

A blurred background image of a financial chart with multiple data series in white, yellow, blue, and red, overlaid on a grid.

Aviva Canada Risk Insights Report – Québec Edition

Analyzing the unique
risks facing Québec
businesses



Welcome to Aviva Canada Risk Insights – Québec Edition

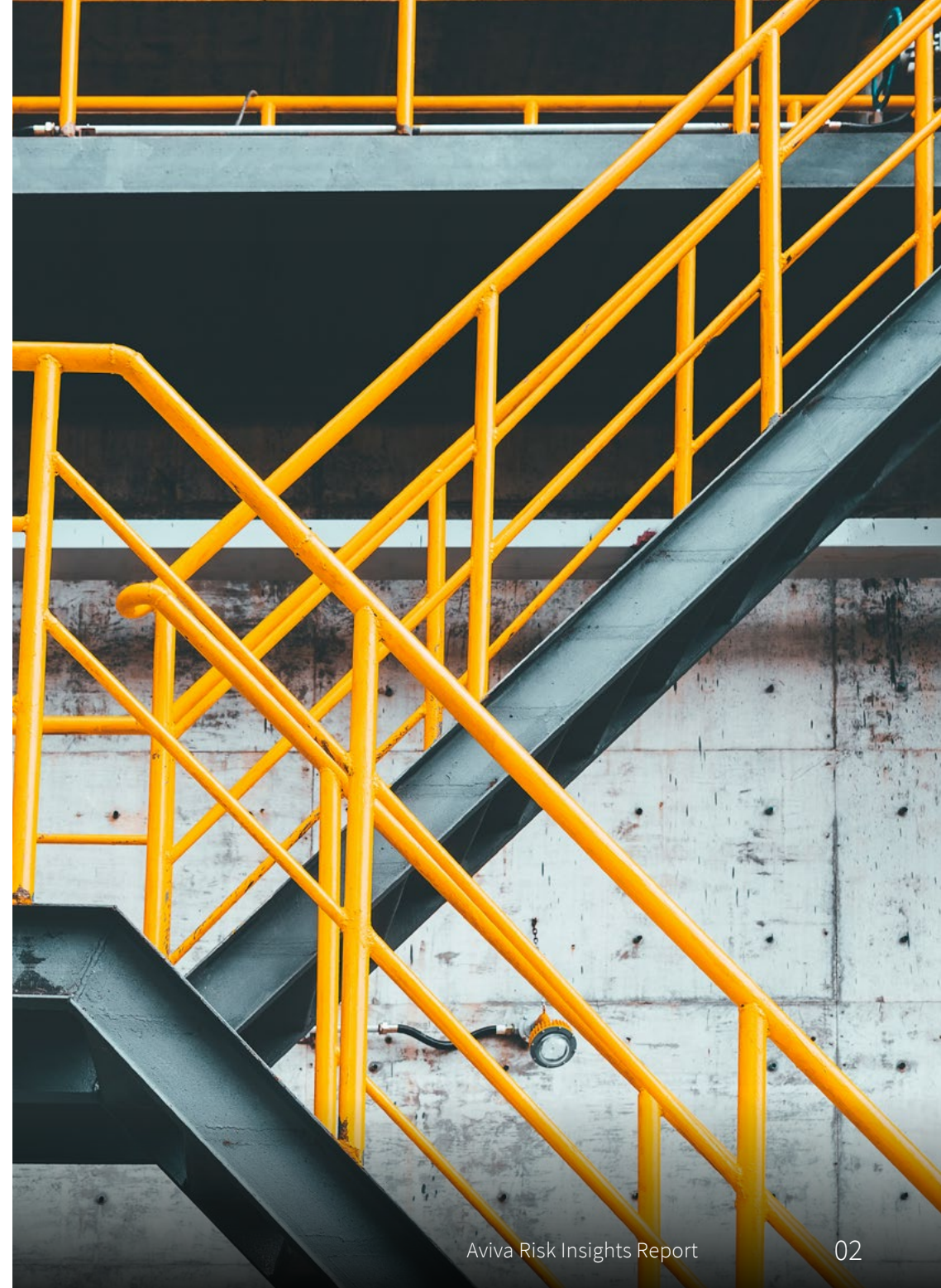
The Aviva Risk Insights Report – Québec Edition offers an in-depth perspective on the current state of risk through the eyes of Québec business owners and decision-makers. It's the first report of its kind to focus on Québec businesses and is part of an annual series of reports Aviva plans to issue to expand on our commitment to helping all businesses make sense of the unique risks they collectively face, and to help them better manage those risks and prepare for the future.

