



SME INSURANCE INDEX 2012





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Introduction

Every day we hear new twists and turns in the narrative that describes the global economy. The effects of the global financial crisis continue to shift the way we view the state of the economy and even our collective approach to business in general.

While Australia has been spared the worst of these difficulties, a number of unusual events have seen the media depict a general state of economic unrest. These include: the strength of the Australian dollar and confusion around mining and carbon taxation. Business confidence has also been dramatically affected, with the more typical local economic indicators of inflation, unemployment, interest rates and retail spending overshadowed by US 'quantitative easing' and European debt crisis reports. As a result, many SME business owners are particularly cautious and tentative, adopting a 'wait and see' approach to factors that are outside their control.

In addition to this, the world has seen a string of natural disasters – floods, earthquakes, cyclones and volcanoes to name a few. Some have been tragically close to home and the interconnected nature of our planet means that even those far away still affect us. All of the above must and does have a huge impact on insurance and on the attitudes of those who buy insurance. These dramatic events have compounded a number of ongoing shifts already occurring in the local insurance marketplace – shifts driven by changing technology, more informed consumers and an increased focus on seeking out the best deal in cost constrained times.

The tumultuous nature of the marketplace spurred Vero to commission a program of research that focuses on the insurance behaviour and attitudes of **small to medium enterprises (SMEs)** in Australia. This report outlines the findings of that research and paints a definitive picture of how Australian organisations employing between one and 200 individuals make decisions about insurance and, crucially, how they will react in the future.

These findings are the result of a comprehensive program of market research that includes in-depth discussions with SME decision makers, insurance industry experts, brokers, as well as 600 phone interviews with business owners and insurance decision makers around the country.

The report highlights:

- ▼ Business performance and confidence for the coming year.
- ▼ The way SMEs buy insurance, particularly the channel they use – broker or direct from insurer – and the reasons for that choice.
- ▼ Frequency of changing insurance arrangements and the reasons for the change.
- ▼ Attitudes of SMEs to buying insurance and to the industry in general.
- ▼ Customer price sensitivity and their expectation of changes in insurance pricing.

The results confirm and in some cases challenge some widely held views on the industry. The end result is a picture of the industry that both highlights the excellent job insurers and brokers do, and presents a set of challenges that will enable the industry to improve further.

We believe the insights in this report are of interest to everyone who seeks to understand commercial insurance in Australia – whether they are businesses seeking insurance, brokers who serve those businesses or others in the industry. By understanding how SMEs approach insurance, the industry will be better placed to face the challenges ahead.

Executive summary

The findings from this research highlight both challenges and opportunities for the commercial insurance industry in 2012.

As 2011 draws to a close SME business confidence remains shaky, but some optimism in the market is resurfacing as Australian businesses put the past years' natural disasters behind them. They have not been forgotten however, their impact has left SMEs more wary of the insurance industry.

As a result, most SMEs expect their insurance prices to rise over the coming year. Almost a third expect this price rise to be significant and for it to have a considerable impact on their businesses. An increase in price would result in a significant amount of market upheaval with almost half of the businesses saying they would shop around and many saying they would reduce their coverage.

This highlights the need for the insurance industry to enhance the inherent value in its offering. This means going beyond pricing – a challenge for the industry as policy wordings become consistent in some cases and the industry's players, including brokers, struggle to define the actual differentiation in a way that can be understood by SME clients.

The net result is that SMEs have mixed feelings on whether they get value for money from their commercial insurance, with smaller SMEs feeling particularly unsure.

Pricing has historically been seen as a key driver in the insurance sector and so it's no surprise to report price as the main reason SMEs change their insurance arrangements – both with insurers and brokers. However, what was unexpected was the willingness of SMEs to pay more for better service. Taken together, these results suggest insurers and brokers are failing to differentiate themselves with demonstrably better service or product offerings, leaving SMEs with little choice but to shop on price alone. Take into account the current economic context and the challenge to move beyond (lowest) price gets even harder.

As much as 65% of respondents buy their main insurance policy for their business through a broker. However, the relationship between brokers and their SME clients is complex. Trust in the broker's expertise is tempered by the desire for control over a fundamental business decision. This in turn is hampered by an overriding sense of confusion and disinterest – despite the importance of the decision.

Those who do not use a broker struggle to see how they add value and frequently see them as little more than 'middlemen' as opposed to trusted advisors. They also tend to believe they would pay more through a broker, with around a third thinking a broker would increase the cost of their insurance by 10% or more. This becomes concerning when you consider this perspective is strongest among younger SME decision makers who hold this view (47%) given their growing importance to the intermediated channel over time.

The insurance industry faces a number of significant shifts in coming years. These changes will force both insurers and brokers to examine their offer and focus on their clients' needs.

Views on brokers and insurance in general are undergoing a significant shift, with those aged under 50 (around half of respondents) being significantly less trusting of the industry, more price sensitive, and seeing brokers as less differentiated.

Overall, the research in this report paints a picture of an industry which can expect some turmoil in the immediate future and shifts in perception in the longer term. On the positive side, the industry is generally performing well and working hard to prepare itself to meet the challenges it faces.

The research

This report is underpinned by research involving more than 600 businesses from around Australia. The research was conducted in three stages:

Stage one involved a set of seven in-depth interviews with industry experts, some who work inside Vero as well as external industry commentators such as journalists for insurance publications. This stage aimed to understand the issues and dynamics facing the industry at a macro and trend level and to define a general approach to interrogating these issues within the research.

