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[London, 5th January 2009]

QBE survey finds UK small and medium companies have so far weathered the economic storm successfully – but South and East suffers most

- **60% of small and medium enterprises maintained or increased sales in 2008**
- **57% expect to achieve the same result in the coming year**
- **53% say these are the most challenging conditions they have experienced**

Overall sales 2008 and outlook 2009

Despite the continued economic turbulence, British SMEs remain optimistic about their prospects in 2009. With 60% maintaining or increasing their sales turnover during 2008 and a majority, 57%, expecting to achieve the same in 2009.

The QBE Business Sentiment Survey

QBE, one of the UK's largest insurers of business risks, undertook the survey of SMEs in the United Kingdom during November 2008. The data which were gathered and analysed by independent survey company, The Survey Shop, identified a mixed picture of caution in the SME sector, but positive approaches for addressing the difficulties.

Regional divisions emerge

Regionally, a clear divide is opening up across the country. Businesses in Eastern and Southern England (inc London) found conditions in 2008 more challenging than most other regions, although, a majority, 55%, managed to maintain or increase sales. Looking forward, however, the region becomes more pessimistic with less than half, 48%, of respondents expecting to achieve the same sales figures in 2009. This compares to 57% of SMEs nationally that expect the same or better in 2009.

The divide is further emphasised by the optimism expressed by 68% of respondents in Yorkshire and the North East that they will grow or at least sustain sales turnover in 2009.



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The uneven spread in fortunes, does not, however, equate to a simple North/South divide as only 37% of respondents in the South West felt these were the toughest economic conditions they had faced. In sharp contrast to their colleagues in Southern and Eastern England (inc London) where nearly two thirds, 63%, felt this was the most challenging financial environment they had ever transacted business in. Nationally the figure was 53%.

Leisure, retail and construction sectors feel pain first – others expect to follow

2008, was a challenging year for those in the leisure/catering industry and in retailing, with 56% and 48% respectively seeing sales turnover fall during the year, compared to 40% of the wider economy. Into 2009, there is growing pessimism from the building and construction and financial services industries, with nearly half of the respondents from both expecting sales turnover to drop in 2009. The leisure and catering industry maintained its downbeat mood with 46% expecting falls in 2009, while there may be some cause for optimism in the retail sector with only 39% expecting reduced turnover in 2009.

Responses to the economic problems ranged across sectors. On employment, it seems many have taken painful decisions during 2008, with one in five, 20%, cutting staff, but only 14% expecting to have to repeat this in 2009. Some 32% of building and construction sector respondents made staff cuts during 2008, which may hopefully reduce their need to cut further in 2009, as only 18% currently expect to have to do so.

Across all sectors of the economy, 53% of SME's think these are the most challenging business conditions they have experienced. However, this rises to two thirds of respondents in the building and construction sector and 64% in retailing. Perhaps highlighting the immediate pressure that recent months have put on consumer spending and house prices. Surprisingly, only 47% of respondents in the financial services sector felt these were the most challenging conditions they had faced. Either underlining that the initial sector impact has fallen most heavily on the City of London, or that they have long memories back to the Wall Street Crash.



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Professional advice to become more important in 2009

In response to the many challenges businesses now face, many are planning to increase their use of professional advisors during 2009. With 52% of SMEs expecting to seek business advice from accountants in 2009, a substantial increase from the 28% that did so in 2008. Significantly larger numbers, 32%, are planning to turn to their insurers or insurance brokers for advice during 2009, up from 16% in 2008.

Terry Whittaker, Managing Director of UK National, QBE European Operations commented: "SMEs in the UK are currently under a considerable amount of pressure because of the downturn, yet it is encouraging that they have achieved a positive performance with the majority stabilising, or increasing sales turnover during 2008. The conditions in 2009 are likely to be even more challenging, and to impact individual regions and sectors differently, but with the right measures in place, businesses should not only survive but succeed come the upturn."

Extracts from the survey can be found at:

<http://www.qbeeurope.com/businesssentimentsurveynational.pdf>

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Notes to editors

About the QBE Business Sentiment Survey

Data were collected by The Survey Shop between 13th - 26th November 2008. A total of 410 interviews were conducted by telephone using quota sampling. Respondents were qualified as owners, managers and decision-makers, and the data are representative of UK SMEs.

QBE across the UK

Under the leadership of Managing Director, Terry Whittaker, QBE operates seven UK regional underwriting centres – Birmingham, Bristol, Chelmsford, Glasgow, Leeds Manchester, Stafford. Each centre offers market leading products across the full spectrum of property, casualty, professional indemnity, trade credit, and motor insurance on both a combined and a standalone basis.

QBE in Europe

QBE's European Operations, which accounts for almost 40% of QBE Group turnover, is a leading specialist in London market and European commercial lines business. Active in both the Lloyd's and company market, QBE offers considerable diversity to the broking community. Structured around eight product-focused underwriting divisions - casualty, QBE Re Europe, property, motor, marine & energy, specialty, aviation - all of our operations have the ability to write on both Lloyd's and company market paper. The group also includes P&I specialist, British Marine. In addition to the London Market, QBE operates from seven UK-regional centres and has a presence in 15 European countries.

QBE Globally

QBE Insurance Group is. Standard & Poor's 'A+' rated and is one of the world's leading international insurers and reinsurers, headquartered in Sydney, Australia. We operate out of 45 countries across the globe, with a presence in all key insurance markets and are lead underwriters within our chosen markets, setting rates and conditions. For the year ended 31 December 2007, the company underwrote gross written premium totaling £5,188 million and held shareholders' funds of £3,746 million.