The insights were collected through online interviews and surveys with 300 Québec business leaders representing a range of small and medium-sized enterprises (SMEs) and Québec-headquartered multinational corporations. Québec businesses were divided into five categories spanning micro and small, with annual revenues below \$2.5 million, to large, with annual revenue over \$250 million. These participants were selected from the Québec business population without bias toward any existing relationship with Aviva.

Québec business leaders told us that for them, risks have more unique circumstances than the rest of Canada. Concerns surrounding public health events like COVID-19 are more muted in the province, while environmental risks, natural catastrophes like floods and extreme weather, and environmental, social and governance considerations are front-and-centre in terms of risks for Québec businesses. With that in mind, it's not surprising that Québec respondents consider business interruption the number one risk facing Québec businesses, a stark contrast to the rest of Canada where it sits in fifth place¹.

The insight contained in this report suggests there is enormous resilience among Québécois businesses and their people. Alongside the rest of Canada, Québec businesses have proven adaptable in the face of a global pandemic.

¹ <https://www.aviva.ca/content/dam/aviva-public/ca/pdf/Reports/aviva-canada-risk-insights-report-2022.pdf>



Background and methodology

This research was carried out in partnership with The Logit Group in September 2021 through an online survey of nearly 317 Québec business owners, executive-level managers and key decision-makers across a variety of sectors. The majority of Québec respondents (91%) answered in English. Our goal was to better understand a broad array of views including business risks, regulatory concerns and other challenges from the ongoing pandemic.

Throughout this report, business sizes are reported in five distinct categories based on their annual revenue stream (all figures and values referenced in this report are in Canadian currency):

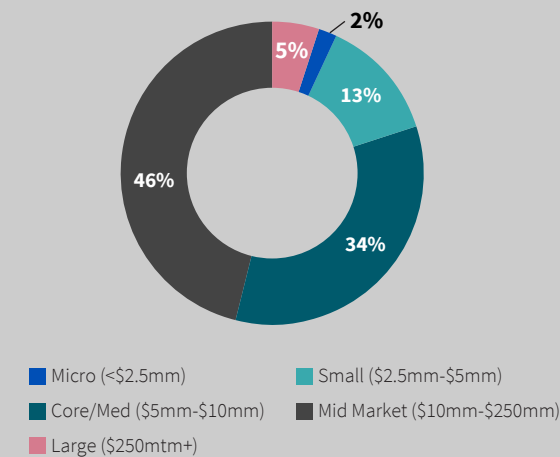
- **Micro Small** – businesses with annual revenues under \$2.5 million.
- **Small** – businesses with annual revenues in the \$2.5 million to \$5 million range.
- **Medium** – businesses with annual revenues in the \$5 million to \$10 million range.
- **Middle Market** – businesses with annual revenues in the \$10 million to \$250 million range.
- **Large** – businesses with annual revenues greater than \$250 million.

Businesses are also grouped into nine industries representing a spread of economic interests.