Stage two comprised an additional nine in-depth interviews – this time with insurance brokers and a diverse range of SME decision makers. These free-flowing interviews aimed to uncover the range of behaviours, attitudes and concerns facing those in the industry and business. This allowed a range of hypotheses to be formed which could then be tested through quantitative research.

Stage three of the research was a nationwide survey of 600 business owners and insurance decision makers that covered a range of business types, locations and sizes. These interviews were conducted in September 2011 and the data weighted by state and organisational size to current data from the Australian Bureau of Statistics (ABS). The results allowed us to quantify the earlier hypotheses – proving some, disproving others and giving us a robust understanding of the commercial insurance market in Australia.

Respondents for the quantitative survey were screened to ensure they were responsible for making insurance decisions at their business. Quotas around state and business size ensured representative samples were obtained.

Businesses were divided into three sizes, following ABS standards:

Micro – businesses which employ 1-4 individuals.

Small – businesses which employ 5-19 individuals.

Medium – businesses which employ 20-200 individuals.

Representative samples of each group were included in the research, and overall results were weighted to ABS statistics to ensure an accurate representation of Australian businesses.

Questions during the research were broadly grouped into:

- ▼ General business sentiment.
- ▼ Current insurance behaviour.
- ▼ Previous insurance behaviour – including what they may have changed and why.
- ▼ Attitudes to insurance and brokers.
- ▼ Expectation and impact of price changes.
- ▼ Demographics and background of the respondent.

Business and insurance insights

In conducting this research, it was important to understand the performance of SME businesses overall and go beyond what SMEs are currently doing to understand what drives their attitudes and how their needs are changing.

What emerged was a relatively stable market that can expect significant shifts in the near future.

INSIGHT 01

Amid mixed results in the past year, business confidence is growing slowly.

The sentiment isn't great with everyone we deal with, but we're still growing. Our business is changing – and we're having to adapt.

– Automotive repair SME

Business confidence is laden with hope and is generally mixed. There is an overall trend towards optimism, with 38% of Australian businesses more confident about business in the coming year. However, most are still quite unsettled, with 55% remaining the same or feeling less confident.

The trend towards confidence is led by micro businesses, with small businesses comparatively less confident and medium businesses more likely to expect business to hold steady.

When it came to considering current turnover, results were mixed but generally stable: 34% of businesses reported a turnover about the same as last year, 30% had an increase in turnover in the last 12 months and 32% reported a decrease.

Interestingly, micro and small businesses were less likely to have grown in turnover and yet felt as confident about their prospects for

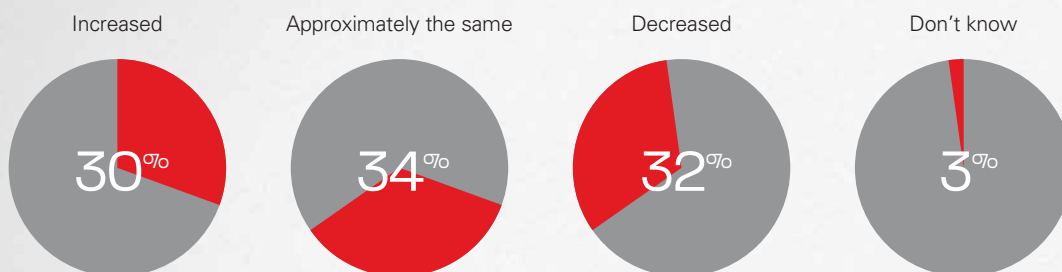
the coming year. Perhaps this is due to their ability to manage costs and adapt to opportunities changing markets present, based on their small size. In contrast, medium businesses (the largest business size included in this study) tended to feel business would be stable in the coming year, despite the fact they were significantly more likely to have grown in turnover.

The apparent contradiction of differences in business performance not leading to differences in business confidence underlines the turbulence and confusion the current economic climate has brought to Australia. It shows while there are opportunities to grow, business decision makers are not sure they can use past results to predict future success.

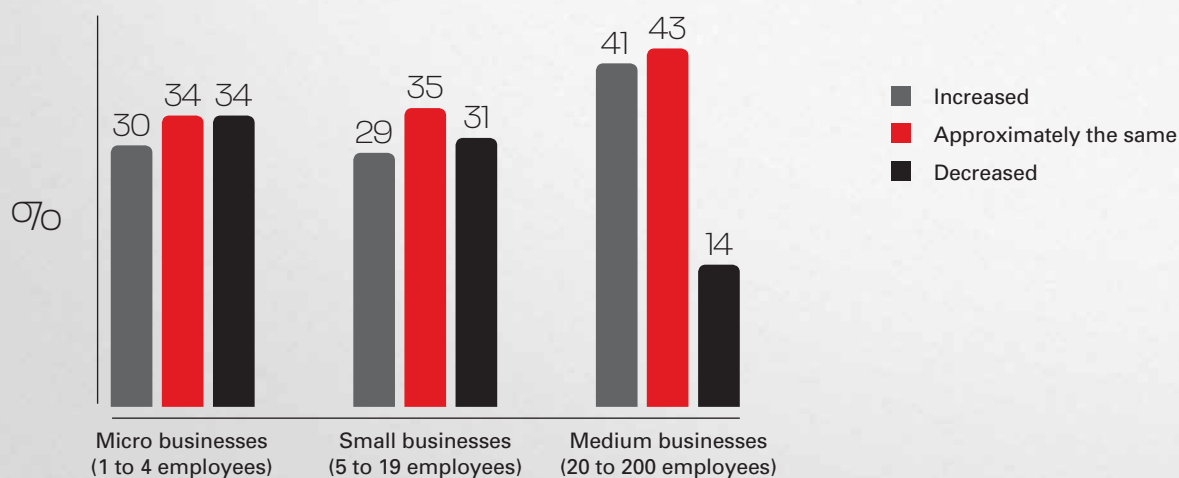
In this tentative business climate, it is essential for all in the insurance sector to highlight the reassurance, the certainty and the peace of mind that appropriate insurance coverage brings.

