



CNA / **HARDY**

Risk and Confidence Survey

Taking the pulse of British business

Spring 2017



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Nimble is the new normal as British business acclimatises to uncertainty

In a world turned upside down by US policy turnarounds, a snap UK election creating doubt around the UK's Brexit strategy and ongoing disruption to trade in Asia following the collapse of the TPP¹, multinational British companies are growing comfortable with uncertainty.

Despite having to operate in what 70% regard as a 'moderate to severe' risk environment dominated by concerns over economic, political and technology risk, a resounding 71% of UK businesses report they are confident or very confident about the ability of their business to grow and prosper.

Asked to look ahead six months to Autumn 2017, 85% of businesses think the risk environment will have stayed the same or improved. However, concerns over the impact of Brexit, ability to access talent and to export to new markets mean confidence dials back slightly, with only 61% of businesses reporting the same high confidence levels as in Spring 2017.

In this world where forecasting is becoming increasingly difficult and order books rarely extend more than six months ahead, nimble is the new normal.

As the big three: economic, political and technology risk are causing company confidence to dip, so business leaders are focusing squarely on agility as the path to growth. Our research shows that they are cutting back on traditional hiring and instead leveraging the new 'gig economy' to fill the talent gap. We also see businesses prioritising new technology and R&D investments to boost operational efficiency, innovation and the power to disrupt others.

Business Pulse Spring 2017



Business Pulse Autumn 2017



¹ Trans Pacific Partnership Agreement

² Confident or very confident in the ability of their business to grow and prosper

Talent and tech are swing factors for business success

Strikingly, every business that we spoke to in the course of this research saw itself as a 'people business' irrespective of sector. Having a motivated team on board and having access to the right kind of talent are fundamental to business confidence today and to businesses' sense of how well placed they are to succeed in six months' time. Continued access to talent and flexibility in terms of where and how to hire the next generation are therefore key concerns for businesses going forward, particularly in the light of Brexit.

Business leaders also identified technology as a swing factor in business success. It's the key to agility, speed of adaptation and therefore ability to compete. But on the flip side, technology failure or cyber risk in terms of data security, fraud, corruption, viruses, hacking, privacy, compliance and reputation are persistent worries.

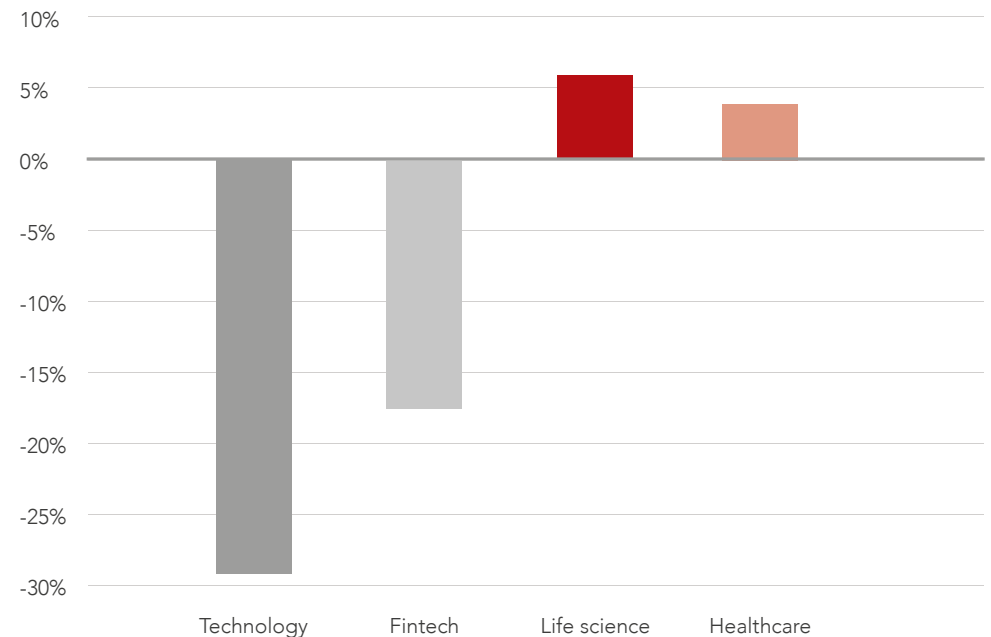
Tech sector acts as a barometer of business confidence overall

Our survey showed confidence levels and perceived levels of risk vary substantially across different industries.

In March 2017, technology businesses appear most confident about the state of the nation, while healthcare and life science are less confident. Look ahead six months however and the situation is reversed. Technology suffers the sharpest drop-off in confidence with almost a third (29%) fewer business leaders feeling confident or very confident whereas healthcare and life science, which had languished in the lower reaches of confidence during Spring 2017, are up 4% and 6% respectively.

It would appear that technology acts like a barometer of British business confidence. The sector feels economic movement faster than most but its agility means it recovers fast too.

Confidence winners and losers Spring-Autumn 2017

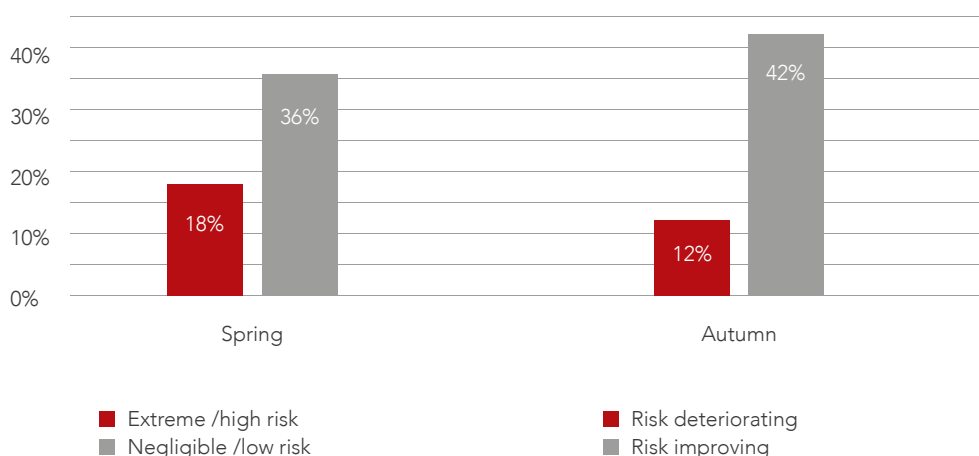


Largest companies least worried by risk

The largest companies in our survey, with turnover in excess of £100m, clearly view the risk environment as less challenging than smaller companies, with the results consistent between Spring and Autumn 2017.

In Spring 2017, twice as many companies with turnover in excess of £100m believe they are operating in a low risk environment, rather than a high risk environment. Roll forward to Autumn 2017 and the contrast is even more stark - positive companies outnumber pessimists 3.5 to 1.

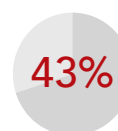
Big companies growing in confidence



Risk managers and business unit heads have fewer ulcers

Given that their focus is on risk, it might have been expected that risk managers' perception of the risk level facing their business would be higher than other managers. In fact our survey found the complete opposite. In Spring 2017, risk managers are more relaxed on the risks facing their businesses than any other job function. Looking ahead six months, business managers take top spot. In Autumn 2017 this group has the biggest positivity weighting in terms of risk across all job functions, followed by risk managers (who fall back slightly to 35%).

Business Pulse Spring 2017

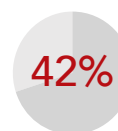


43% of risk managers believe they are operating in a low risk environment



26% of C-suite leaders on average believe they are operating in a low risk environment

Business Pulse Autumn 2017



42% of business unit heads believe the risk environment will improve



35% of C-suite leaders on average believe the risk environment will improve

Boardroom risk set to become top concern

Look ahead six months and 46% of businesses predict that boardroom risk will increase. This is the risk category where business leaders believe there is the greatest risk of deterioration and the lowest hope of improvement. Boardroom risk was defined as the risk of fraud, corruption, poor governance, weak compliance or pensions exposure.

