are the least prepared sectors, where 27% of businesses are unprepared for a crisis event, closely followed by manufacturing (26%).

Conversely, over half (51%) of financial services SMEs believe that they are prepared for a crisis event, with 17% saying that they are "very prepared". Businesses in the South East were the least prepared, with a quarter (25%) admitting as such, whilst the Midlands emerges as the most prepared region for a crisis, with 45% deeming themselves 'ready' to face a major incident.

A reasonable conclusion to draw from this is that Birmingham-based financial services companies are likely to be well prepared for a crisis.

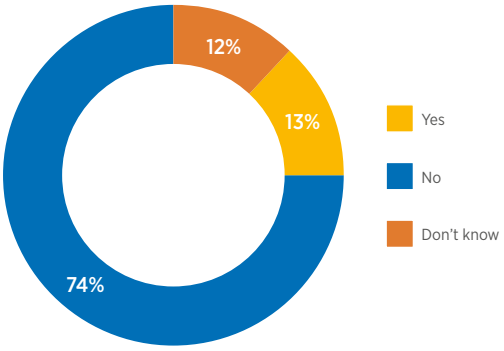
How prepared are you for a major crisis event?



When asked if recent high-profile incidents such as the prolonged and widespread disruption in Salisbury caused by the Skripal nerve agent poisoning, or the 2017 terror attacks in London and Manchester, caused them to review their crisis planning and insurance cover, three quarters (74%) of SMEs surveyed admitted that they had not. This rises to 81% for construction companies, clearly relatively unconcerned by recent terrorist events and state-sponsored attacks.

Businesses in Wales and Scotland are also yet to be jolted into reviewing their cover, with 84% and 81% of businesses respectively not having reviewed whether they are adequately covered in the event of a major incident.

Reviewed crisis planning and insurance cover?



Commenting on these findings, Paul Bassett, Managing Director of Crisis Management at Gallagher, said: *"There is a worrying lack of concern for some pretty serious risks. Whilst 'unconcerned' is in the minority at 37%, there is still a significant proportion of UK SMEs who appear to think a crisis incident could not possibly happen to them. There is a real danger that these businesses are sleep-walking towards an existential challenge and will find themselves wholly unprepared should a crisis event occur. Given that a quarter of SMEs were hit by an incident last year, it is vital that those businesses which remain unprepared and unconcerned review their cover and crisis protocols as a matter of urgency so that they are ready if the worst-case scenario should unfold.*

"The fact that so many retailers are not prepared is a real issue. Given the most recent high-profile incidents of Salisbury and London Bridge occurred in busy shopping districts, and retailers were significantly affected by these events, it is imperative that high street stores are alive to the risks, ensure they are appropriately covered and know what to do in the event of a crisis. Preparation and quick response are key to damage limitation."

04. RISKS UNCOVERED: OVER-CONFIDENCE IN THE HOLISTIC PROTECTION OF BUSINESS INSURANCE

Widespread complacency among UK SMEs may go some way to explain the misunderstanding of, or indeed over-confidence in, the scope of protection afforded by businesses' existing cover.

Despite the growing prevalence, range and sophistication of crisis incidents, our findings indicate that a significant proportion of UK SMEs are relying on the holistic protection of business insurance to support and cover them in the event of a major incident.

Nearly half (47%) of SMEs wrongly believe that business insurance alone will protect them against crises, while a further 37% are unsure of the bounds of their cover. Intuitively, our adjunct finding that three quarters of SMEs have not taken steps to review the scope of their cover could account for current misunderstanding or uncertainty around the bounds of existing cover.

The majority of UK SMEs are, therefore, operating on the premise that their business insurance will come to the rescue should a crisis hit. But typical 'vanilla' business policies will not protect against the spectrum of risks posed by modern day security threats. Moreover, even more specific terrorist cover, which for many years has been structured around a physical damage (PD) trigger from a business interruption (BI) perspective, would not protect against some of the more likely 'non-damage' loss events, such as 'denial of access' or 'loss of attraction', that present real and significant risks to businesses caught up in modern day terror events.

Commercial losses incurred through the attacks in Salisbury and Manchester extended well beyond, or were not related to, physical property damage. SMEs impacted by both incidents suffered losses through simply not being able to get into their place of work — denial of access — both in the immediate aftermath of the incident, as police erected forensic cordons and gathered evidence, and during the longer-term recovery period.