SME BUSINESS TURNOVER AND CONFIDENCE

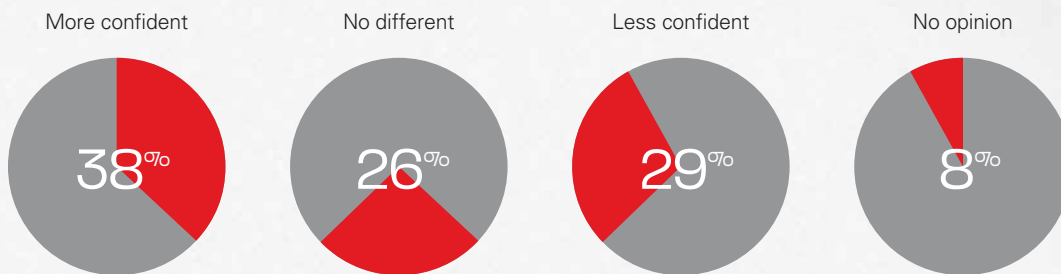
BUSINESS TURNOVER IN THE LAST YEAR



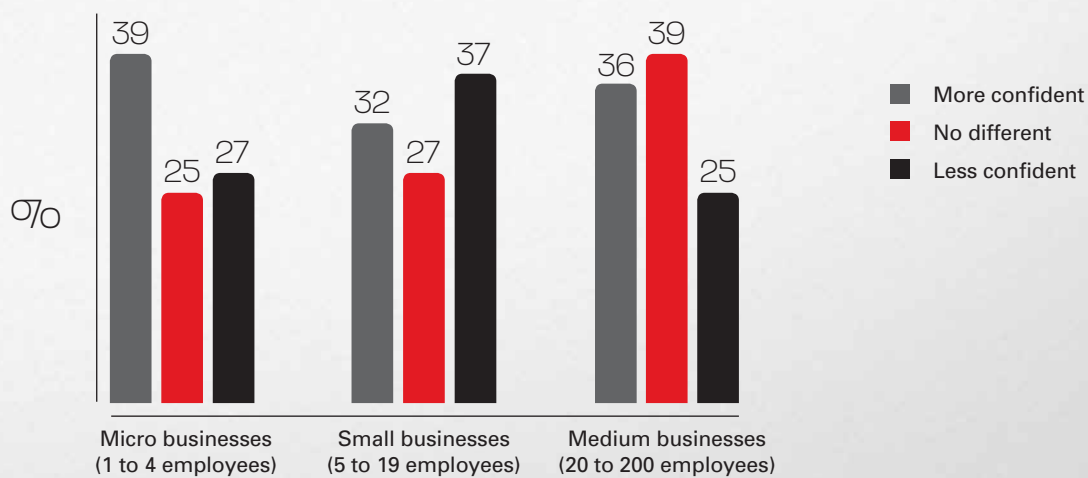
BUSINESS TURNOVER BY SME SIZE



BUSINESS CONFIDENCE FOR THE COMING YEAR



BUSINESS CONFIDENCE BY SME SIZE



INSIGHT 02

Despite perceptions of the insurance industry being shaken by recent events, the vast majority of SMEs are happy with their insurance.

You heard stories from the floods that happened in Brisbane and in Victoria, about people who thought they were covered and you wonder if you'd be OK if it happened to you.

— Hospitality SME

The past 12 months have seen a number of natural disasters in Australia and around the world. These have generated significant media attention – not just on the tragic events themselves, but on the response of the insurance industry in their aftermath. Questions were raised about whether insurers and brokers were offering appropriate information, adequate coverage and whether they were responding to claims in a fair, timely and equitable manner.

Despite these recent issues, most SMEs are overwhelmingly satisfied with their current insurance arrangements. 89% of respondents are happy with their current insurance arrangements, with the majority of them strongly agreeing with the statement. These results were remarkably consistent across business size, industry and approach to broking.

That said, on average, half of SME decision makers have been made more wary of the insurance industry by recent events.

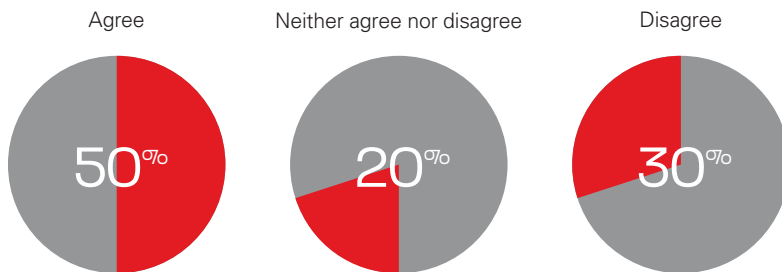
These events also prompted 29% of people to reassess the level of cover they have.

