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Article

Unsettling times focus the minds of SMEs and entrepreneurs

Simon Amos • November 16, 2023

As we head into the final months of 2023, it is hard not to reflect on another challenging year for small to medium-sized enterprises (SMEs). Stubborn inflation, a tougher investment market, and growing scrutiny of entrepreneurs and founders have created a challenging operating environment for firms that are viewed as the ‘backbone’ of the UK economy.

Looking at the news recently, it would not be remiss to believe that the ‘permacrisis’ of recent years seems like it is here to stay for now. These remain unsettling times for small business owners.

While many are optimistic for a brighter future, a large number feel concerned by emerging risks that are set to impact their business models for years to come. Beazley’s Risk & Resilience research further backs this up and shows how small businesses in the UK and across the globe are feeling increasingly concerned about the management liability risks they face. These risks encompass vulnerabilities such as poor management decision-making, employment practice violations, and crime.

An undefined post-COVID workplace

Three and a half years on from the COVID-19 lockdowns, the reverberations from the working from home revolution continue to be felt among SME leaders. Companies across the revenue spectrum are continuing to work out how to navigate a fast-changing workplace where hybrid working has become the norm but calls to return to the workplace are growing.

Life after the lockdown is in full motion but differing approaches and the changing needs of businesses are creating uncertainty. As a result, we are seeing renewed interest by employees in working practices and conditions, proactive diversity & inclusion (D&I) practices, and mental health support and wellness provisions, which are placing an increased burden on employers. Employment practices are something that we

consider when underwriting Management Liability cover, so it is worrying, that our research data shows that 23% of small business leaders in the UK continue to feel unprepared to anticipate and respond to the employer risks they face today.

For small businesses, this is particularly concerning as many firms do not have the benefit of large HR departments. Consequently, SMEs can be exposed to bullying, sexual misconduct or employment claims, which are not only costly and time-consuming to manage, they can also impact a firm's ability to attract and retain talent. SMEs need to take their duty of care for their employees seriously, as if firms get this wrong they could face an employee practices liability claim.

Reputational risks in a networked age

For many small business owners, in an age where word-of-mouth has gone online, reputational risks are rising. Actively managing an online presence and constantly reviewing feedback is time-consuming, but should not be overlooked as online reviews can supercharge growth and bring new customers, however, negative reviews can ruin reputations and drive customers away.

In 2023, SME business leaders are particularly concerned by negative reviews which can significantly impact their reputation. Our research shows that reputational risks are becoming an increasing concern for SMEs with c. 1 in 5 (21%) small business leaders in the UK ranking the challenge of maintaining their public image as their top business concern.

Reputational damage can lead to legal challenges if a director is seen not to have acted appropriately. Being proactive in cultivating a positive public image is vital, but business leaders also need the right protections in place.

The economics of uncertainty

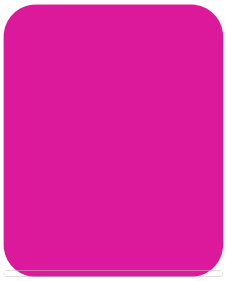
Across the global economy, businesses are coming to grips with an era that will be defined by 'higher for longer' interest rates and stubborn inflation. The current economic climate is particularly challenging for small business owners who are finding it increasingly difficult to attract investment while at the same time trying to deal with pressure on their bottom line.

Amid the volatile business risk landscape, small businesses in the UK are increasingly reliant on insurance that provides protection against Management Liability risks, when seeking financial backing from private equity and venture capitalists. Ensuring businesses have the appropriate level of financial protection given by a quality insurer against key risks is a necessary requirement for investors.

The regulatory landscape for small businesses is also evolving which is making it more difficult for business leaders to prepare and adapt to new challenges when seeking to grow their businesses into new markets. As a result, it is vital that small businesses have the right flexibility in their structures to enable them to pivot and flex their operations and policies.

It is also essential in these challenging times when businesses are

facing strong headwinds that risk management is taken seriously across all areas of their operation, and that they have appropriate insurance protection that offers legal and other support services as part of the package of cover. Failure to manage risk effectively will leave both the business, and its directors personally exposed to a range of potentially costly management liability risks.



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Underwriter - International Management Liability

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