CASE STUDY

In the case of Salisbury, some of the police cordons erected were in place for a two-month period after the attack, closing businesses across extended areas of the city. These businesses, and others affected by people staying away from Salisbury's retail and tourism centres, are likely to have suffered significant losses, either as a direct result of the police cordons or through the knock-on impacts on visitor numbers to Salisbury.

The Gallagher terrorism product provides cover for denial of access and loss of attraction, including CBRN (chemical, biological, radiological and nuclear) events, and where there is no physical damage trigger and would therefore respond to the events in Salisbury.

In terms of other areas of exposure, reputational damage remains essentially uninsurable even in the specialist market, in part because commercial harm wrought is more intangible and, therefore, more difficult to both mitigate and quantify. The risks posed to businesses by cyber-attacks, industrial espionage and product tamper are similarly broad in scope and are only rising in line with the increasing sophistication of modern-day attacks/incidents.

When questioned about what support SMEs would value most in the first 24 hours following a crisis incident, business leaders seem uncertain of what their business would need in a crisis event. More than one third (36%) would want their insurance policies to pay out on financial losses incurred, which in practice is very unlikely to happen within this timescale.

One third of SMEs would value 24-hour access to and support from crisis experts, which is a key feature of crisis response products offered by specialist brokers.

Crisis support lines help businesses to establish a decision/action cycle by creating a clear framework around accumulating information, making sense of it and responding. This is known as a 'common recognised information picture', a feature commonly used to map how an evolving crisis scenario is developing. Year on year, we have observed a rise in the number of standalone crisis protection policies being implemented by UK SMEs, which is a positive development.

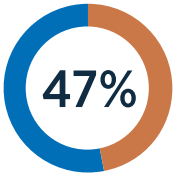
In 2018, more than one fifth (22%) of SMEs purported to have standalone crisis protection, up from 13% in 2017. More than half (54%) of those with standalone crisis cover consulted a specialist broker to scope the bounds of their crisis policy.

Commenting on these findings Justin Priestley, Executive Director of Crisis Management at Gallagher, said

"While wording on denial of access and loss of attraction have recently been added to clauses in specialist policies, standalone business and, in some cases, terrorism cover is yet to include consultative services around crisis management per se, whether in a narrow or broad form. Instead, underwritten crisis response solutions are being brought to market by specialist brokers, providing businesses with consultative pre- during and post-crisis support.

"Access to a 24/7 crisis number (which triggers the coordination of internal resources), support to decipher and respond to new information as it comes in, alongside the implementation of an effective internal and external communications framework, are among the most critical tools to any successful crisis management approach, immaterial of the type of crisis.

"We talk about the "golden hours" of a crisis — the period in which decisions made are most critical — and being able to get ahead of the curve by having resources in place to communicate and respond effectively across the organisation. UK SMEs must think carefully about how they are building crisis resilience and, crucially, who they are turning to to advise them in this process. The perceived need for immediate cover of financial losses will vanish in the most terrifying scenarios when the most critical requirement is for a calm voice on the end of the phone guiding your business and people through the very toughest moments."



Nearly half (47%) of SMEs wrongly believe that business insurance alone will protect them against crises

05. PREPARED TO FAIL: THE DEARTH OF PROACTIVE PLANNING

While the scope of crisis support and cover is critical to businesses' recovery through the aftermath of an incident, an SME's own organisational response as a crisis unfolds can be crucial to damage limitation.

The need for a resilient crisis response plan within businesses has been brought into sharp relief by the wide-ranging scope, method and targets of recent attacks.

Despite the sharp rise in the number of businesses experiencing crisis events, SMEs are ill-prepared in their crisis response.

60% have no crisis protocols in place within their business and nearly half (49%) have no systems in place to deal with the immediate aftermath of an attack.

Of course, the nature of crisis response varies widely depending on the nature of the incident. In the event of a cyber-attack, crisis protocols might involve a switchover to a back-up server, or the establishment of an alternative communications channel, both internal and external.

By contrast, the response to a violent or potentially deadly attack might involve evacuation, access to medics and the use of a contingent communications channel.

Among larger businesses it is not uncommon to see management teams rolling out 'live fire exercises', a process which roleplays a major crisis event to assess necessary responses and potential areas of weakness.

This type of exercise could prove invaluable to smaller businesses seeking to stress test their reaction and response to crisis scenarios.