The combination of individual satisfaction and wariness suggests while recent adverse events and media scrutiny have unsettled many SMEs, they don't view their specific situation as being 'broken' – just in need of some 'maintenance'. To overcome this, it is important for both insurers and brokers to ensure their clients are confident and certain in their insurance coverage – knowing what they need covered, how those risks are managed and what the process will be should something go wrong.

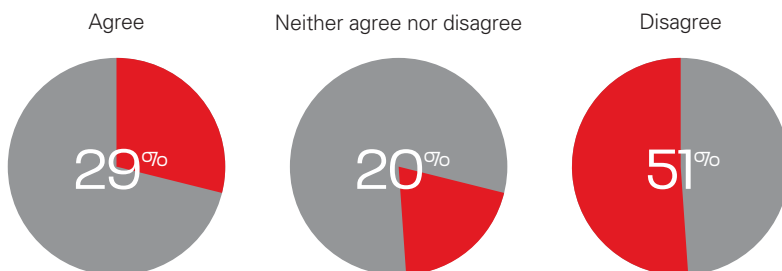
89%

of SMEs are happy with their
current insurance arrangements

RECENT EVENTS HAVE MADE ME MORE
WARY OF THE INSURANCE INDUSTRY



RECENT EVENTS HAVE MADE ME
QUESTION THE COVER I HAVE



INSIGHT 03

These events result in SMEs expecting a price rise. However, if it comes, the repercussions on the industry will be far reaching.

Every year prices go up. You hope that they won't, but realise they probably will, especially given how things have been this year.

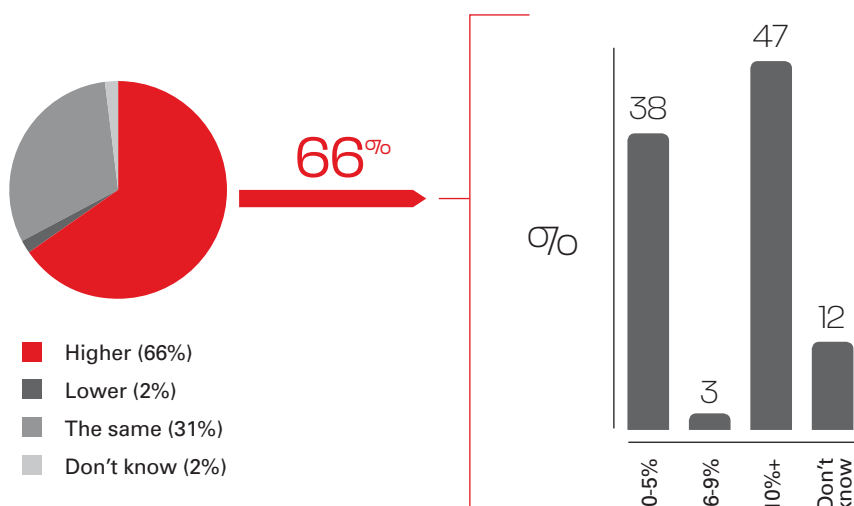
– Wholesaling SME

Despite the price sensitivity of the insurance market (see page 14), SMEs view price rises in commercial insurance as inevitable.

When you take into account the substantial media coverage of recent catastrophic events, it's not surprising two-thirds of SME decision makers (66%) are expecting the cost of their insurance to rise when they next renew their policies.

Of those expecting a price rise, almost half (47%) expect it to be fairly sizeable – an increase of 10% or more. However, if the price rise were to occur, it would significantly impact their business. There is more detail relating to this insight in *Appendix – Additional Findings 01* (page 27).

EXPECTED PRICE CHANGE IN INSURANCE



INSIGHT 04

In the face of market turbulence, moving insurance beyond a 'grudge purchase' is an ongoing challenge for the industry.

Maintaining quality, sustained relationships during periods of market turbulence is essential. To do this, those in the industry need to provide and remind clients of the benefits of having appropriate insurance coverage by demonstrating good value for the premium paid. While this is hardly ground-breaking, it remains a challenge for the industry with SMEs reporting mixed feelings on whether they're getting value for money. 40% of SMEs felt they were not getting value for money for their insurance, while 33% felt they were and 27% weren't sure or had no opinion. To improve these numbers, the insurance industry as a whole needs to focus on the perceptions as well as the realities of the value they provide to their clients.

Further analysis highlights two main factors influencing the likelihood of clients feeling they are getting value for money from their insurance:

SME size

Larger companies were more likely to feel they were getting value for money. We expect this is due to a number of factors, including service levels corresponding with premium value, along with compliance requirements demanding they have appropriate and consistent risk mitigation strategies in place.

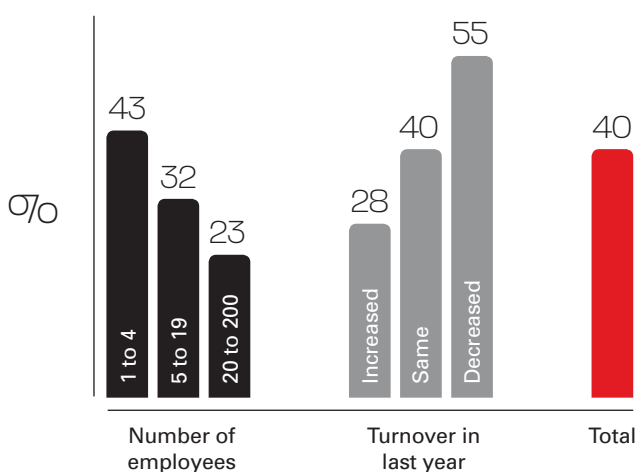
Changes in turnover

In the face of flat or decreasing turnover, business owners are now, more than ever, acutely aware of all their expenses. Although they

understand the need for insurance, they struggle to feel they are getting value for money from their insurance as their turnover drops.