By contrast, the risk which companies worry about least in Autumn 2017 is technology risk, with only 27% of business leaders believing that this is likely to increase and over two thirds (67%) predicting it will stay the same or reduce. This either suggests businesses are already factoring technology risk into their planning, or, more concerningly, that technology risk is still not commanding the attention it requires in the boardroom.

Business Pulse Autumn 2017

46%

predict boardroom risk will increase

67%

predict technology risk will stay the same or reduce

Writing on the wall for insurers

As insurers we know that when conditions are difficult and businesses are under stress, the value of risk transfer becomes all the more acute, particularly for smaller and mid-size UK multinationals exporting more aggressively into new markets. If we are to partner effectively with our clients, it is imperative that we understand how confidence is impacted by risk concerns and know where the pressure points are.

While we cannot help companies resolve all the issues that they face, we can leverage the insight from our global business to pioneer new coverage, risk control and claims solutions to mitigate challenges in the boardroom, on the shop floor and across the supply chain domestically and overseas. We are also investing heavily to position ourselves to support businesses as new technology renders them both more efficient and more exposed to different risks. This will enable us to help our clients create more certainty by leveraging people and technology to deliver better service.

We would be delighted to provide further insight on request.



Dave Brosnan, CEO, CNA Hardy



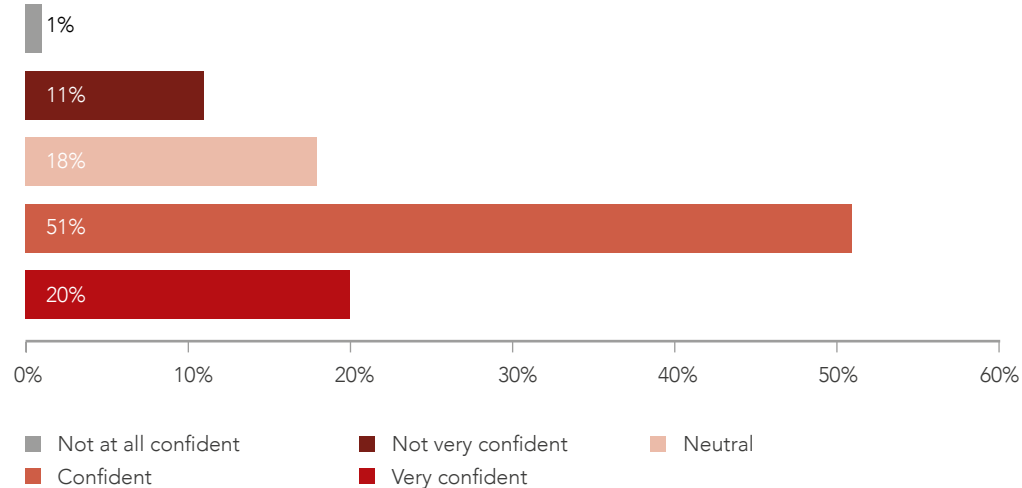
Patrick Gage, CUO, CNA Hardy

Business confidence riding high in Spring 2017

71% of businesses confident despite perceived high risk environment

In March 2017, 71% of leaders of UK multinational businesses were confident or very confident about the ability of their business to grow and prosper, despite 70% also believing they are operating in an environment of moderate-to-severe risk. We believe the findings reflect a number of factors – chiefly the ongoing strength of the UK economy post Brexit and belief companies can exploit opportunities to build topline growth in new markets beyond Europe, particularly Asia.

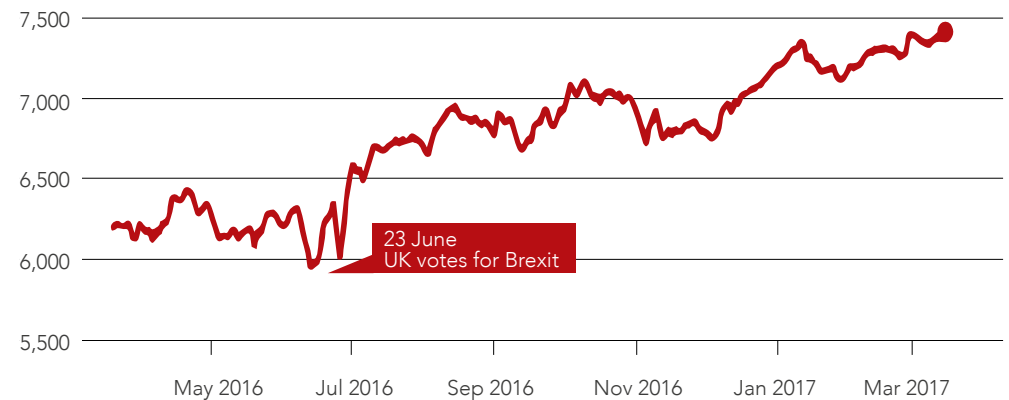
UK multinational confidence is riding high



Rising FTSE confirms UK investor confidence

The performance of the UK FTSE 100 over the last six months, another marker of business confidence, is in line with our findings. Following a post-Brexit vote dip, the index has been rising steadily suggesting a reasonably strong level of business and investor confidence.

Resilience of FTSE 100 indicates confidence³



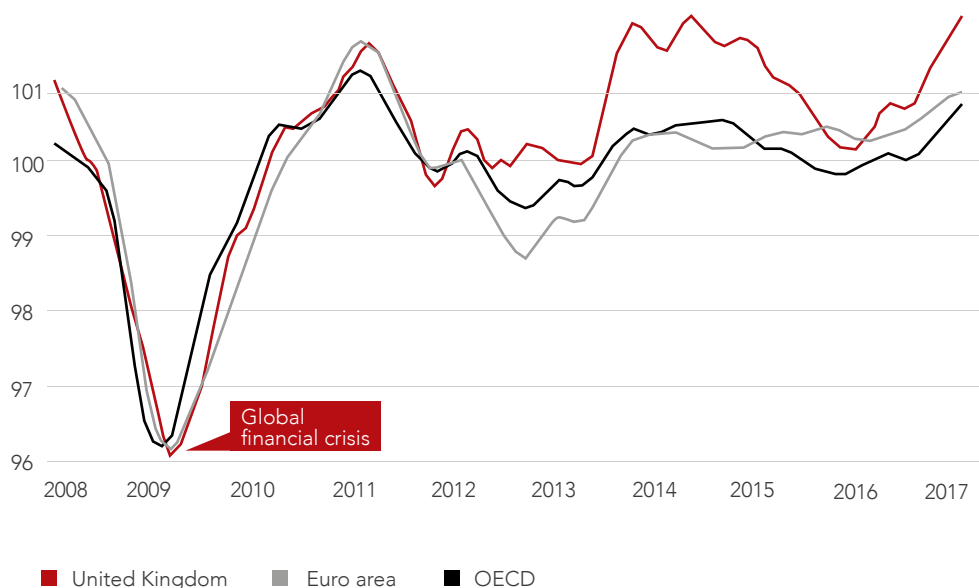
³ www.londonstockexchange.com

European comparisons show UK ahead

Other sources too, confirm the picture of confidence recovering once the immediate aftermath of Brexit proved less negative than expected. For example, business confidence in the UK according to OECD⁴ data is on a gentle upward trend and continues to out-perform EU levels.

OECD Business Confidence Index

Amplitude adjusted, Long-term average=100, Jan 2008 - March 2017



⁴The OECD business confidence index (BCI) is based on enterprises' assessment of production, orders and stocks, as well as its current position and expectations for the immediate future. Opinions compared to a "normal" state are collected and the difference between positive and negative answers provides a qualitative index on economic conditions.

21% of business unit heads more confident than C-suite

Some 86% of business unit heads are confident or very confident about the ability of the business to grow and prosper in Spring 2017, with none reporting they were not at all or not very confident. This striking result may be because these managers are more focused on day-to-day operations, where there may be greater visibility over risks and means of remediation. By contrast just less than two thirds (65%) of the C-suite feel so confident about the business today.