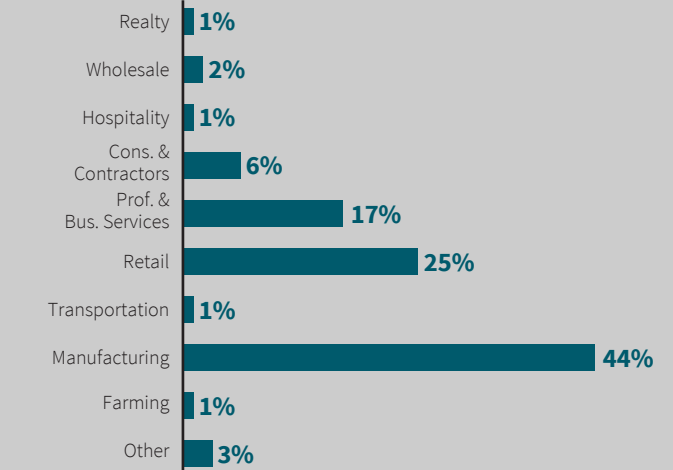
Methodology & Background

A total of 317 interviews were conducted in Québec, with fallout by sector representative of the top sectors in the region. The majority of Québec respondents answered in English (91%).

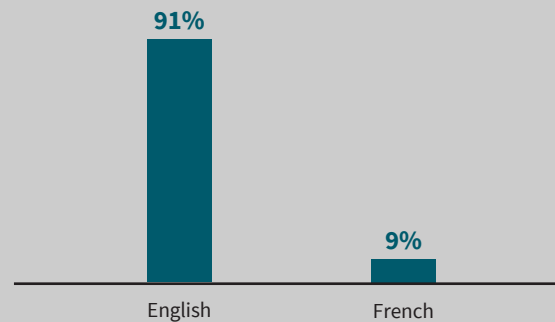
Business revenue



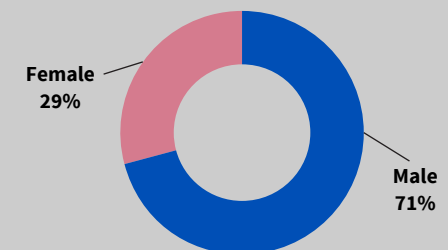
Sector



Language



Gender



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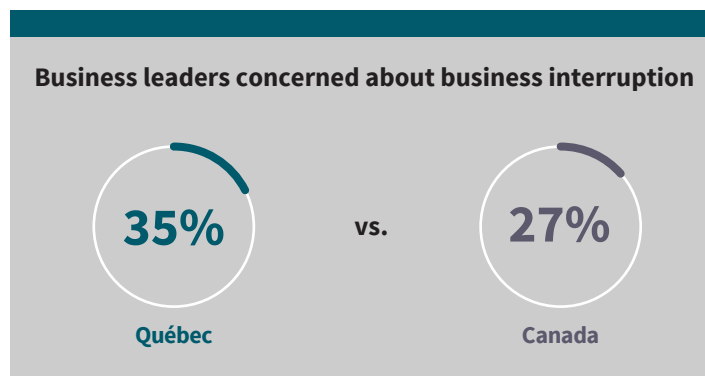
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1. Business interruption is the foremost risk in Québec



COVID-19's disruption has been wide-reaching and long-lasting, crippling supply chains worldwide and catapulting the business world into economic uncertainty. Across Canada, supply chains failed to adapt to the new reality, causing businesses to face severe financial losses and reputational risk. Business disruption and impacts to supply chains have hit particularly hard in Québec where manufacturing is the leading industry and comprises nearly 13% of the gross domestic product¹.

During the first wave of the pandemic, the *Manufacturiers et Exportateurs du Québec* estimated² \$4 billion in sales were lost during the shutdown. It's a loss that lingers. According to the business leaders we spoke with, more than one in three (35%) see business interruption as an imminent threat compared to 27% across Canada. Our data also found that mid-market businesses are more concerned about the risk of supply chain disruptions than other business sizes in the province.