Demonstrating value is something many clients are looking for from their commercial insurance and was a theme that came up frequently in the qualitative research discussions. Consumers have come to expect a variety of value-added bonuses from the personal and health insurance markets. These are yet to move in to the more conservative commercial insurance market. Instead, many insurers and brokers have frequently resorted to focusing on lower premiums to prove their value and grow their client base.

PERCENT THAT AGREE WITH THE STATEMENT
'I HAVE TO BE INSURED, BUT I DON'T GET VALUE FOR MONEY OUT OF IT'



INSIGHT 05

While SMEs say they are willing to pay a premium for better service, in the absence of this, pricing still drives buyer behaviour.

The disconnect between clients' claims of seeking premium service and their behaviour of buying based on price suggests they aren't being presented with the differentiated offers they seek.

SME decision makers claim to be looking for quality in their insurance, as opposed to an exclusive focus on price. The vast majority (68%) said they were willing to pay more for better service, while less than four out of 10 SME decision makers thought price was the biggest factor in making insurance decisions. A similar proportion of SMEs only buy the minimum cover they need.

Those in charge of insurance for medium businesses tended to be significantly less price sensitive than their counterparts at small or micro businesses, with only 23% of medium business viewing price as their key driver in buying insurance. Yet, when asked why SMEs had changed insurer, by far the most common reason given was pricing. Of the 44% of SMEs that reported a change in insurer in the past five years, 38% said pricing was the main factor in their decision, ahead of the quarter who changed to get better cover with their new insurer.

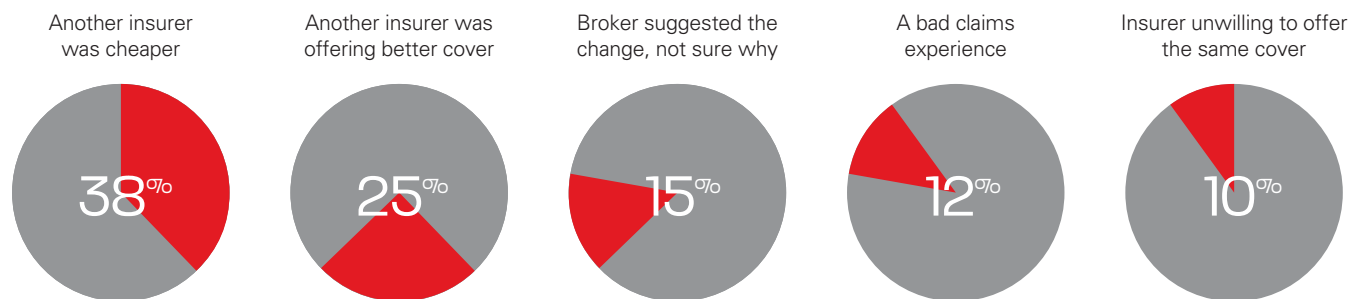
What does it mean when decision makers in commercial insurance say price is not the most important thing to them, yet when changing insurer it becomes the most important reason? One explanation is the price becomes a rational justification when changing, masking more emotional factors like dissatisfaction with the relationship, slower response times, not feeling valued as a client or questions of trust. Another possible explanation is that while clients are looking for benefits over and above price, they are not being presented with options or service that justifies the premium they are prepared to pay.

Taken together, these results suggest that while price is a key factor in insurance, the entire insurance offering needs to be considered. Taking the time to explain differences in coverage and claims service, and offering other benefits will help demonstrate the better service SMEs are (perhaps covertly) seeking.

68%

are willing to pay more for better service, yet price is still the number one reason for changing insurance arrangements

REASONS FOR CHANGING INSURER – OF THOSE WHO CHANGED IN THE LAST FIVE YEARS



ATTITUDES TO INSURANCE BY SME SIZE

% Who agree	Total	Micro businesses (1 to 4 employees)	Small businesses (5 to 19 employees)	Medium businesses (20 to 200 employees)
I buy the minimum cover I need	38%	42%	23%	22%
Price is the most important concern when it comes to making decisions about insurance	39%	41%	32%	23%
When it comes to insurance, I'm happy to pay a bit more for better service	68%	68%	72%	74%



Broker insights

As an intermediated insurer, Vero's role is to partner with brokers – ensuring shared success and optimal results for clients, brokers, and Vero itself. The following insights give an understanding of the often complex relationships between brokers and clients, as well as the attitudes underpinning these relationships.

INSIGHT 06

Most SMEs buy their insurance through a broker, but direct channels are also growing.

While buying through a broker is still standard procedure, smaller SMEs in particular are exploring buying direct from insurers.

The majority of SMEs (55%) purchase all of their insurance through a broker, with 32% choosing to buy directly from the insurer. The remaining 13% use a mix, buying some products from brokers and some directly from insurers. When these SMEs were asked about their main policy – the one they considered most important for their business – 79% of them purchased it through a broker. Overall, this means that 65% of SMEs are buying their main policies through an insurance broker.

