

SMEs find themselves under-insured in a time of need

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The 2001 and 2004 ABS small business survey estimated just under 200,000 uninsured small businesses were operating in Australia. And these figures do not take into account that businesses that were under-insured or not appropriately insured. Cameron Research 2004 stated that of these businesses:

14% did not have fire insurance
67% did not have businesses interruption insurance, and
21% did not have burglary insurance.

With around 75% of SMEs insured through an insurance intermediary, it is perhaps in the direct commercial insurance offering where there is a lack of take-up and under-insurance. Insurance brokers provide advice to their customer. They understand where the best markets are for different business types – and they do this by balancing the extent of cover, quality of insurer and price. Alternatively, small business operators can be time poor and margin conscious. Insurance is seen as an expense item that can be traded off.

Taking the above figures into consideration, it is therefore not surprising that approximately 70% of small businesses affected by major loss do not recover. This is of some concern, as small business employ in excess of 2.5 million people and represent 28% of GDP in Australia (ICA, 2002).

Anecdotal evidence also indicates a greater incidence of non-insurance and under insurance among sole traders/microbusinesses. One reason for this could be the mistaken belief that, because they operate from home (two out of three microbusinesses), their domestic insurance covers their business activities. Another reason may be that small sole traders may not see it important to insure their businesses as they may have little value.

Therefore it's easy to see that 43% of microbusinesses that suffered an unforeseen disaster were either not insured or not adequately covered. Due to this one third found themselves almost on the brink of closure or seriously affected by the event.

Over the past few years there have been several campaigns (eg. the ICA and ASIC) to educate SMEs on being appropriately insured. Most of these have been relatively unsuccessful. The campaigns by the insurance industry has had little impact on insurance levels of SME businesses across Australia and has failed in attempts to have government tax on business insurance reduced.

Cost as the most common reason for under-insurance

The most common driver to under-insurance is the perceived high cost of premiums. Whether the "unaffordability" is real or perceived, this has been stated in many surveys as the most common reason as to why SMEs under-insure.

But the myth surrounding the high cost of premiums for appropriate insurance cover is quashed when small business spending on insurance represents less than 1% of their total expenses (source ABS stats - cited in ICA report 2002).

There are several other facts that also influence the purchasing decision. It could be an inability on the part of the insured to fully understand the policy document, or it may be the possible failure by lending authorities to properly advise their clients on a proper insurance program.

It may also just be apathy.

Small businesses in attempting to contain costs resist suggestions by their broker that their insurance is inadequate. This was due to the fact that they were skeptical that they were being "sold" insurance they didn't need. This highlights the fact that SMEs need to have further education on the right types of SME insurance.

A national survey of 1200 consumers found that 87% believed it was the policyholders responsibility to decide on their level of insurance while 7% nominated the insurer, and 5% a professional valuer.

While the belief is that the policyholders are responsible for deciding their levels of insurance, most policyholders are unaware of their own insurance needs. That's why it's up to insurance companies and brokers to help educate their customers and provide them with the right level of insurance so they are covered when they need it the most.

Editor's note

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Vero is one of Australia's largest intermediated general insurance companies and has 19 branches across Australia, providing a suite of quality specialised and risk management products and services through brokers, corporate partners and risk managers.

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