



Aviva Canada Risk Insights Report

Analyzing the risks facing
Canadian businesses



Introduction

The Aviva Canada Risk Insights Report is a deep dive into the current state of risk. It's our second annual Canadian report that analyzes the challenges on the horizon from the perspective of the business owners and decision-makers central to our country's economic growth.

This report is a continuation of our commitment to support businesses with the tools and education to navigate and manage risk.

We uncovered new insights with this data, exploring the concerns that are top-of-mind for businesses: ongoing supply chain challenges, inflation and economic uncertainty, cyber security, and employee morale and turnover. Our findings expand on the insight collected in [last year's report](#), highlighting the importance of clarity and action in the face of uncertainty, and defining shifting sentiments.

Given the challenges facing businesses today, understanding attitudes toward risk has never been more important.

Background and methodology

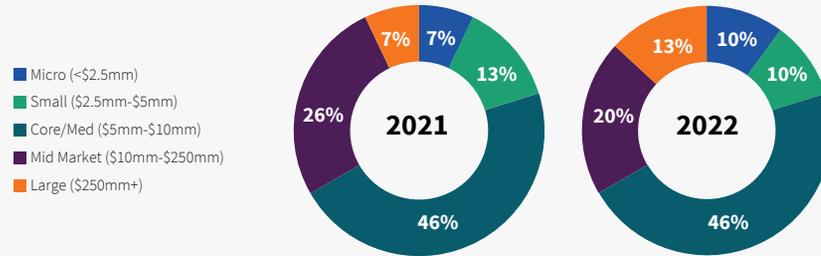
This research was carried out in partnership with LogitGroup in October/November 2022 through an online survey of nearly 1,500 Canadian business owners, executives and key decision-makers across nine industries representing diverse economic interests.

Our goal was to better understand the views on the challenges they face, including business risks, environmental, social and governance (ESG) concerns, and attitudes surrounding supply chain disruptions and inflation.

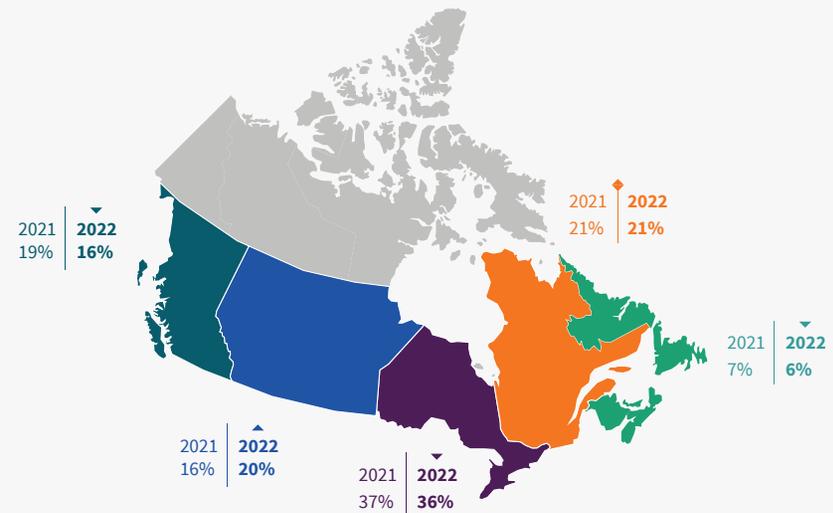
Throughout this report, business sizes are reported in five categories based on their annual revenue stream:

- Micro Small**
Annual revenues under \$2.5 million
- Small**
Annual revenues between \$2.5 million – \$5 million
- Medium**
Annual revenues between \$5 million – \$10 million
- Middle Market**
Annual revenues between \$10 million – \$250 million
- Large**
Annual revenues greater than \$250 million