Business Pulse Spring 2017



86% of business unit heads are confident



0% of business unit heads are not at all or not very confident



65% of C-suite are confident



16% of C-suite are not at all or not very confident

“We’ve got a fairly buoyant outlook at the moment. There’s increased optimism in the US and the recovery in oil prices has helped our business. But medium term, there are question marks over the substance of US economic policy compared with the rhetoric and there’s a sense that in Europe things could get worse before they get better as people take stock of what Brexit will actually mean for them.”

Ashley Golland MD, Ixys UK

Technology is the most confident sector – for now

The technology sector shows the highest level of confidence among those surveyed, with 89% of respondents either confident or very confident. However, technology also shows the sharpest drop-off in confidence in six months' time, with a 29 percentage point decline.

Business Pulse Spring 2017: three most confident sectors



Professional services



Technology



Construction

Business Pulse Spring 2017: three least confident sectors



Life science



Healthcare



Users of transportation

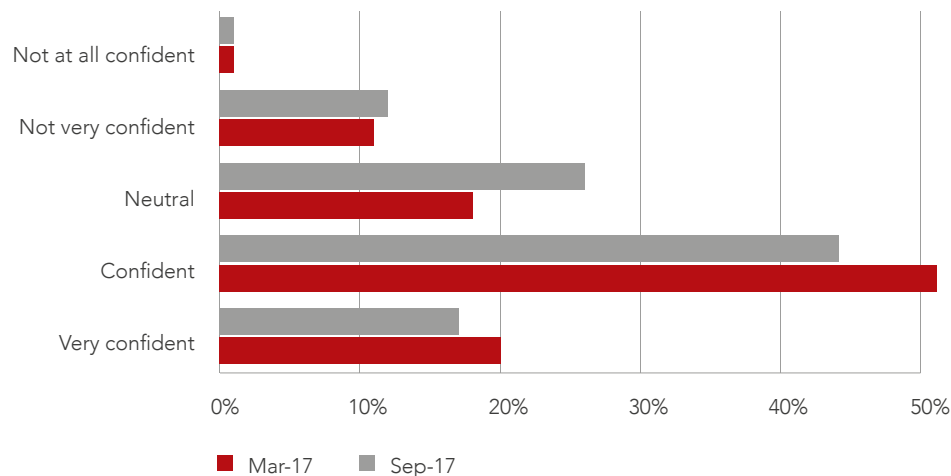
Confidence set to dip in Autumn 2017

Confidence drops 10 percentage points by Autumn 2017

Looking ahead to the next six months, with the UK beginning negotiations to exit the EU, businesses anticipate that the mood will have deteriorated. While the proportion of pessimists is broadly unchanged from March (up 1 point from 12% to 13%) the proportion of respondents who are confident about the ability of their business to grow and prosper falls from 71% to 61%.

This is despite 85% of companies foreseeing the risk environment will have stayed the same or improved.

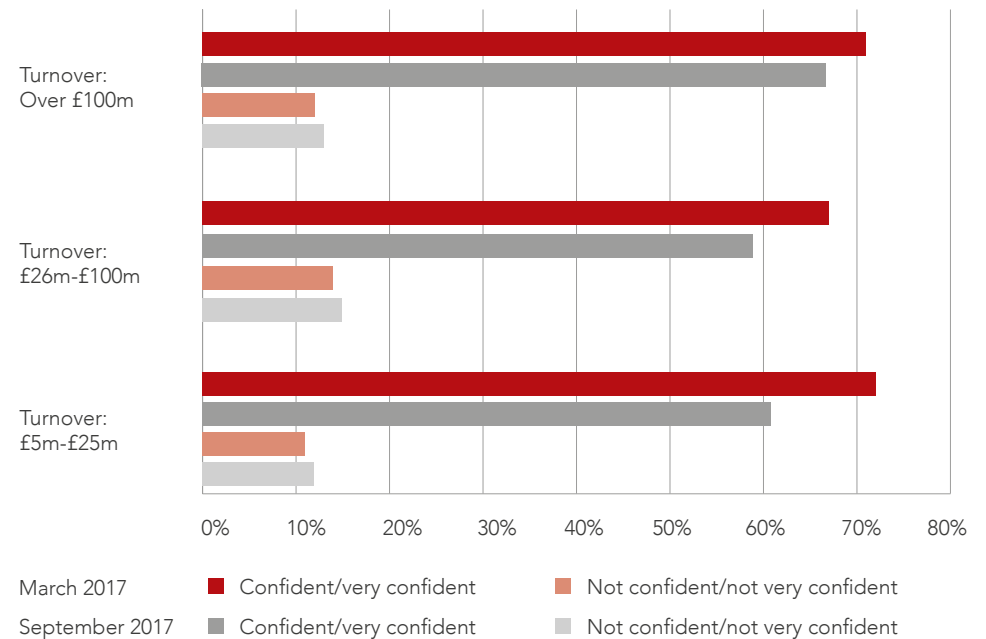
Confidence Pulse Spring-Autumn 2017



Smaller businesses becoming more cautious

In Spring 2017, confidence is high across the board. Smaller companies are more confident today (72% in the £5m-£25m turnover category are confident or very confident); but suffer the sharpest drop in confidence (down 11 percentage points) looking six months ahead. In the largest companies, by contrast, confidence holds broadly steady dropping only 4 percentage points between Spring and Autumn 2017.

Business confidence Spring-Autumn 2017



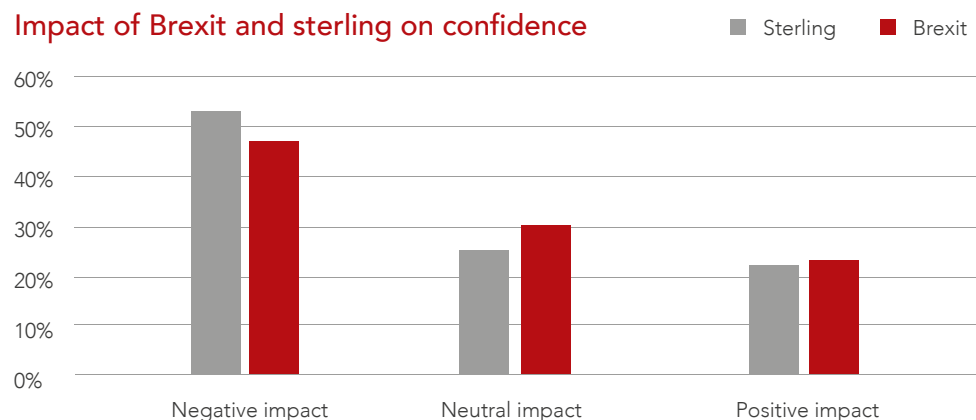


"This research has shown us that companies which are more agile also feel more confident. They tend not to be commodity players. Instead they are specialists – large or small – operating in particular niches of global markets who are really close to their customers, understand their needs and are capable of adapting fast when things change."

Patrick Gage, CUO, CNA Hardy

Twice as many companies see Brexit and sterling weakness as negative not positive

Interestingly, both Brexit and the weakness of sterling that has followed the referendum are seen as negative factors by twice as many companies compared with those who expect a positive impact.



"The negative impact of weakening sterling is clearly outlined by business leaders in every sector that we surveyed, across all job functions and sizes of business. Although exporters may stand to benefit from the weak pound, others will need to raise prices to compensate for rising raw material costs, putting pressure on stressed UK consumers. This in turn heightens inflation risk, which may squeeze company margins and weaken investment potential."

Dave Brosnan, CEO, CNA Hardy

Brexit and sterling rate changes seen as key negatives

The lower Business Pulse reading for confidence in six months' time, in a mildly improving risk environment, appears consistent with the fact that almost half of those surveyed expect that Brexit and its impact on the value of sterling will be negative for their business, while less than a quarter thought it would be a positive. When asked what was the single most important factor impacting business confidence, business leaders cited a number of factors, but Brexit was the most frequent response.

“After the Brexit announcement, international investors reacted by putting less money into the London property market. Significantly less was invested in 2016 compared with 2015. But with the drop in sterling, UK investment opportunities are more attractive to international investors and they're now considering not only London, but also a broader range of investments in other regional cities.”