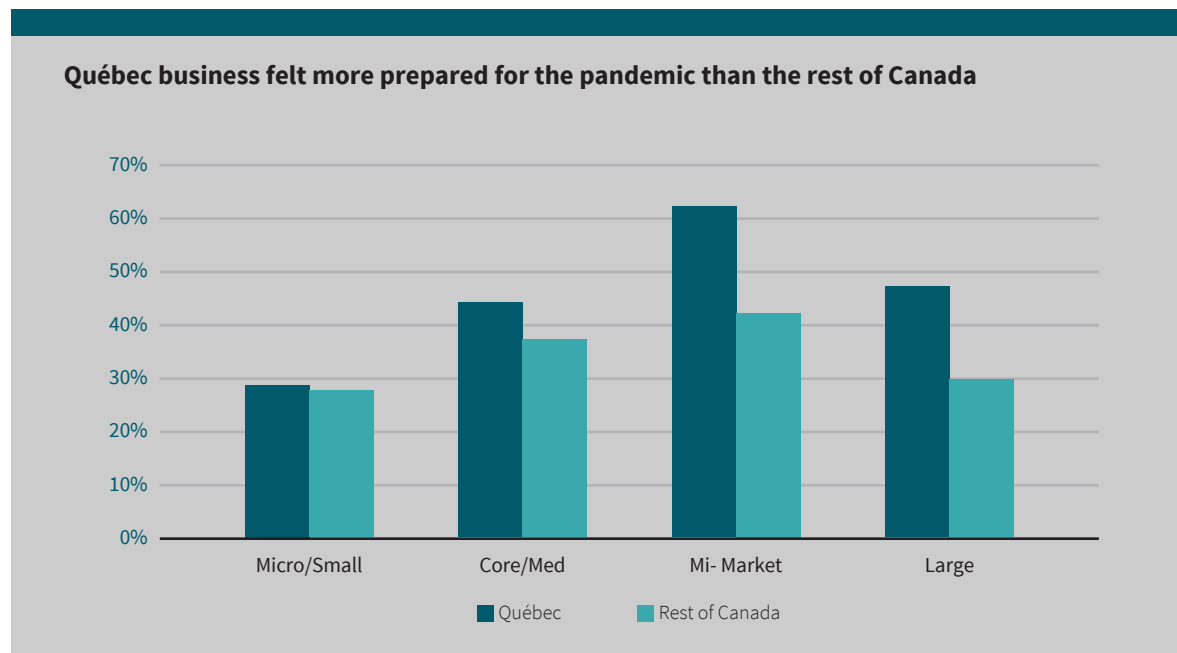
"Québec's manufacturing sector was hit hard by COVID-19, losing billions of dollars during lockdowns and feeling the rippling effects of disrupted supply chains. Our research shows Québec businesses are warier about business interruption risks than their counterparts in other provinces. They recognize there's more to come, be it in the form of further supply chain disruptions, inflation, people challenges or geopolitical events. Going forward, businesses need to continually review and adjust their business contingency plans to manage the risks ahead."