Most insurers currently focus their direct to business client offering towards the lower end of the spectrum, where insurance needs are reasonably straightforward, products are more commoditised and consumers tend to be more price sensitive. (42% of micro SMEs buy the minimum cover needed, while only 23% medium SMEs do so.)

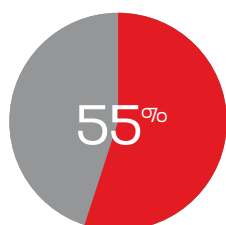
The relatively small policies these businesses require make it difficult for brokers to efficiently service this sector, with some brokers struggling to turn a profit on these smaller clients. Brokers may take the opportunity to focus on larger, more lucrative clients or challenge themselves to create efficiencies when dealing with smaller clients by setting up systems and processes which streamline the way they provide their services.

65%

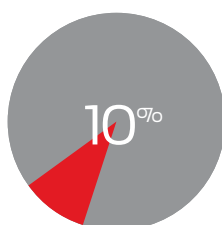
buy their main policy through a broker

METHOD OF INSURANCE PURCHASE

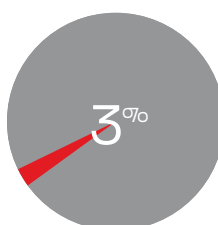
All through broker



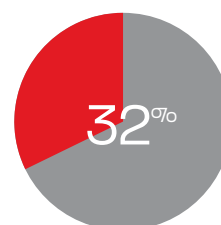
Mix – main policy through broker



Mix – main policy purchased directly



All purchased directly



% Who buy	Total	Micro businesses (1 to 4 employees)	Small businesses (5 to 19 employees)	Medium businesses (20 to 200 employees)
All through a broker	55%	52%	65%	74%
Mix – main policy through broker	10%	11%	9%	8%
Mix – main policy purchased directly	3%	3%	2%	1%
All purchased directly	32%	34%	23%	16%

INSIGHT 07

Three competing forces define client relationships with their brokers: trust, desire for control, and confusion.

My broker understands insurance, but at the end of the day it's my business and I have to stay on top of what's going on.

— Landscaping SME

A number of factors influence the client/broker relationship, which explains the range of different ways clients view and relate to their brokers. Understanding the different approaches to the client/broker relationship is key to establishing a successful, long-lasting working relationship between clients and their brokers. In interviews and research, three main conflicting motivations were identified as having a powerful influence on the relationship between clients and their brokers.

Control

Those who make the decisions about insurance in SMEs are, by definition, used to making significant decisions within the business. The desire to retain control of all aspects of their business was deeply ingrained in most respondents and for many this carried over to a reluctance to give up full control to a broker. Insurance remains a high involvement decision for most (72%) SMEs which use a broker. These agreed that they need to see all the options before buying insurance and more than half (60%) personally research the insurance needs of their business.

Trust

On the other hand, SMEs look to brokers as subject matter experts who can provide advice and expertise. When asked whether they thought brokers were untrustworthy, only 18% thought this was the case, with two-thirds of those who use a broker actively disagreeing with the statement. (Interestingly, there is a shift in perceptions of broker trust occurring between different age groups, see page 24.)

Confusion

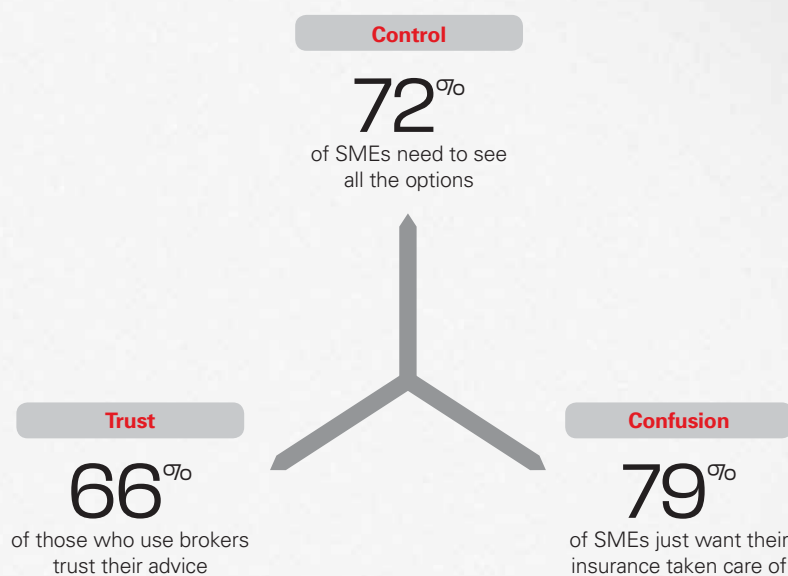
As is well known, the nuances of insurance are not particularly straightforward and ensuring a business is correctly insured can be quite complex. This results in a great deal of confusion and frankly, disinterest for some SME decision makers. These people would like to spend less time on their insurance and more working on their business. The vast majority would just like their insurance to be 'taken care of' with 79% of respondents agreeing with this statement. There was little difference between those who use a broker (79%) and those who don't (77%) on this topic.

These competing drivers influence the way brokers and clients relate to each other. Some relationships tend to be quite 'hands off' with brokers providing minimal contact (9%) or acting simply as a source of quotes (11%).