Associate Director, Professional services sector (real estate)



“Brexit will have an impact, but at the same time – the world will continue to turn. In the wealth management and stockbroking sectors that we supply, uncertainty can mean opportunity. We are focused on the here and now and we will concern ourselves with the new challenges and opportunities when they become clear.”

Financial Director, Fintech sector



Businesses are alive to risk in Spring 2017

70% believe risk environment is moderate to high

Just under half of the UK multinational businesses we surveyed perceived there was a moderate level of risk in March 2017 and over a fifth felt UK multinationals were operating in an extreme or high risk environment. However, this was no impediment to business confidence, suggesting that companies are becoming much more comfortable with uncertainty.

Fewer than a third felt that risk was negligible or insignificant.

Business risk environment in Spring 2017



“In the past we had good visibility on the next three, six and nine months as our customers planned projects with certainty. Our order book used to extend out over 2 ½ years, now it's only six months. Customers who used to order for delivery in six months' time, wait before ordering and then want immediate delivery. I think this lack of certainty will be with us for the next one to two years.”

Ashley Golland, MD Ixys UK

One third think economic/market risk is the greatest concern

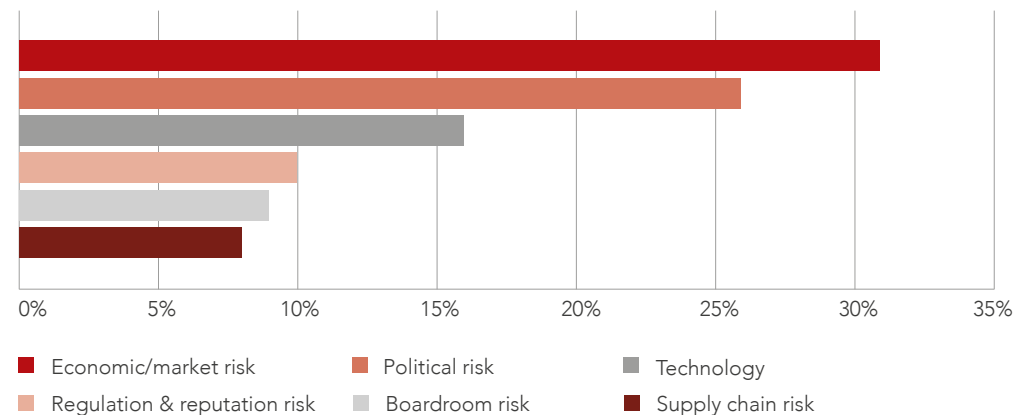
Economic/market risk was the largest concern for just under one third (31%) of business leaders, with respondents referencing in particular their fears regarding:

- the impact of volatility
- intensified competition and market stagnation.

Over a quarter believe political risk is the greatest threat

Political risk, defined in layman's terms for discussion purposes as the risk of unpredictable or unsupportive government policy, was top of the list for a further 26%. At the time the field research was undertaken, the UK was still to trigger Article 50 and businesses cited Brexit and sterling devaluation as the key risks to business impacting their confidence. Political risk is a key driver of economic or market risk.

Which risks concern business most?



Technology seen by 16% as major source of risk

Technology emerged as a key swing factor in business success across a number of the survey questions. While many saw it as an enabler of innovation and the key to efficiency, agility and innovation; on the flip side, just under a fifth (16%) listed technology as the top risk facing their business. In particular they cited technology failure, disruption by others leveraging technology to create new business models or facilitate stronger performance, as key risks.

Many business leaders also reported significant concerns regarding cyber risks in terms of data security, fraud, corruption, viruses, hacking, privacy, compliance and supply chain trust and reliability.

16%

see technology as most concerning risk

50%

invest in technology enabled product and services



“One of the main problems with cyber security is that it’s not getting enough attention in the boardroom. A cultural shift needs to take place that elevates this risk out of the IT department and onto the Board agenda. Data integrity is not just core to operational capability, it’s fundamental to the reputational strength of every company.”

Rhonda Buege, Head of Healthcare & Technology, CNA Hardy

Regulation, reputation and boardroom risk of key concern to fewer than 10% of leaders

Although relatively few business leaders gave these risks top ranking, that does not mean that they do not feature prominently on companies’ risk radar or as part of their risk planning and mitigation.

Unpredictable or changing regulations were mentioned frequently by respondents when they were asked to spontaneously list the factors of greatest concern or highest risk impacting their business. These comments were made both in the context of Brexit but also in connection with businesses seeking to expand into new or emerging territories where the regulatory environment was seen as both unfamiliar and unpredictable.

Only 8% of leaders rank supply chain risk as top risk

From the choice of risks offered in our survey, supply chain was the least concerning to business leaders. However, although chosen as the top risk by relatively few, it featured prominently in discussions where leaders were concerned about partner reliability, particularly along extended supply chains in emerging markets. As businesses globalise, so rising supply chain risk goes directly to reputation and boardroom risk which come to the fore as businesses look ahead to risk drivers for Autumn 2017.

“

We’ve seen substantial growth in our business and we have a healthy pipeline. We’re investing in new IT systems and vehicle technology to manage this growth.

Head of Risk and Insurance, Logistics sector

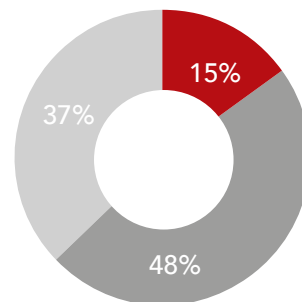
Risk environment set to moderate by Autumn 2017

85% believe risk environment will stay the same or improve

Looking forward six months, confidence regarding the risk environment is definitely strengthening. Around half (48%) predict they will still be in a moderate risk environment, but just over a third (37%) believe the environment will have moderately or significantly improved compared to Spring 2017. Only 15% are actively pessimistic and anticipating active deterioration – 8 percentage points fewer than in March 2017.

Business risk environment by Autumn 2017

- Significantly or moderately deteriorate
- Stay the same
- Moderately or significantly improve



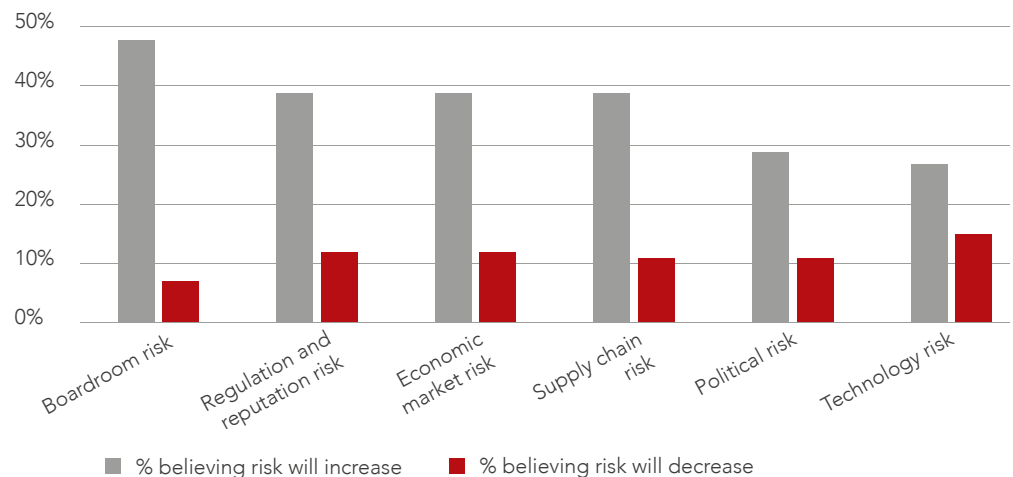
“Responsibility on boards is increasing. In a world turned upside down by increasing global unpredictability, directors need to think about risk in the round. What look like obscure local tech or supply chain risks today could become existential threats if business leaders aren’t nimble enough in the multinational, multi-connected new world order.”

Dave Brosnan, CEO, CNA Hardy

46% believe boardroom risk will increase

Look ahead six months and the risk category where business leaders predict there is the greatest risk of deterioration and the lowest hope of improvement is boardroom risk. Boardroom risk was defined as the risk of fraud, corruption, poor governance, weak compliance or pensions exposure. Regulatory and reputation risk are also moving to the centre of the risk radar alongside supply chain. Interestingly, these D&O type risks are predicted to eclipse concerns regarding market and political risk which were so dominant in Spring 2017.