Urs Uhlmann
Managing Director, GCS
Aviva Canada



Preparing for the unexpected

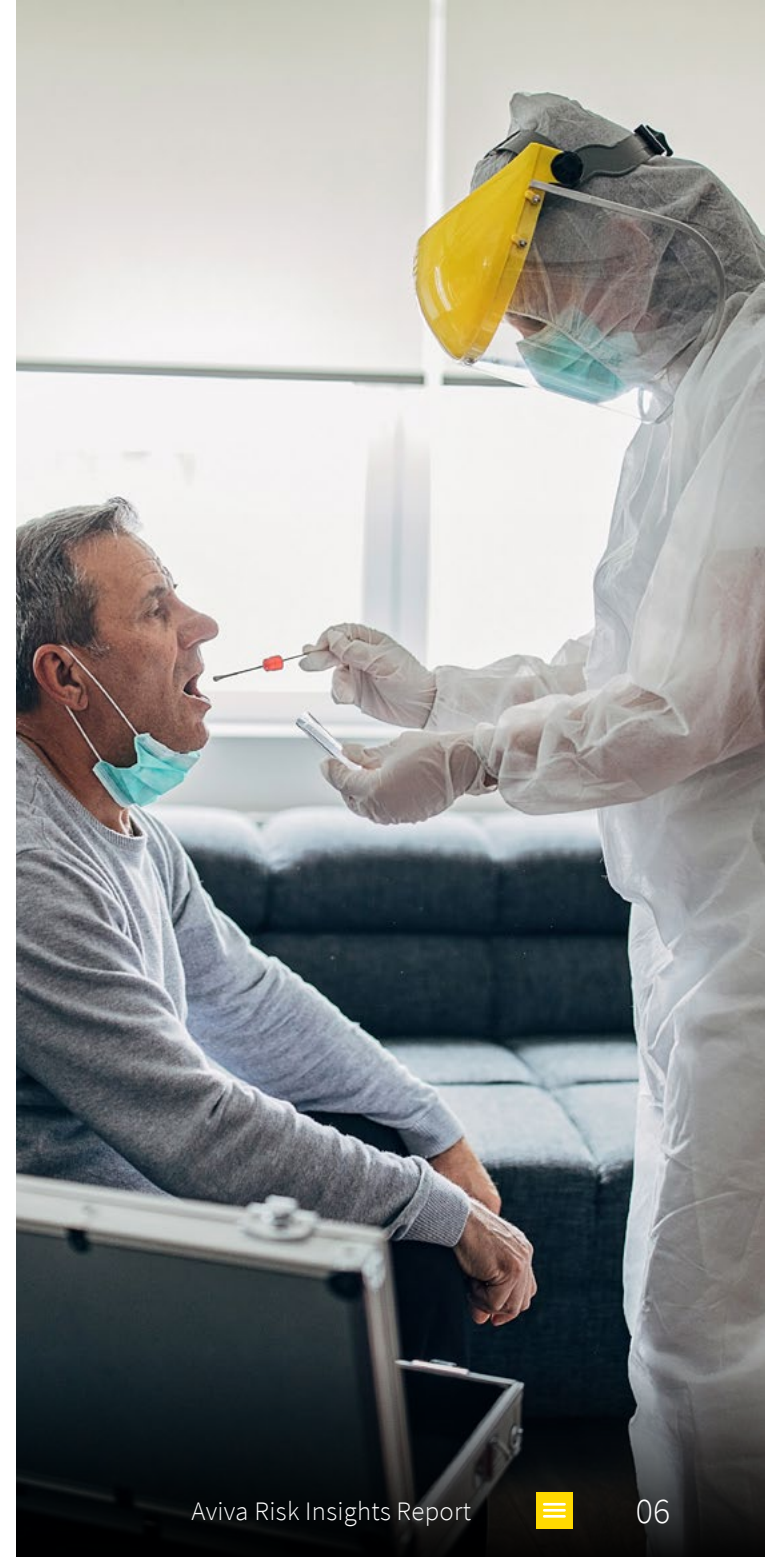
Perhaps that fear of business interruption has instilled a higher sense of preparedness amongst Québec businesses when compared to their counterparts within the rest of Canada. As our research found, Québec businesses feel like their Business Continuity Planning (BCP) stood up well against the restrictions of the pandemic and only a small percentage within each business size segment believe it will require considerable revision.



At least a quarter of Québec businesses say they currently complete a supply chain analysis (rising to 31% of mid-market businesses) and close to a third of all business sizes undertake business impact risk assessments. As businesses look to review supply chains, there is no shortage of emerging risks to consider with a BCP. Climate change and extreme weather events will continue to create immediate risks to business operations and supply chains. While less than a third of Québec respondents (28%) say they're concerned with cyberattacks, the increase and overall severity of these events combined with a growing reliance on technology illustrate the importance of risk mitigation tools which includes securing suitable cyber and other business interruption insurance coverages. It's about more than just being aware of the risks but also having a plan for the worst-case scenarios.