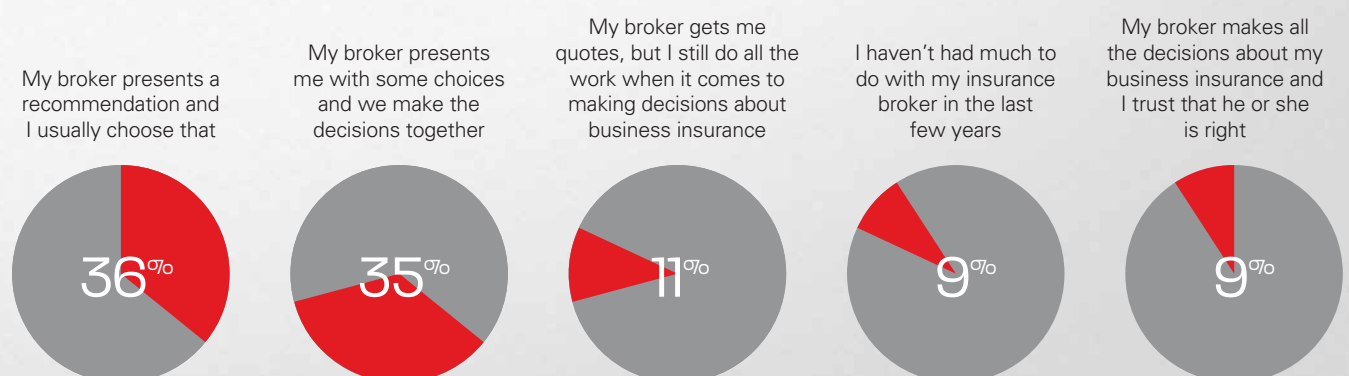
More commonly, the relationships between brokers and clients are more collaborative, with the broker presenting a set of options. The key distinction here is whether clients make the decision together with the broker (35%) or simply accept the broker's recommendations (36%).

Lastly, a small group of SMEs are still more trusting, allowing their broker to make all the major decisions regarding their insurance and trusting that the broker is right (9%).

THE DRIVERS BEHIND THE CLIENT RELATIONSHIPS



DIFFERENT TYPES OF BROKER/CLIENT RELATIONSHIPS



INSIGHT 08

Those who use brokers see them as offering a fundamentally different service than those who don't.

Those who use brokers view their costs as lower and see them providing a trustworthy, helpful service. Those who don't struggle to define how brokers add value and tend to view brokers as expensive middlemen.

While there is some variation in attitudes among those who use brokers, there is a far greater difference between those who use brokers and those who choose to buy commercial insurance directly from insurers.

Expense

44% of all SME decision makers believe purchasing their insurance through a broker is more expensive than buying directly from the insurer. It is not particularly surprising that those who currently use a broker were less likely to believe it was more expensive – only 37% feeling that a broker's services ended up costing them more – while 56% of those who buy directly felt they would end up paying more by using a broker.

The more interesting difference was in how much more expensive respondents thought using a broker would be. Most of those who use a

broker thought they were paying a fairly small amount more – most said less than 5%. On the other hand, most of those who purchase directly thought they would pay between 10-20% more if they were to use a broker. This perceived pricing premium must impact a broker's ability to grow their client base with those people currently buying direct.

This contrast highlights an overall confusion around the costs and remuneration of brokers. Many SMEs do not understand how brokers are paid, which tends to make them suspicious of the deal they're getting and, in some cases, of insurance brokers in general. The shift in views on pricing underscores the larger issue of how brokers are viewed by clients (and non-clients). Those who use a broker see them as an advisor who charges a modest fee, while those who buy directly struggle to define any value they bring.

EXPECTATIONS OF COST IF PURCHASING THEIR CURRENT INSURANCE THROUGH A BROKER OR DIRECTLY

% Who believe	Total	Currently uses a broker	Currently buys direct
Buying direct is more expensive than buying from a broker	18%	20%	15%
It's about the same price to buy from a broker as to buy direct	34%	37%	27%
Buying from a broker is 1-5% more expensive	18%	20%	14%
Buying from a broker is 6-9% more expensive	0%	0%	0%
Buying from a broker is 10-20% more expensive	15%	7%	29%
Buying from a broker is more than 20% more expensive	2%	2%	2%

Broker function

When SMEs were asked why they choose to use or not use a broker, the responses revealed an underlying difference in the perception of how brokers work. For those using a broker, there were a variety of reasons which reflected the role of the broker as a trusted advisor. Some of the most commonly mentioned reasons were:

- ▼ The broker's reliability or trustworthiness (16%).
- ▼ The helpful service their broker provides (16%).
- ▼ Their familiarity with the broker (14%).
- ▼ The broker's approachability (13%).
- ▼ Specifically tailored or personalised service (11%).

In contrast, when those not currently using a broker were asked why they choose to deal with their insurer directly, by far the most common response was a desire to avoid dealing with a middleman. 30% of those who don't use a broker mentioned this.

These responses characterise the different way these two groups view insurance brokers. Those who use brokers tend to see them as a partner or advisor who is on their side, while those who don't use brokers tend to characterise them as middlemen or resellers who have their own agenda.

This presents two opportunities for brokers to demonstrate their value to those currently purchasing insurance directly. They could attempt to create a relationship in which they can demonstrate the partnership they offer, or they could demonstrate the more tangible benefits brokers can offer in the form of better, more appropriate, more cost effective or more tailored coverage.