Changing risk perception Spring-Autumn 2017



Sectors are divided on significance of boardroom risk

Life science leaders stand out very clearly as being the most pessimistic sector in terms of boardroom risk. Two thirds (66%) of business leaders anticipate that the risk level will increase between Spring and Autumn 2017 and they are closely supported in this view by healthcare leaders, 58% of whom share this perspective. This risk orientation is not surprising as these sectors are so highly regulated and the penalties for compliance failure are so visible and onerous.

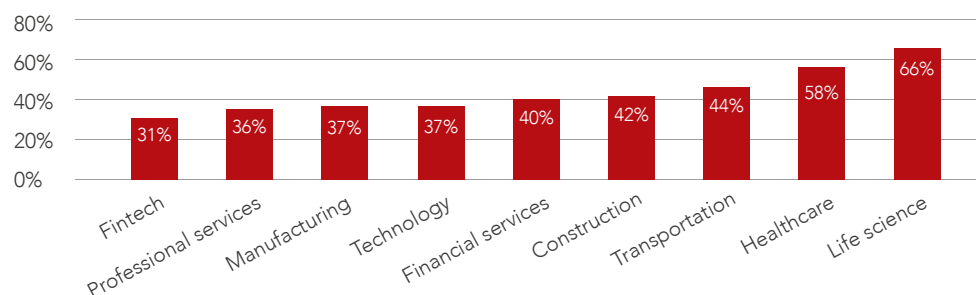
Conversely, less than a third of fintech leaders (31%) believe boardroom risk will increase and technology companies are also fairly sanguine with only 37% anticipating a rise.



“There is no doubt that dealing effectively with the changing risk environment will require companies to commit at the very top level to adopting a more holistic approach to risk and to developing and embedding an effective and impactful risk management culture right across the organisation.”

Dave Brosnan, CEO, CNA Hardy.

Life science tops the table for boardroom risk in Autumn 2017



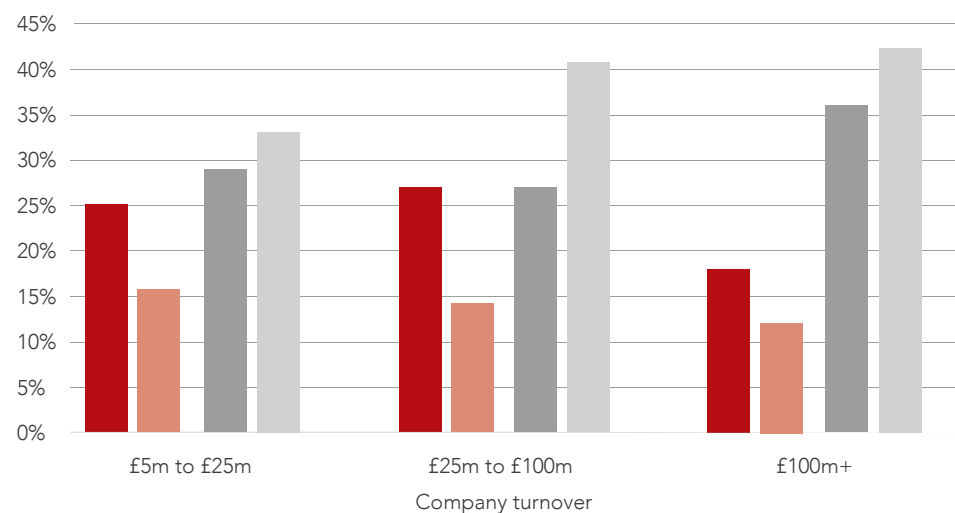
■ % of business leaders who believe boardroom risk will increase looking ahead six months

Biggest companies are least worried by risk

The largest companies in our survey, with turnover in excess of £100m, clearly view the risk environment as less challenging than smaller companies. Fewer than a fifth perceive the Spring risk environment to be extreme or high risk and the proportion falls markedly to 12% as we look ahead to Autumn. Mid-size companies likewise see a dramatic 12 percentage points fall in the proportion anticipating an extreme or high risk environment six months ahead.

In fact, across all sizes of business, the pattern in terms of risk outlook is remarkably consistent. All businesses foresee much less risk as they look ahead, suggesting a high level of confidence in the government's ability to manage an orderly EU exit.

Risk environment by company size Spring-Autumn 2017



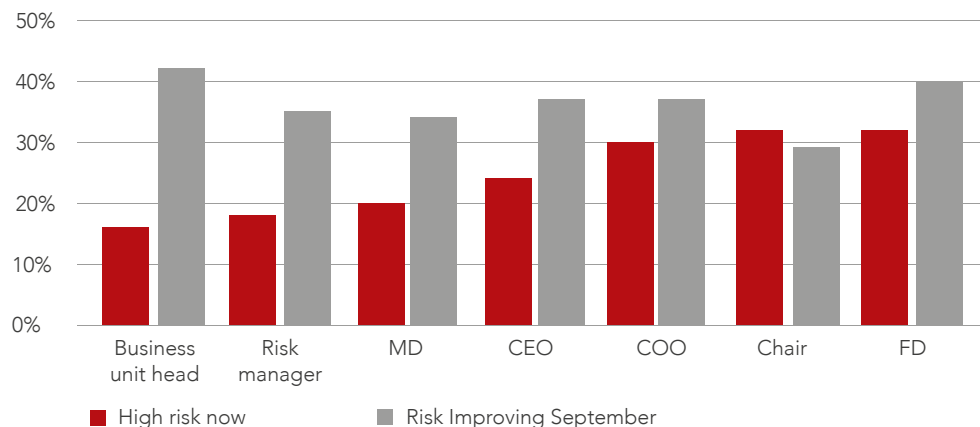
March 2017 ■ Extreme/high risk ■ Negligible/no risk
September 2017 ■ Extreme/high risk ■ Negligible/no risk

Risk managers see less risk than C-suite

Given that their focus is on risk, it might have been expected that risk managers' perception of the risk level facing their business would be higher than other managers. In fact our survey found the complete opposite.

Both now and in six months' time, risk managers and business unit heads are more relaxed on the risks facing their businesses than other job functions. 43% of risk managers believe they are operating in a low risk environment, a view shared by 28% of business unit heads. By contrast, only 26% of the C-suite believe the same.

Changing risk perception by job function, Spring-Autumn 2017⁵



These results may reflect the fact that risk managers are better placed to have an in-depth knowledge of the risks facing the business and the steps the company is taking to mitigate them.

⁵ Job functions ranked by high risk perception in Spring 2017

Agility is the watchword as businesses target tech and topline growth in Spring 2017

In a world where UK multinationals are operating confidently despite a high level of market, economic, political and technology risk, agility has become the prize. As businesses strive to grow the topline home and abroad they need to be able to move fast in response to market changes and talent and technology are seen as the key enablers of that flexibility.

As businesses focus attention on these areas so they are set to de-prioritise investment in plant and equipment and in the risky and time consuming process of corporate development – be that merger, acquisition or joint venture.



"Only the most confident businesses are likely to buy new equipment, take on new employees and take proactive steps toward corporate development – be that in terms of investment, joint venture or acquisition. We are committed to ensuring that organisations have the resilience and contingency plans needed to take positive steps in an ultra-connected, complex and high-risk world."