¹ <https://www.statista.com/statistics/607887/gdp-distribution-of-quebec-canada-by-industry>

² <https://canada.autonews.com/suppliers/complete-lockdown-quebec-would-threaten-supply-chain-province-told>

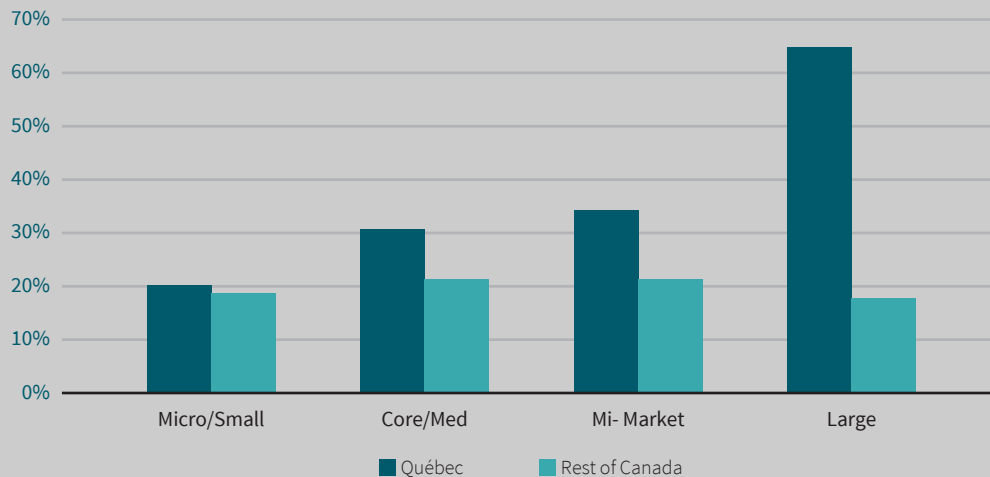


2. Québec is more environmentally-focused

The rich and diverse landscape that inspires Québec's nickname la belle province ('the beautiful province') also exposes it to extreme and hazardous weather, earthquakes and flooding – the ice storm of 1998 which left 150,000 people without electricity for three weeks and caused \$2 billion in damage and the floods that displaced thousands in 2017 and again in 2019 are both emblematic of the region's risk. Unsurprisingly, exposure to natural disasters and environmental risks likely play a role in Québec business owners' and decision-makers' predisposition toward environmental concerns. From the survey responses, environmental risks emerged as the second greatest threat compared to ninth place for the rest of Canada¹.

From a sector perspective, environmental risks are less important to manufacturing (32%), which is more concerned with risks to the health and wellbeing of employees, loss of reputation and brand value. However, four in ten businesses in the retail sector see environmental risks as a key threat to watch. For 65% of large corporations, environmental risks eclipse all other concerns. That sensitivity to the environment influences the actions Québec businesses are taking to mitigate risk.

Québec business leaders more concerned about environmental risks than the rest of Canada

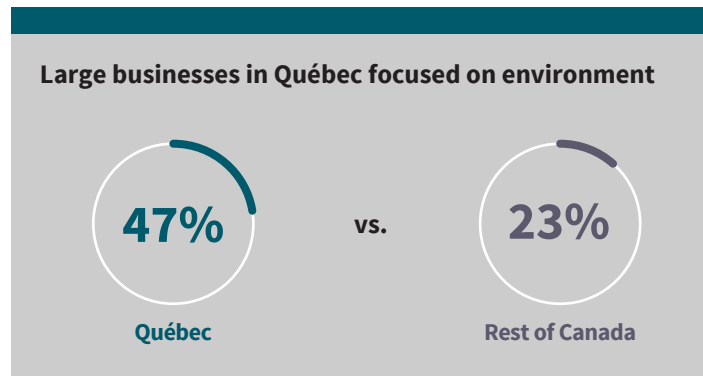




Environmentally-minded

According to flood research group, *Réseau Inondations intersectoriel du Québec*, 80% of Québec municipalities are prone to flooding¹. Our interviews with respondents showed recognition of that risk, with Québec businesses much more likely to undertake flood and other natural catastrophe emergency response plans than the rest of Canada. That sentiment was especially strong amongst the medium and mid-market category where businesses were twice as likely to undertake this type of preparation than their peers across the country.

In addition to preparing for environmental risks, Québec businesses were also more likely to think about their own carbon and social footprint. According to our findings, Québec respondents are more likely to believe environmental, social and governance (ESG) considerations are extremely important, especially for large businesses. Almost half (47%) cite environmental factors like using sustainable materials and minimizing waste as very important versus 23% of large businesses across Canada. Four in ten medium-sized businesses say social factors like workforce diversity, gender pay gap, human rights and animal welfare, and ethical corporate governance factors like improving employee relations and avoiding excessive executive pay are extremely important.