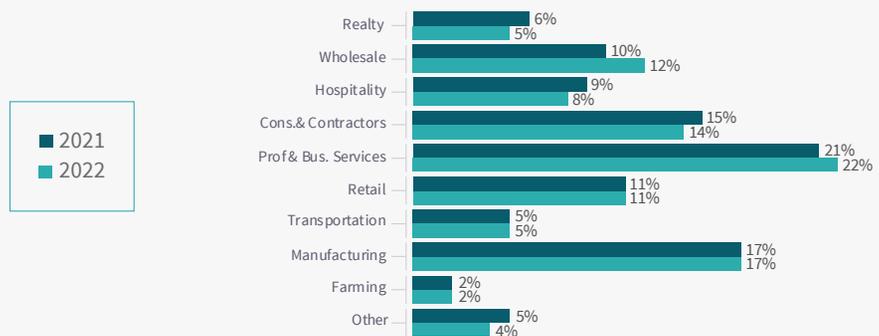
Business revenue



Region



Sector



Foreword from Jason Storah

Risk is a lens. It shapes the way we interpret the world around us.

When we put together our inaugural *Aviva Canada Risk Insights Report* last year, an overwhelming majority of the businesses we spoke with were seeing the world through the lens of COVID-19. It was interesting to see in our 2022 report how the pandemic shaped their perception of risk and the steps they took to mitigate those challenges.

In our 2023 report, businesses are looking at the risk landscape through a different and evolving lens: economic uncertainty. Across all sectors and business sizes, Canadian businesses are staring down inflationary pressures, rising costs, supply chain issues, geopolitical risks and fears of an economic recession. One-third of the businesses we spoke with say they're very concerned. That concern is influencing perceptions of the other risks in our report's top five: business interruption, public health events, skilled worker shortages, and cyber threats – all risks that carried over from our 2022 report but are now further shadowed by economic uncertainty.

Across the board, the businesses we spoke with are prioritizing growth and customer retention. They're driven and committed to pursuing growth, even in an uncertain economic environment.

While the pandemic tested all of our resilience, it also taught us that risk doesn't have to define us, only inform the steps we take, and that approach to risk continues to be reflected now in how Canadian businesses view the future through this new economic lens.

One of the purposes of our Risk Insights Report is to give Canadian business leaders a revealing glimpse at how their peers are looking at the world. We see it as a conversation starter, a tool to interpret the current risk landscape. As a leading insurer, Aviva has a crucial role to play in providing our customers and broker partners with the information, coverage and tools to mitigate the risks ahead, whatever they may be. And that's our commitment to customers, brokers and partners.



“As insurers, we play a crucial role in giving customers and brokers the information, coverage, and tools to help businesses mitigate the risks ahead. While larger businesses say ESG is important to them, thousands more need to make it a priority.”

Jason Storah

Chief Executive Officer, Aviva Canada

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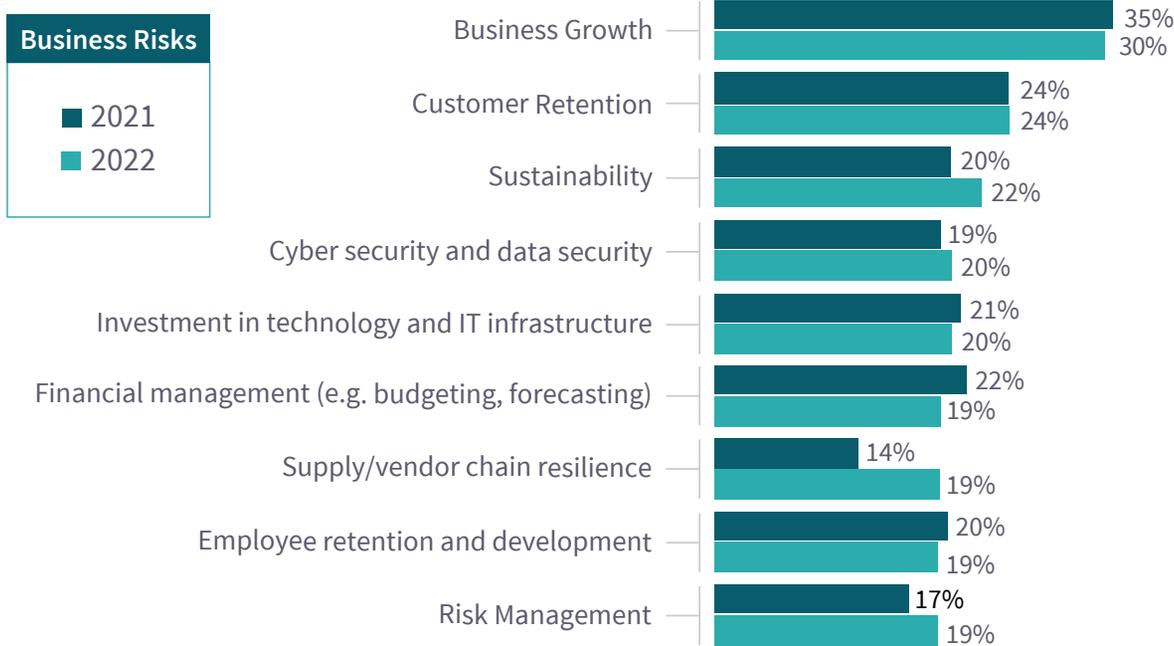
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The current state of risk