Patrick Gage, CUO, CNA Hardy

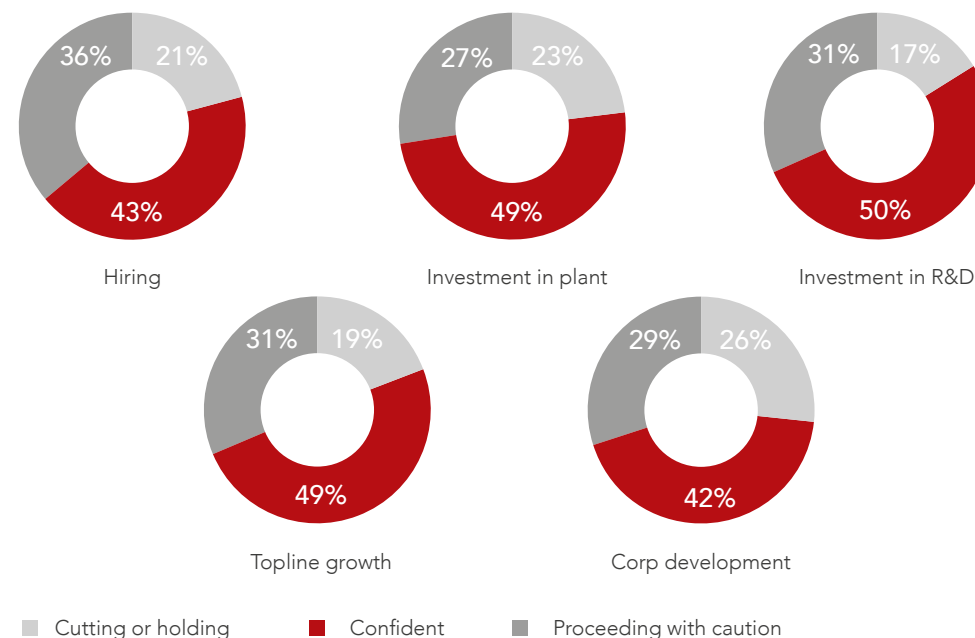
81% of businesses favour R&D – including technology

Technology was identified by respondents as the key swing factor in business success. Many saw technology not just as an enabler of innovation, but also key to efficiency, agility, speed of adaptation and therefore ability to compete. Some 81% of businesses we interviewed in March 2017 were actively pursuing investment in R&D including technology enabled products, services or processes.

80% are pursuing topline growth

The second most popular lever for moving the business forward is the pursuit of topline growth – opening up or expanding new markets, growing market share or building sales. Some 80% of business leaders were prioritising this action, focusing particularly on opening up new territories in Asia, subject to being able to access finance for growth.

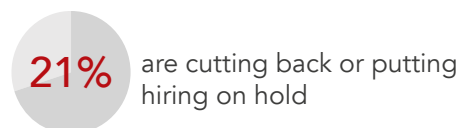
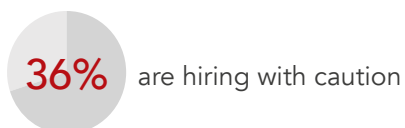
Business favours investment in R&D in Spring 2017



36% are exercising caution around hiring

Many survey respondents cited the value of having great people on board and irrespective of sector regard their business as “a people business.” In an environment where agility is key, however, over a third (36%) said this was an area in which they were proceeding with caution, with a further 21% cutting back or putting hiring on hold, with some expressing particular concerns about their ability to access the talent they wanted in a post-Brexit environment. In our conversations, many businesses felt they would need to cast their net wider to secure the best global talent while also building in flexibility by leveraging new ‘gig economy’ working practices on which many workers are now dependent.

Business Pulse Spring 2017



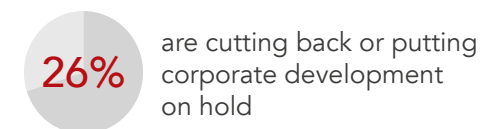
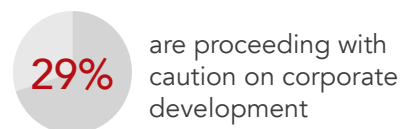
“We are not surprised that companies look to be less confident about traditional hiring and more supportive of tech investments as we look ahead. The future is in becoming more agile and efficient and that means companies need to think carefully about where they place their bets in terms of both technology and talent.”

Patrick Gage, CUO, CNA Hardy

55% are cautious on corporate development

The area on which companies are focusing least in Spring 2017 is corporate development – be that merger, acquisition, joint venture or disposal of assets. Based on our discussions with business leaders we believe this may be down to lack of opportunity, difficulty accessing finance to fund investment or simply that other areas of the business are faster to action and therefore an easier priority. Investment in plant and machinery, which often will involve a large capital outlay, was also noticeably less popular in Spring 2017 with 50% of business leaders cutting back or proceeding with caution.

Business Pulse Spring 2017



“It is unlikely we would find any M&A opportunities in our niche markets, but we are open to opportunities.”

Risk Manager, Logistics sector

Companies dialling back activity as they look ahead to Autumn 2017

100% of respondents are more cautious looking six months ahead

Looking ahead to Autumn 2017, despite the fact that 85% of business leaders believe the risk environment will stay the same or improve, the mood is undeniably more cautious. Although all the companies we surveyed are continuing to move ahead on business fundamentals, they are less confident than in Spring, with a particular drop-off anticipated in terms of investment in plant and machinery and corporate development. We believe this reflects the desire to remain flexible as businesses keep a watchful eye on risk.

Action on business fundamentals

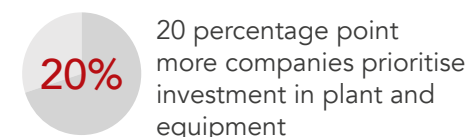
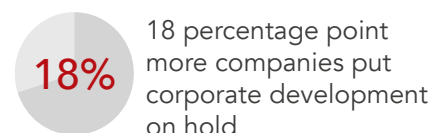


Broadly half of companies de-prioritise investment in plant and equipment and in corporate development

Priorities remain broadly unchanged across the six month comparison but it is noticeable that business leaders become markedly cooler on corporate development. While 26% are cutting back in this sphere or putting activity on hold in March 2017, by Autumn this proportion has risen to 44%.

In the new world order in which businesses need to be able to adapt rapidly to market changes, investment in plant, equipment and property also takes a big hit. Over half (53%) were proceeding with some or great confidence in this regard in Spring 2017. Roll forward to expectations for Autumn and only 33% (20 percentage points fewer) still expect to be making these investments with any level of confidence.

Business Pulse Spring-Autumn 2017



Lack of funding and supply chain trust issues may constrain topline growth ambitions

With the focus on the pursuit of growing the topline unchanged, it was a concern that many business leaders cited worries over access to funding and availability of investment as a potential constraint on their growth plans.

This was a particular concern for businesses impacted by competition – particularly from China – and for businesses who were keen to access foreign markets as a future source of growth. In this regard, companies mentioned Asia more than any other region.

In terms of tapping new markets companies also referenced the need to establish trust with new supply chain partners as an enabler of success.

“In terms of business fundamentals, we are cautiously optimistic; our strategy is to sustain organic growth through the professionalism of our service offering and our sales and marketing efforts in the global market place.”

Risk Manager, Logistics sector

Demand and costs are on the radar

When thinking about risk and confidence, business leaders cited the importance of customer confidence, customer purchasing power and strength of demand. There was some concern expressed going forward about the impact of rising inflation on confidence and demand strength. Inflation also emerged as a direct concern of businesses in terms of rising input costs – chiefly fuel.

“We’re investing in people, facilities and IT as our business grows and we’re confident in our ability to keep growing. We’re prepared to take the decisions needed to move the business forward, but are being sensibly cautious in how we implement them.”

Mervyn Griffiths, Director, Strategic Shipping



“We support our customers’ needs by offering package solutions that are flexible in terms of cover and duration. When uncertainty rules and complex risks are centre of the radar, insurers need to step up by offering greater certainty for customers.”