Going forward, the majority of Québec businesses say ESG is growing in importance and nearly four in ten see responsible sourcing as extremely important.

¹ <https://www.aviva.ca/content/dam/aviva-public/ca/pdf/Reports/aviva-canada-risk-insights-report-2022.pdf>

² <https://www.cbc.ca/news/canada/montreal/flooding-quebec-prepare-1.4963293>



"Québec businesses are particularly sensitive to environmental risks, identifying the importance of environmental, social and governance-led decision-making and offsetting their own carbon footprint. As climate change continues to amplify other risks like disrupted supply chains and economic volatility, their environmentally and socially charged approach will ensure they're well-positioned for the risks ahead."

Fred Shurbaji

Managing Director, SME, Aviva Canada



3. Risk management is a financial hurdle

Next to business interruption and environmental risks, one-third of the Québec business leaders we spoke with told us market development and the health and wellbeing of employees were key exposures. Collectively, these risks feed off each other. Broken supply chains can stunt new market growth. Environmental risks have a habit of influencing the health and wellbeing of employees. And all of this takes place against the backdrop of fatigue fueled by the pandemic. The world feels volatile.

Are Québec businesses proactive? As the data showed, they felt well protected by their BCP. Three in four medium and mid-market businesses in Québec say they will increase risk management activities in the next few years, consistent with the rest of Canada.

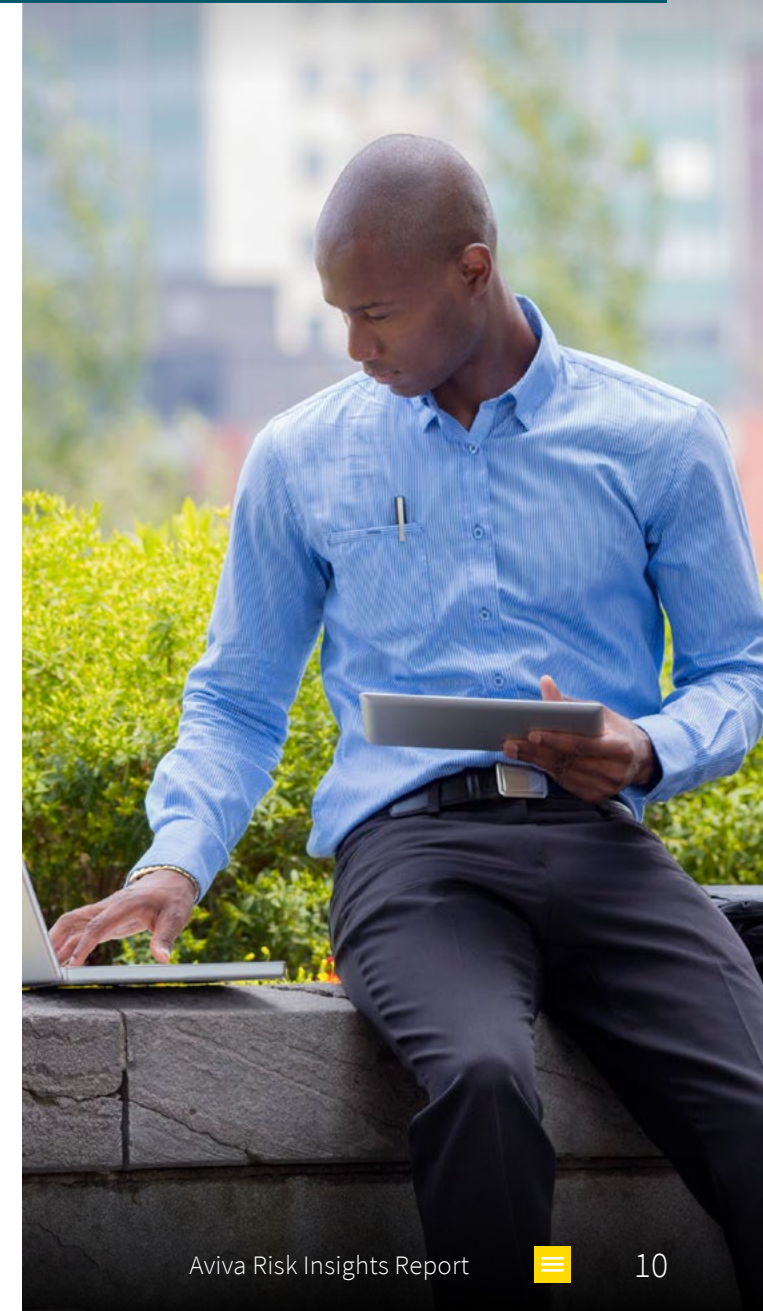
Despite the understanding of risk, preparing for the unexpected will be both a financial and logistical hurdle. According to respondents, budgetary issues and lack of expertise will prevent Québec businesses from implementing more risk prevention protocols.