CASE STUDY

The Manchester Arena suicide bombing in May 2017 forced an emergency evacuation. As people were leaving the concert by American singer Ariana Grande, a radical Islamist detonated a shrapnel-laden homemade bomb tragically killing 23 people and wounding 139 in an incident treated as an act of terrorism.

Manchester Victoria railway station, which is partly underneath the arena, was evacuated and closed, and services were cancelled. The explosion caused structural damage to the station, which remained closed until the damage had been assessed and repaired, resulting in significant disruption to trains, trams and businesses in the nearby vicinity. The station reopened to traffic eight days later, following the completion of police investigation work and repairs to the fabric of the building.

This incident impacted on our client — a bar — who were able to claim successfully for over £10,000 for a gross profit shortfall resulting from loss of attraction under the Gallagher Terrorism policy.

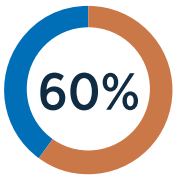
Worryingly, under a third (31%) of UK SMEs have established a crisis management plan which senior management have been briefed on. The scarcity of proactive planning and preparation risks leaving SMEs paralysed in crisis scenarios, potentially exposing them to greater commercial harm.

58% of SMEs surveyed said they would not use or implement a back-up social media communications channel in the event of a crisis, raising questions about how these businesses would update employees, customers and suppliers if their existing/ traditional systems were knocked out by a malware or cyber-attack.

In such a scenario, a contingent communication channel — via WhatsApp for example — would enable businesses to issue secure internal messages, announcements and statements while central systems are down. This type of messaging can help wider efforts to support employees both during an attack and through the aftermath of a crisis incident.

Commenting on these findings Paul Bassett, Managing Director of Crisis Management at Gallagher, said: *"The lack of planning among UK SMEs is particularly stark. Businesses must consider stress testing their ability to respond to a crisis. Despite the significant rise in cyber ransom and malware attacks on SMEs in 2018, it is concerning that only a small minority (13%) have a back-up communication plan in place in the event of a systemic IT or telephony failure. This could be as simple as a WhatsApp chat — but it is a step worth thinking about.*

"During a cyber or ransomware attack, the absence of a back-up communications channel often prevents communication of any kind via standard network means, whether company-wide or between small teams of employees. The dearth of planning and systems in place across SMEs is a real area of weakness which, unfortunately, could be exploited."



of UK SMEs have no crisis protocols in place within their business

06. AN EMPLOYEE-FIRST APPROACH

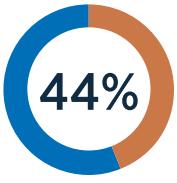
One positive finding to emerge from our research is that UK SMEs have their people front and centre of their thinking when it comes to major incidents.

Aside from human casualties, the potential impact of a serious security incident on employees' emotional or mental health and wellbeing emerged as just as high a priority and one of the biggest areas of concern for SMEs surveyed — alongside the potential for denial of access or financial loss. As the tragic examples of the Manchester bombing and London Bridge terrorist attacks sadly demonstrate, the threat of physical and psychological harm to people across UK businesses is very real, no matter how small the firm.

This 'people-first' mentality was strengthened by another research finding. Access to counselling for employees, following a traumatic event, came second (33%) only to insurance to cover financial loss (39%) when UK SMEs were asked what support they would most value while recovering from a crisis incident.

Prolonged absences of key personnel could prove terminal for some of the UK's smaller companies, many of which may not have the capacity to provide cover for employees affected by PTSD or similar psychological stress suffered as the result of a crisis event. SMEs may have the best intentions for protecting their people, but it is essential that businesses invest in cover and counsel specifically designed to support and protect their people, intellectual property and premises in the event of a crisis.

Turning to pre-event planning, 44% of UK SMEs surveyed had already trained their staff to respond to incidents, evidence that preparing employees for worst-case scenarios is on the radar for the small and mid-sized businesses that make up the UK's economic heartland. Of course, to best protect their people, SMEs need to think holistically about their crisis preparedness and tackle areas of weakness in their crisis plans.



of UK SMEs surveyed had already trained their staff to respond to crisis incidents

Commenting on these findings Justin Priestley, Executive Director of Crisis Management at Gallagher, said: *"Smaller companies may think they are safe from major incidents and take the view that crises happen to other businesses in other places. The mix of overconfidence, inertia and scepticism — a potentially potent combination — must be countered and addressed to help protect SMEs and their people in the long-term. It is encouraging to see companies take the initiative and train their people to respond but this is just a small part of what should be a much broader, proactive plan. However, as the saying goes, no battle plan survives contact with the enemy. Therefore, during a crisis, specialist counsel and guidance are a critical support through the worst-possible moments. Businesses need to think critically to ensure their strategy matches their desire to protect and safeguard their people."*

CONCLUSIONS AND RECOMMENDATIONS

Our research reveals many positives.