Lloyd Tunnicliffe, Head of Property, CNA Hardy

Sector breakdown: Confidence

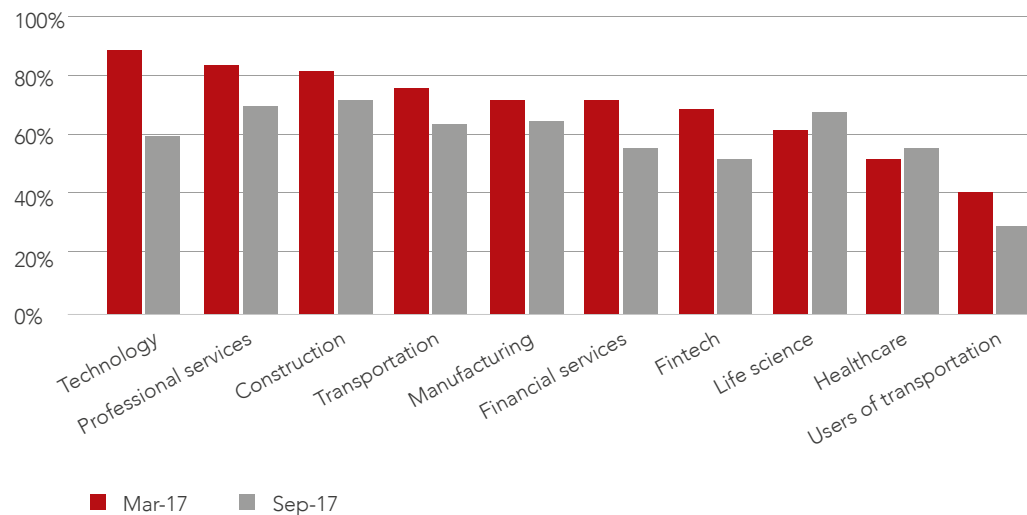
Business confidence is fickle as sectors weigh concerns over risk

Looking across all the sectors we surveyed, although the general pattern shows confidence is declining, the trend is relatively weak. Average confidence levels fall between Spring and Autumn 2017 from 71% to 61%.

There are notable variations between sectors, however, and some sharp swings, particularly in technology, healthcare and life science.

In March 2017, technology and professional services businesses appear most confident about the state of the nation. By contrast, healthcare and life science are less confident. Look ahead six months however and views are reversed.

Confidence by business sector⁶



⁶Companies reporting they are confident or very confident in the ability of their business to grow and prosper

Confidence is fickle in technology, financial and related sectors

In March 2017, technology businesses appear most confident about the state of the nation with 89% of leaders saying they are confident or very confident about the ability of their business to grow and prosper. Look ahead six months however and the situation is reversed. Technology suffers the sharpest drop-off in confidence of all sectors, with almost a third (29 percentage points) fewer business leaders feeling confident or very confident. It would appear that technology acts like a barometer of British business confidence. The sector feels economic movement faster than most but its agility means it recovers fast too.

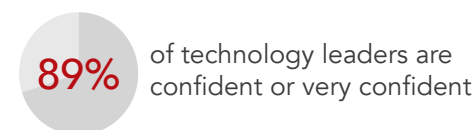


"It is surprising that fintech is less confident as these businesses tend to be agile and innovative. However, concerns around regulation regarding retail customers and the inevitable changes in regulation/legislation post Brexit will add to uncertainty and make the global landscape harder to manage."

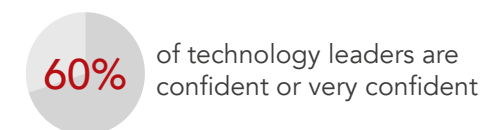
John Taylor, Head of Specialty, CNA Hardy

Fintech (down 17 percentage points) and Financial services (down 16 percentage points) also exhibit relatively sharp falls in forward-looking confidence, potentially reflecting concern over the impact of the UK's withdrawal from the EU.

Business Pulse Spring 2017⁶



Business Pulse Autumn 2017⁶



Transporters much more confident than users

The outlier, with the lowest confidence score and a much higher level of perceived risk than any other sector, is companies who use transportation, in various forms, to distribute their goods, such as producers or retailers. In this category only 40% of business leaders were confident or very confident about the ability of their business to grow and prosper in Spring 2017 falling to 32% in Autumn 2017.

In stark contrast, transport companies, including traditional and specialist providers, were much more confident, with 76% of business leaders reporting high levels of confidence in Spring, dropping only slightly to 64% looking ahead to Autumn 2017.

Business Pulse Spring⁶



Business Pulse Autumn⁶



⁶Companies reporting they are confident or very confident in the ability of their business to grow and prosper



"2016 saw the insolvency of the world's 7th largest shipping line, causing uncertainty for all those connected to global trade. Against a backdrop of solvency concerns, slow trade and overcapacity in maritime transportation, the perception of an imminent threat to the movement of goods still looms large. Lessons have been learned by insurers, specifically in the assessment of the risks connected to maritime insolvency and more importantly, how best to respond to our customers' needs when the movement of global trade is put on hold."

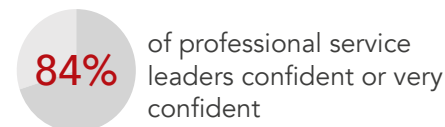
Aaron McLean, Claims Manager, CNA Hardy

Professional services declines somewhat

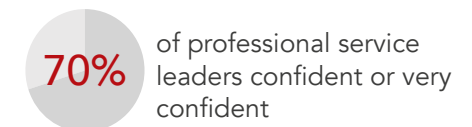
Professional services businesses are in a strong position whether business is in confident or risk averse mood.

Against this backdrop, 84% of professional services leaders state they are confident or very confident regarding the ability of their business to grow and prosper in Spring 2017 and although their confidence score deteriorates 14 percentage points by Autumn 2017, they nevertheless remain the second most confident sector overall. Confident businesses are active in terms of business development and will need expert advice to help execute their plans. Likewise aversion to risk is also a driver of business for professionals who will be called on to perform due diligence or otherwise assess and report back on business opportunities.

Business Pulse Spring⁶



Business Pulse Autumn⁶



Construction and manufacturing bearing up

The construction and manufacturing sectors, both of which have been enjoying something of a renaissance in the UK, experience a muted drop off in confidence of ten and seven percentage points respectively compared with the sharp falls experienced by others.

A circular gauge chart with a grey background and a white arc representing 10% of the circle. The number '10%' is written in red inside the circle.

10%

10 percentage point drop in construction confidence between Spring and Autumn

A circular gauge chart with a grey background and a white arc representing 7% of the circle. The number '7%' is written in red inside the circle.

7%

7 percentage point drop in manufacturing confidence between Spring and Autumn

Only healthcare and life science are optimistic

It is very noticeable that life science and healthcare are the only two sectors that become more confident as they look ahead from Spring to Autumn 2017, with healthcare up four percentage points and life science up six.

Set against rapid growth in private medicine, rising affluence and an ageing population with growing expectations, it is little surprise that healthcare and life science (which includes businesses in the pharma, devices, and research and biotech spheres) are in a buoyant mood.

A circular gauge chart with a grey background and a white arc representing 4% of the circle. The number '4%' is written in red inside the circle.

4%

4 percentage point increase in healthcare confidence

A circular gauge chart with a grey background and a white arc representing 6% of the circle. The number '6%' is written in red inside the circle.

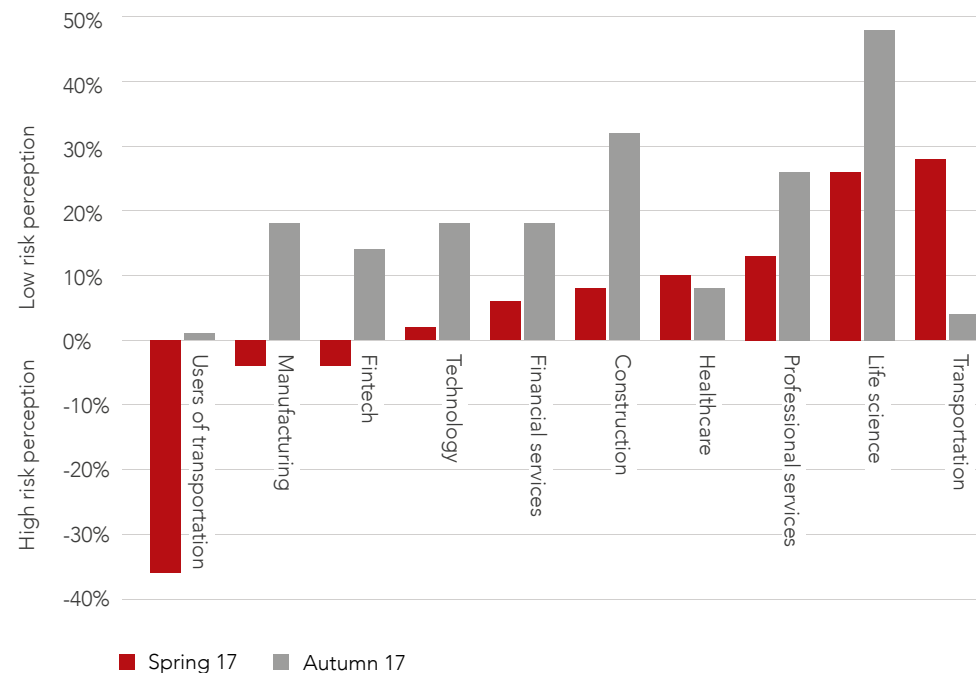
6%

6 percentage point increase in life science confidence

Sector view on risk is broadly positive

In terms of the risk environment, every sector that we surveyed, bar transportation and healthcare, believes that conditions are set to improve as we move from Spring through to Autumn 2017. Among those sectors demonstrating this trend most strongly are life science, construction and manufacturing.