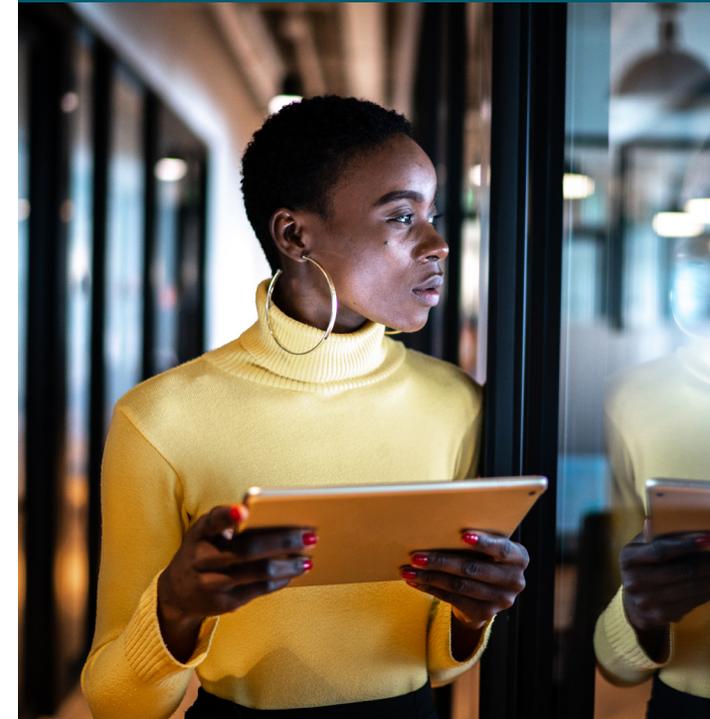
Economic instability is unnerving for businesses.

As concern surrounding public health events slides to the peripheral, Canadian businesses are focused on a more present threat: economic uncertainty and inflationary pressure. Cost-of-living crises, rising energy prices, supply chain disruptions, and trade wars have stoked recessionary fears. We're living in a challenging environment for growth, and yet, our research shows that Canadian businesses plan to do just that.



“The public health crisis forced a reset for many businesses, specifically their outlook on risk. To survive in today’s environment, businesses need to assess the pressure points that could interrupt operations. Even the largest organizations are questioning their continuity plans. All businesses need to build a resiliency framework so they’re prepared for the risks ahead.”

Susan Penwarden
 Managing Director, Personal Lines



Businesses of all sizes are targeting growth and customer retention to recapture revenues lost during the pandemic.