Budgetary issues and lack of expertise will prevent Québec businesses from implementing more risk prevention protocols.

Lack of buy-in from senior leadership is also a concern. Further to that, over a third of medium (43%) and mid-market (39%) businesses in Québec say they are considerably less likely to purchase more insurance due to limited budgets compared to the rest of Canada.

However, where Québec and the rest of Canada align is a lack of urgency surrounding risk management. Only 17% of businesses place risk management as a key business priority (same as Canada results overall) with Québec businesses focusing on growth and investment in IT, alongside internal retention and customer acquisition.

It's a recovery mindset and for a province that saw manufacturing, the prized industry of its GDP, grapple with health and safety regulations, supply chain shortages and the overall erosion of employee mental health, it makes sense – recovery is resilience.





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“COVID-19 has stress-tested Québec businesses' approach to risk management and Business Continuity Planning and many of the businesses we've spoken with emerged resilient. The next five years will see them increase their focus on risk management activities. However, the hurdle ahead won't be the risks themselves so much as aligning their budgets and sourcing the right expertise to ensure the safety and longevity of the business.”

Susan Penwarden

Chief Technical Underwriter, Aviva Canada

Conclusion



It's hard to imagine a period in living history with a greater impact on our perception of risk than the past 20 months. Like the rest of Canada, Québec businesses struggled to keep their doors open amidst lockdowns and increased health and safety protocols. They lost countless furloughed employees to other sectors and watched their supply chains tested to the point of breaking.

And yet, despite the greatest disruption businesses have experienced in decades, they moved onwards just like they have through some of the worst natural catastrophes in Canadian history. They've adapted; they're more aware of the risks surrounding them. Their BCPs have helped them withstand the worst and they're focused on making changes that will impact the environment and social good. The insight in this report makes that clear.

COVID-19 has fundamentally challenged how businesses assess, manage and mitigate risk. However, they're meeting those challenges head-on and with clarity. At Aviva Canada, we strive to add to that clarity and help businesses prepare for the unknown. This report is part of that commitment.

Contact us

We hope this report has helped you understand and consider some of the risks to your business in 2022 and into the future. For more guidance on key risks, you can visit the Aviva Business blog, contact your insurance broker or speak with our in-house team of risk management experts.

Visit the Aviva Risk Management Solutions website at aviva.ca/risksolutions

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About Aviva Canada

Aviva Canada is one of the leading property and casualty insurance groups in the country, providing home, automobile, lifestyle and business insurance to 2.4 million customers. A subsidiary of UK-based Aviva plc, Aviva Canada has more than 4,000 employees focused on creating a bright and sustainable future for our people, our customers, our communities and our planet. Launched in 2019, Aviva Canada is investing in safer communities through Aviva Take Back Our Roads, which uses data driven solutions and strategic collaborations to make safer roads a reality for all. In 2021, we announced our plan to become a net zero carbon emissions company by 2040, the most demanding target of any major insurance company in the world.

For more information, visit [aviva.ca](https://www.aviva.ca).