Sectors' changing risk perception - Spring to Autumn 2017⁷



⁷Values are calculated by netting off leaders with negative views against those with positive views. For example, in Autumn, 12% of manufacturing leaders were negative on risk; but 30% were positive, creating a net positive position of 18 percentage points.

Life science positivity on risk almost doubles, but healthcare lags

In Spring 2017, life science leaders who were positive on the risk environment outweighed those who were negative by 26 percentage points. Looking ahead to Autumn 2017 and that positivity margin increases to 48 percentage points. Healthcare by contrast declines very slightly from a positive weighting of 10 down to 8 percentage points.



"It is not surprising that healthcare and life science confidence is high. Increasing patient demands, an ageing population and the growing prevalence of chronic disease are set to drive growth in the healthcare and life science sectors for years to come. Demand is a given. It's affordability that's the issue."

Kevin McIntosh, Head of Medical Malpractice, CNA Hardy

Business Pulse Spring 2017⁷

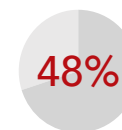


Life science leaders
26% net positive



Healthcare leaders
10% net positive

Business Pulse Autumn 2017⁷



Life science leaders
48% net positive



Healthcare leaders
8% net positive

Tech and fintech are upbeat as government incentives nourish grassroots

The technology and fintech sectors share an improving view of the risk environment looking ahead to Autumn 2017. Leaders of technology businesses move from being 2% net positive to 18% net positive and fintech from -4% to 14%, an 18 percentage point improvement.

In part some of this optimism on risk may be due to the impact of government policy starting to feed into the sector grassroots. Measures announced in the government's autumn statement in 2016 mean that by 2020, UK government spending on R&D will grow to an additional £2bn over and above existing spending, delivering a total boost of £4.7 billion by 2020-21 and substantially reducing concerns regarding future investment.

“Technology has been the way of the world for the past 15 years and will remain so. Automation, efficiency – technology is key in achieving that.”
Chief Financial Officer, Fintech sector

Professional and financial services twice as positive on risk

Despite exhibiting declining confidence, both professional and financial services leaders believe the risk environment is set to improve. The balance of professional services leaders seeing negligible or no significant level of risk doubles from a 13% favourable weighting in Spring 2017 to 26% in Autumn. In financial services the change is even more marked, rising from 6% to 18%.

⁸Values are calculated by netting off leaders with negative views against those with positive views. For example, in Autumn, 12% of manufacturing leaders were negative on risk; but 30% were positive, creating a net positive position of 18 percentage points.

Construction and manufacturing leaders also see improvement

Construction is another sector with a markedly positive and improving view on the evolving risk environment. In Spring 2017, business leaders in the construction sector who were positive on risk outweighed those in their industry who were negative by eight percentage points. Look ahead to Autumn 2017 and that gap increases by 24 percentage points to 32% net positive.

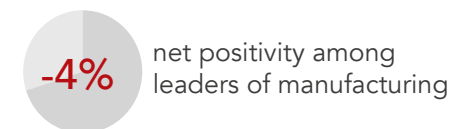
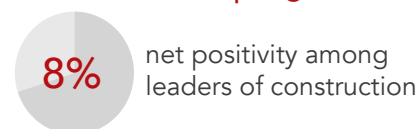


“Construction is fairly bullish. They are less likely to lose jobs to overseas competitors from China or Singapore – unlike manufacturing who are in direct competition. Also, confidence trickles down through the sectors – so if Government is investing in big infrastructure domestically (for example HS2, Cross Rail or the mega sewer) then this confidence trickles down through the country – just look at the cranes and continued house building.”

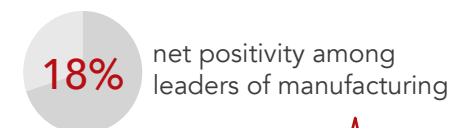
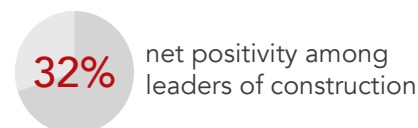
Craig Bennett, Head of Casualty, CNA Hardy

The manufacturing sector is also becoming much more positive on risk, showing a 22 percentage point improvement on its net negative view between Business pulse Spring 2017 and Business Pulse Autumn 2017.

Business Pulse Spring 2017⁸



Business Pulse Autumn 2017⁸



Users of transport becoming less jumpy on risk

Users of transport who were notably more pessimistic on risk compared to other sectors in Spring 2017 become much less jumpy as we look ahead to Autumn.

Although still more risk averse than any other sector (with only a 4% net positive score), they nevertheless record the biggest improvement in risk perception of any sector we surveyed.

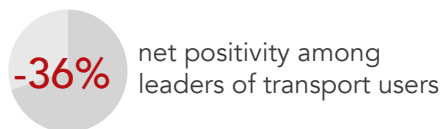
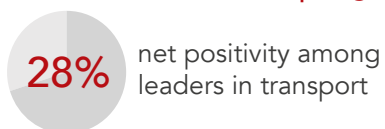
Interestingly, transport companies also report one of the biggest changes in risk perception between Spring and Autumn, but in the opposite direction, seeing much more risk ahead.



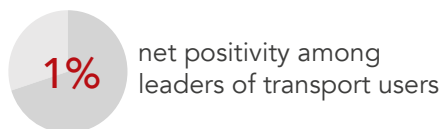
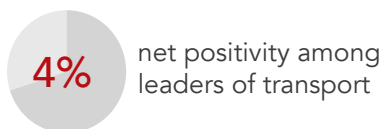
“The disconnect between transport providers and users of transport is interesting, but troubling. The logistics sector has transformed to respond to the need for immediacy and agility. It's more nimble as a consequence, but these results suggest leaders are failing to sell the benefits of new services, to customers. Alternatively, and more cynically, users could be expressing concern that providers, particularly the more specialist niche players, will use their new services to boost their negotiating power. Either way, transport companies need to get closer to their customers.”

Carl Day, Head of Energy, Marine, CNA Hardy

Business confidence Spring 2017⁸



Business confidence Autumn 2017⁸



Methodology

Opinion Matters, an independent research agency conducted this research on behalf of CNA Hardy.

In Phase 1 of the research, which took place over a two week period in March 2017, Opinion Matters conducted an online survey with 500 business leaders and risk managers in UK multinationals with operations in Europe with turnover ranging from £5m up to more than £100m.

Respondents included CEOs, Managing Directors, Chairman, Heads of Business units and risk managers and there were at least 50 respondents in each of the following industry categories:

- Manufacturing
- Construction
- Transportation & logistics
- Financial services
- Professional services
- Technology
- Fintech
- Healthcare
- Life science
- Users of transport

In Phase 2 of the research, Luther Pendragon spoke with ten business leaders about the findings of this research and carried out extensive conversations with underwriting teams within CNA Hardy. Their thoughts and opinions are captured in some of the verbatim comments quoted here.

Luther Pendragon worked with the CNA Hardy underwriting team to analyse the data from this research and to prepare this report.



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