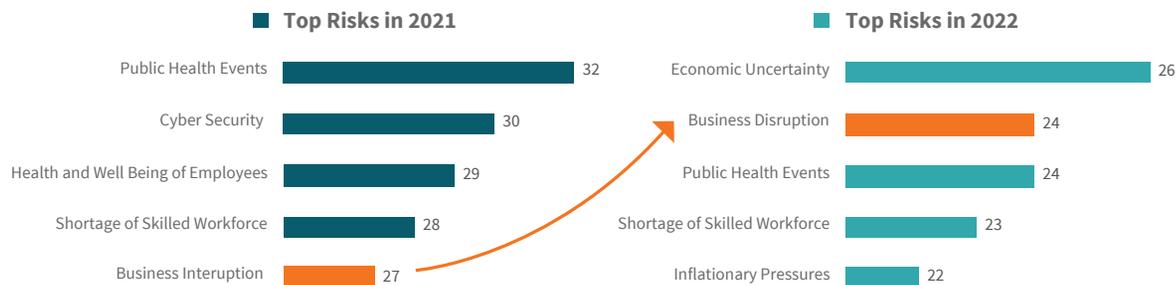
- For the largest businesses we surveyed this year, the emphasis is on sustainability, cyber security, and technology/IT investments.
- Small businesses are still reeling from the economic instability of the pandemic and prioritizing customer retention and financial management. According to the Canadian Federation of Independent Business' November 2022 Your Voice report, three in five small businesses are still carrying pandemic-related debt¹. For the majority of this group, the focus going forward will be weathering economic uncertainty amidst rising costs.

ESG has also moved up several points as a business priority. The Canadian Net-Zero Emissions Accountability Act sets an objective to reach net-zero by 2050, creating momentum for voluntary ESG reporting in large businesses. According to PwC's Canadian ESG reporting study, only 30% of the companies reviewed have a net-zero target, and 77% of companies don't release Task Force on Climate-related Financial Disclosures (TCFD) reports, leaving them unprepared for upcoming mandatory reporting requirements². While our data shows businesses are starting to prioritize ESG, it's only a matter of time before it becomes a necessity.

Lingering effects

The secondary risks present last year – cyber security, the health and mental well-being of employees, skilled worker shortages, and business interruption – have declined and shuffled in importance. In some cases, it's cause for concern. For example, climate change, extreme weather events, and natural catastrophes (i.e. flooding and storms) have slipped as perceived threats. Ignoring these risks could leave businesses unprepared and open to disruption.

Business Disruption Risk climbs to top 2 concern for 2022



However, business interruption has jumped three spots from fifth to second place. Businesses are more focused on the effects of risk and recognize the interconnectedness of challenges like cyber-attacks, people's health and mental well-being, and skilled worker shortages. It also illustrates the lingering effect of public health events like COVID-19, which continues to influence the top five. Businesses were not ready for the pandemic. They recognize that. But going forward, there's an opportunity to engage in more effective risk management.



Seven in ten businesses indicate they will increase their focus on risk management activities.

Intent versus action

An **overwhelming majority (70%)** of businesses plan to increase their focus on **risk management activities**. But there's a clear disconnect between intent and actions. Despite that increased awareness, less than a third of businesses say they are consistently carrying out security, health and safety or business impact assessments. For insurers and brokers, this is an opportunity to help businesses of all sizes navigate the current risk environment and prepare for the future.



Businesses are feeling strained. They need more risk management education and resources. Comparing results from last year to this year, uncertainty is constantly shifting from public health events to cyber threats to supply chain woes to economic uncertainty. But the results often look similar: a damaging interruption to business operations.

Navigating the risk landscape requires implementing risk management activities that align with the current threats and anticipate those on the horizon to safeguard your business. Doing that takes focus and the right insurance and broker partner.

Economic uncertainty is at the top of the list for 2022, not identified as a business risk in 2021.



¹<https://www.cfib-fcei.ca/en/research-economic-analysis/your-voice-omnibus-survey-on-small-business-issues>

²<https://www.pwc.com/ca/en/media/release/pwc-canada-study-highlights-in-esg-reporting-across-top-public-companies.html>



5 biggest risks

1

2

3

4

5

Economic uncertainty is the sharpest and most present risk facing Canadian businesses.

The fieldwork for this study took place against the backdrop of the Bank of Canada's rapid increase of interest rates from 0.25% last March to 3.75% in October, putting macroeconomics front of mind.

Of the businesses and key decision-makers we spoke with, one in three stated they're very concerned and over half (56%) say they're somewhat concerned about the economic outlook.