Most UK SMEs are taking the threat of a major crisis very seriously. They are taking steps to protect themselves further. The rise in SMEs taking out standalone crisis cover marks a particularly encouraging development.

It is also clear that SMEs place an emphasis on their employees' wellbeing and their ability to respond effectively in the event of a crisis event, through training and support. A business that prepares holistically for a crisis, considering its people as well as its premises, finances and intellectual property, stands the best chance of surviving and continuing to thrive long after any incident.

However, whilst many UK SMEs are highly responsible and clearly engaged in this crucial area of business risk, a significant number remain vulnerable to the risk of collapse as a result of a lack of planning around an immediate response to a crisis event. Our research has shown that a crisis event is, sadly, a commonplace — and increasingly frequent — occurrence. Businesses simply cannot afford to be complacent.

While prevention is better than cure, and our research demonstrates the need for some SMEs to consider beefing up their IT security, it is vital that SMEs review their wider crisis preparation and have a holistic plan of action should a crisis hit. This includes the need to have cover which provides access to emergency funds and crisis counsel in the immediate aftermath of an event, rather than merely a broad insurance policy which may pay out, but only weeks or months after the event. Businesses with tight margins and limited operating cashflow may not have the luxury to wait for a pay-out — they need cover and support that will respond immediately in the event of a major incident taking place.

The key message is that SMEs need to assess their ability to survive in the event of a major crisis incident preventing their ability to trade for a prolonged period.

A significant proportion indicate that they are inadequately prepared for this eventuality and our research findings ultimately indicate that as many as 57,000 UK SMEs could be at risk of collapse due to an inability to trade following a crisis event, based on the time they feel they could survive without the ability to trade and the duration of negative impacts experienced by the 24% of UK SMEs that were hit by a crisis last year. We recommend speaking to crisis specialists and ensuring that you have business-appropriate protections and protocols in place, so that you can operate safe in the knowledge that, should a crisis event hit, you will be able to weather the storm.

This point lies at the heart of the 'ostrich mentality' detected among UK SMEs. The feeling for many companies is that a crisis is something that will never impact them and the persistent view that crises are things that just happen to other, often larger, firms. This complacency — a combination of overconfidence, inertia and scepticism — needs to be addressed and countered.

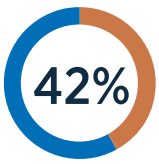
As our survey results suggest, a significant proportion of businesses are exposing themselves to severe and lasting impacts of a crisis incident, through lack of preparation, protocols, protection and review. This compromises their ability to respond and recover effectively. All businesses should guard against this phenomenon.

However, as stated at the beginning of this report, we are not suggesting UK SMEs become risk experts. This is not within the capabilities of most small to medium sized companies and to appoint a dedicated risk officer would likely incur too great an annual cost to justify.

What is crucial, however, in this age of increasing exposure to emerging security threats and fast-evolving forms of crises, is the investment in cover and counsel specifically designed to support and protect a firm, its intellectual property, premises and people.

This requires forward planning and a degree of up-front due diligence in order to ensure receipt of the best advice, the most appropriate and comprehensive cover and suitable protocols and training to respond to a crisis scenario.

The reassurance provided by conducting this vital exercise is hugely valuable — businesses owners who have prepared for the worst are able to concentrate on their day job knowing that their business could survive an attack on its systems or premises or prolonged business interruption, which may well be triggered in the event of being the subject of a targeted attack or being caught up in the wider aftermath of a major crisis event.



of UK SMEs surveyed admitted they would go bust in a month or less if unable to trade following a crisis incident

METHODOLOGY

The research cited in this report is based on quantitative online surveys, run by YouGov on behalf of Gallagher, canvassing the views of 1,120 senior decision makers from small and medium-sized enterprises. The fieldwork was conducted between 2nd and 18th January 2019.

Would you like to talk?

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