Economic concerns are rooted in exposure to risk.

Companies that are concerned with economic uncertainty are much more likely to feel exposed to a higher number of risks, such as the war in Ukraine (disrupted energy and fuel supplies), political upheaval and civil unrest (think: U.S., Canada, and Brazil capital occupations), climate change, new flu variants, a cost-of-living crisis, and global supply chain issues. Companies not as concerned tend to be more focused on external risks like supply chains, business interruptions, environmental risks, and natural catastrophes.

While economic uncertainty feels more abstract, inflation is clear and present, impacting daily operations for many businesses.

In July 2022, soaring food and energy prices helped push inflation to 8.1% – a 30-year high. Of the businesses we spoke with, 56% say inflation has increased the cost of products and services – particularly in the business and professional services, construction, manufacturing and transportation sectors and 43% point to an increase in workforce salaries.

- Despite current inflationary pressures, one in four (24%) business owners have no plans to make changes to their operations. They remain more concerned with business growth and juggling competing priorities.
- There is a moderate level of optimism around inflation easing. More than half (54%) believe inflationary pressures will persist for the next two years but a comparable 43% are less optimistic, predicting that recessionary impacts will persist for over three years. That pessimism increases with business size. Around one in six (15%) large organizations expect the impacts of inflation will continue for the next five years or more.

If the Bank of Canada's aggressive interest policy fails to bring inflation down, the future of expansion could be expensive. Nearly two in five (39%) businesses say they already feel the effects of higher borrowing costs. Across the sectors, the manufacturing, realty, retail, and business and professional services industries see the higher cost of borrowing money as a major barrier to future growth.



“All businesses – regardless of size or sector – are feeling the knock-on effect of emerging and persistent headwinds: inflation and natural disasters. Exposure to risk may not always be in our control, but with the right contingencies in place to mitigate business implications, you can avoid your business becoming a casualty of uncertainty.”

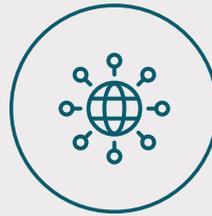
Fred Shurbaji

Managing Director, Aviva Business

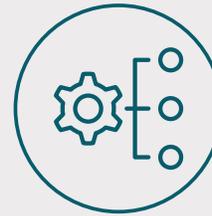




Business changes made to reduce inflationary pressures



Supply chain



Internal process



Sourcing lower cost materials



Staffing

In a bid to curb the effects of inflation, businesses are pivoting.

Economic uncertainty and inflationary pressures have had a paralyzing effect on businesses. The businesses we spoke with recognize the need to manage risk and control supply chain issues but are ill-equipped and under-resourced when it comes to taking action.

- Of those making changes, medium businesses are the most likely to have looked externally – finding new suppliers and sourcing lower-cost materials to curb inflationary pressures.
- Although some larger businesses have adopted similar strategies, a higher percentage is placing their immediate efforts on revisiting internal processes and addressing current staffing shortages.
- Both middle market and large businesses are looking to pass some of these added costs onto their customers.

The rapidly evolving economic risk environment highlights the importance of having adequate coverage. Insurance to Value (ItV) means coverage is linked to a pre-determined value. With inflation driving up replacement costs, businesses need to ensure the declared amount in the policy reflects the reality of what might be underinsured with inadequate funds to cover any losses.

Rising costs and economic uncertainty make it a challenging time for businesses to revisit and reinvest in their insurance coverage. But it's also critical that brokers and the insurance industry work with clients to make sure they are adequately insured at the right level and not left vulnerable.

5 biggest risks



Business interruption is a very real threat.

Business interruption takes on different meanings based on business size.

- For large organizations, 15% say cyber security is the greatest threat to continuity – nearly double any other group.
- Medium-sized businesses point to environmental risks like extreme weather and natural catastrophes as a top concern for continuity (but are less likely to rank sustainability as a business priority).
- Small businesses rank the effects of inflationary pressures and economic uncertainty as key threats to business operations.

Companies with a fully functioning Business Continuity Plan (BCP) report lower risk exposure than those without one.

Companies requiring revisions to their BCP and those without one cite considerably higher exposure to the top risks in the market, particularly business interruption, economic uncertainty, and inflationary pressures.



“There’s a real need for businesses to think differently about new and emerging risks, such as the climate crisis and calls for sustainable investment decisions. At Aviva, we’ve started helping suppliers get on the net-zero journey and increasingly want to do the same with customers. The the landscape is evolving quickly, and the data may not be easily available or complete, but we have to start making a transition plan, set measurable targets, report and disclose.

This expertise is not always present in-house but businesses can find a trusted partner in their insurers and brokers, to lean on, partner with, and guide them on the journey.”

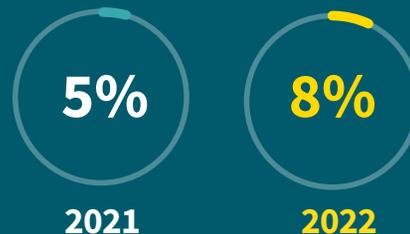
Urs Uhlmann

Managing Director, Global Corporate and Specialty



Business Continuity Planning

Despite the threat of business interruption, around one in ten (8%) businesses don’t have a BCP.



The priorities for BCPs differ depending on business size:

- Small businesses aim for more generic, overall changes to their BCP.
- Mid-sized businesses are more interested in mitigating risk and incorporating technology.
- Larger businesses are using ESG targets and innovative technology to improve their BCP.

Any disruption to operations can be costly – financially and reputationally. Businesses need to take steps to mitigate risk. The insurance industry is built on understanding and navigating risk and has an opportunity to play a more integral role in helping to ensure businesses are protected.

Experience also matters. Our research shows younger companies are much less likely to undertake risk mitigation activities; instead, they are prioritizing building their business. Sometimes there's a lack of awareness about the potential benefits of undertaking these activities or contacting an insurance broker. Aside from competing priorities, businesses are not implementing better risk protocols because they continue to feel they lack expertise and understanding of potential business risks. Budget limitations are cited by one in three businesses.

But overlooking risk mitigation and failing to update a BCP can be costly. Risk is ever-present. An updated and well-thought-out BCP is a lifeline in worst-case scenarios.



5 biggest risks



Public health events prevail.

In 2022, Canadian policymakers shifted from lockdowns and mandatory masking towards cautiously reopening the economy. Our research shows that despite a return to some normalcy, 77% of Canadian companies still express concern about the impact of public health events, and 24% say they're still very concerned.

However, there's a silver lining: results from this year's study show a heightened sensitivity to the broader effects of public health events. Businesses concerned with the continued impact of public health events are more likely to be aware of their risk exposure and are performing a higher number of risk assessment activities.

- Companies very concerned about the ongoing threat of public health events are most likely to indicate ESG consideration will increase in importance.
- 49% developed larger online presences, increased digital adoption (48%), larger workforce training (32%), and increased emphasis on digital supply chain analysis to insulate against risk (44%). The greater the concern around future public health events, the more likely the company has invested in technology.

Avoiding déjà vu

The pandemic has had a lasting effect. Businesses emerged more aware of the potential impacts of business interruption and the importance of risk mitigation.

According to data from Metabiota, an organization that compiles data on disease outbreaks, there's a 22-to-28% chance that another outbreak of COVID-19 magnitude will occur within the next decade³.

There are risks of the same scenario playing out again – complete shutdown of businesses for unforeseen amounts of time, supply chain issues, skilled worker shortages, and cyber exposures as businesses adapt to changing landscapes. Businesses need to focus their efforts on preparedness.

³<https://www.cgdev.org/event/whats-next-predicting-frequency-and-scale-future-pandemics>



“A silver lining of the pandemic was that it forced businesses to very quickly assess the fundamentals of their operations and tap into a completely new way of working.

Our new reality leaves businesses with no choice but to adapt to flexible ways of working that support customers and colleagues... or fear getting left behind.”

Susan Penwarden

Managing Director, Personal Lines



Of companies are allocating more resources to their people's health and wellbeing, developing a hybrid working environment, increasing automation of their business, and earmarking resources to counter the threat of a cyber-attack.

5 biggest risks



The skills shortage has businesses concerned about losing talent.

At the time field research was conducted for this report, the unemployment-to-job-vacancy ratio in Canada had dipped to a historical low amid a record-tight labour market. Larger businesses have been hit hardest, being the most likely to indicate that they are finding it difficult to fill current vacancies.

The skilled worker shortage has been an ongoing issue for industries like construction and transportation, but the pandemic remixed the labour market entirely. In 2022, industries like hospitality and food services saw job vacancies soar to all-time highs. Even among companies adequately staffed, many are worried about the lack of engagement and the impacts this will have on retaining talent moving into next year.

People are looking for more from their employers.

As business owners resolve current staffing issues, recruitment efforts will need to address the growing number of people looking for higher wages. They'll also need to re-examine their corporate culture and policies surrounding flexible working environments to retain the talent they already have. According to Statistics Canada's November 2022 Labour Force Survey, the average hourly wage grew 5% for six consecutive months, and the proportion of workers with hybrid work arrangements continued its upward trend⁴.

A competitive hiring market will hinder growth.

Our research indicates that the majority of businesses are looking to focus their attention on growth. Skilled worker shortages are going to stunt those ambitions. Going forward, businesses of all sizes must prioritize engagement, competitive compensation, flexible working arrangements, and people's health and well-being.

⁴<https://www150.statcan.gc.ca/n1/daily-quotidien/221202/dq221202a-eng.htm>



“Of course, it's important to have seasoned professionals who understand your industry. It's also important to have an inclusive mindset to attract people from diverse backgrounds so that your team is representative of the customers and communities we work in.

At Aviva Canada, we are the only Canadian financial services company that has women in 50% of our senior roles and also has visible minorities in 35% of our top 100 roles. We're laser-focused on DE&I goals and need to do more. Having this front-of-mind helps us deliver better business results and customer outcomes.”

Danny Davies
Chief People Officer



35%
of businesses have already **increased their labour force.**



36%
say they are **adequately staffed** with an engaged workforce.



38%
say they plan to **add headcount** in 2023.



23%
say they are **understaffed.**



5 biggest risks



A disconnect between cyber threats and action.

As the digital era truly took hold, cyber threats were top of mind. According to Statistics Canada's Impact of Cybercrime on Canadian Businesses, businesses spent over \$10 billion on cyber security in 2021⁵. Last year, cyber security and cyber incidents were the most present risk next to public health events. This year, it ranks lower on the list, possibly due to a disconnect between awareness and action.

- 29% feel exposed to cyber threats, similar to last year.
- One in three businesses report being the victim of a cyber-attack over the last 12 months.
- 13% say they feel their business will not experience an attack.

A data leak or hack can result in data loss, operational disruption, reputational damage, and loss of customer confidence. Businesses need to take action.

Anticipating cyber threats is complicated territory.

According to Statistics Canada's Cybercrime Report, about six in ten (61%) Canadian businesses have a designated colleague responsible for overseeing cyber security risks and threats, and 38% have a contractor or consultant to manage threats⁵.

For a lot of businesses, outside help is critical as threats are constantly changing. However, only 33% of businesses are currently turning to their insurance provider for cyber advice and support. Companies are more likely to be implementing internal best practices over having those cyber security discussions with their insurance broker. Our research shows that companies are looking for added advice and support when it comes to evaluating their cyber security risks and we believe brokers, and the insurance community have an opportunity to raise awareness around the role cyber insurance plays in a well-planned defence.

⁵<https://www150.statcan.gc.ca/n1/daily-quotidien/221018/dq221018b-eng.htm>



"It's concerning to see that a number of businesses are still hesitant to invest in cyber insurance or infrastructure. With cybercrime increasing in sophistication, it's time to drop the 'it won't happen to me' thinking and examine their priorities to avoid the financial and reputational costs of such breaches."

Fred Shurbaji
Managing Director, Aviva Business

Cyber Security



of businesses currently have **some** form of cyber insurance.



will **increase** that coverage over the next 12 months.



feel **confident** they are adequately covered.



The Future of Risk

Living in a time of polycrisis – where global risks entangle and cluster in ways that far exceed the impact of individual crises – risks erode resilience. Businesses are tired of trying to make sense of risks like public health events, supply chain disruptions, economic uncertainty, and cyber threats. Understanding the interconnectedness requires expertise. Our research shows a growing number of businesses recognize this and are prioritizing risk management activities. However, the number of companies undertaking assessments is declining. They feel they lack the knowledge and resources to complete critical assessments and are prioritizing business growth, cyber security, ESG, and supply chain management instead. Without those risk assessments, they're at even more risk of not being protected in the event of a loss.

ESG needs to be factored into future planning.

Rising inflation, soaring interest rates, political upheaval, and a looming recession are making it difficult to anticipate the trajectory of the global economy and the degree of impact it will have on businesses going forward. But, through our research, there's one thing we know for sure: ESG is becoming a global priority.

- Two in three (66%) businesses indicate ESG considerations will increase in importance, up from 58% in 2022.
- An overwhelming majority (88%) believe that the greatest risk to undermining current ESG efforts/falling out of ESG compliance lies with the supply chain.

According to data from the Insurance Bureau of Canada (IBC) and Catastrophe Indices and Quantification Inc. (CatIQ), the cost of insured damage for severe weather events hit \$3.1 billion in Canada last year – the third-highest total of natural catastrophe losses in the nation's history⁶. The increase in frequency and severity of extreme weather over the past couple of years is bringing climate change to the forefront of business owners' minds – reinforcing the importance of a robust BCP.

We're in the midst of a climate emergency. Understanding environmental and social risks have become increasingly important for investment decisions. It's on the radar of the businesses we spoke with but hasn't hit the top priority. As an industry, we need to make sure ESG becomes more prominent in our customers' plans.

⁶<https://www.canadianunderwriter.ca/insurance/where-2022-tallies-for-insured-damages-in-canada-1004229754/>



“An overwhelming majority of businesses plan to increase their focus on risk management activities, but there's a clear disconnect between intent and actions. Insurers and brokers must seize the opportunity to help their clients reframe the way they see and manage risk in an uncertain world, to better safeguard their businesses.”

Urs Uhlmann

Managing Director, Global Corporate and Specialty



Looking to the experts.

Although insurers rank among the top sources of risk mitigation support, only one in three businesses are making contact. It's an opportunity for insurance companies and brokers to be more proactive – providing businesses with more personalized service, risk assessment, future planning, and education to further understand their coverage options. In addition to more personalized and knowledge-focused support, a theme that has emerged in our research is that businesses are also looking for more comprehensive coverage, discounts/benefits, and packages or special products for certain business types like cyber protection.

As businesses look to grow, ensuring they have the right coverage will be vital. But so will education. Resilience is intentional; it's taking the right steps at the right time – and to do that, businesses need to understand the risks ahead.

Businesses report a decrease in seeking help from their insurance company and/or broker from 2021.



Business Support



Conclusion

Canadian businesses have emerged from one of the most disruptive moments in living history to an even more uncertain world. Our data shows businesses are finding it challenging to confidently navigate a way forward. The insurance industry clearly has an opportunity to play a more integral role in helping to ensure commercial businesses are protected. COVID-19 taught us the importance of preparing for the unexpected. And yet, conflicting priorities are causing risk prevention protocols to be de-emphasized in all sectors surveyed.

Amidst economic uncertainty, it's understandable that businesses would switch into survival mode to face the crisis ahead. However, as insurers and brokers, this is an opportunity to help businesses reframe the way they see risk. Crisis is an unavoidable fact of life. But, on the other side of crisis, the businesses that will thrive are always the ones that take the opportunity to examine the way they manage risk.

At Aviva Canada, we are committed to being there for Canadians and businesses on both sides of the crisis, to build better and stronger tomorrows.

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