REASONS FOR USING OR NOT USING AN INSURANCE BROKER

Reasons those who use a broker do so	
Reliable/trustworthy	16%
Good/helpful service	16%
Familiarity/been with them a long time	14%
Good relationship/approachable/easy to deal with	13%
The service he or she provides is personalised to my needs and the needs of the business	11%
He or she provides expert knowledge and advice	9%
I get cheaper prices from him or her	8%
I know that he or she will provide me with the correct insurance	8%
The service he or she provides is responsive	7%
Convenience/saves time	6%

Reasons those who deal directly don't use a broker	
Don't want to deal with a middleman	30%
Went with insurer I was familiar with	9%
Get a better deal/price by dealing directly	8%
Brokers are more expensive	8%
I already understand my insurance needs	8%

INSIGHT 09

SMEs' perceptions of brokers vary across different age groups.

Those over 50 years old have different attitudes towards insurance than those who are under 50.

Research respondents were divided between those who are aged under 50 (54%) and those aged over 50 (45%). In many measures, such as business confidence and performance, these groups are very similar. However, they share significantly different views and attitudes to insurance.

Respondents in the 50-plus group were more trusting of both insurers and brokers and were less likely to view price as their main concern in making insurance decisions. Interestingly, while they were less likely to see brokers as all being similar, they were just as likely as those under 50 to see insurers as roughly equivalent.

These differences highlight a significant shift in thinking – those under 50 view insurance as more commoditised and are generally more cynical about the various companies they deal with in the process of insuring their business. To counteract this insurers and especially brokers must demonstrate trustworthiness and a genuine point of difference, particularly to the 50 and under age group who represent their future relationships.

ATTITUDES TO INSURANCE BY AGE

% Who agree with	Under 50	Over 50
At the end of the day, you can't trust insurance brokers	24%	10%
At the end of the day, you can't trust insurance companies	42%	30%
Price is the most important concern when it comes to making decisions about insurance	44%	33%
All insurance brokers are about the same	26%	17%
All insurance companies are about the same	25%	26%

INSIGHT 10

Price changes can place previously stable relationships between clients and brokers at risk.

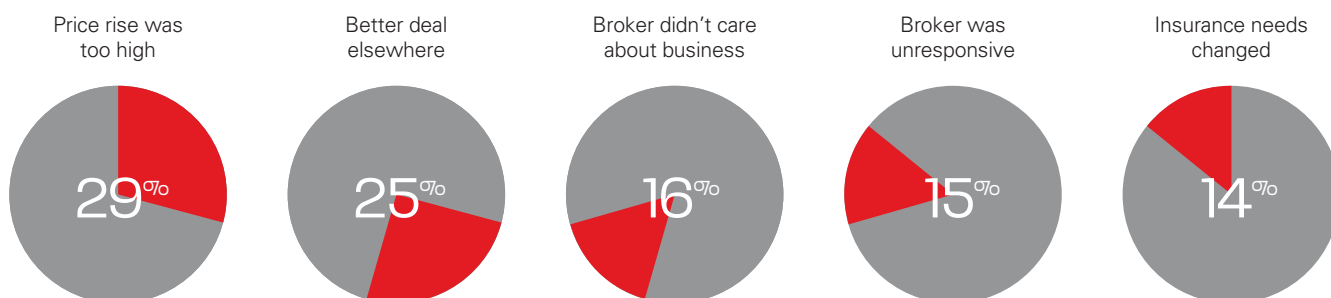
As mentioned earlier, when clients were asked why they use their broker, the strength of the relationship with the broker was most commonly discussed. However, when asked why those who changed their broker did so, the most common responses concerned price – 29% mentioned a price rise that was too high and one quarter of those leaving found a better deal elsewhere.

Service failures were still a concern for SME decision makers. Brokers who didn't care about their clients' business or who were unresponsive were key reasons clients left their broker – 16% and 15% of respondents mentioned these respectively.

The other key reason clients changed their broker was a change in insurance needs – this was mentioned by 14% of those who had changed.

These reasons highlight the need for brokers who want to retain their clients to act as advisors and guides – explaining the reasons behind price changes, ensuring they understand their clients' businesses and staying abreast of any changes that may occur. In short, this means delivering demonstrable value.

REASONS FOR CHANGING BROKER – OF THOSE WHO CHANGED IN THE LAST FIVE YEARS



Appendix

In addition to the findings on the general state of the industry and the role of brokers, we uncovered a number of operational details including: the impact of premium price increases on SMEs, who they go to for advice, preferences in being contacted, and the demographics of SME decision makers. These are included on the following pages.

Also included is an explanation of the details of the research and statistical weighting that was done.

ADDITIONAL FINDINGS 01

Premium price increases, the impact on insurance decisions and business survival.

As mentioned in Insight 03, two-thirds of SME decision makers expect premiums to rise. To understand the impact of a substantial price rise, SME decision makers were asked how they would react to a very large hypothetical price increase in insurance of 25%.

Most businesses (56%) would manage to pay more for their insurance, with 38% of businesses saying they would pass those costs on to their customers.

However, many businesses would re-examine their insurance arrangements. 34% said they would reduce their premium by reducing their coverage or by reducing their sum insured. A very small group would cancel their insurance entirely.

While pushing the problem back to brokers was a very common response to a large price change, for 45% of SMEs a large price change would mean it was time to shop around.

Of particular note to brokers is that while some would just look at changing their insurer, 32% of SMEs would abandon their current broker for another brokerage or consider purchasing directly from insurers.

Of concern was the 9% who said they would have to shut down their businesses if insurance costs rose dramatically. This reflects the pressure that SMEs are under in the current climate.

REACTIONS BY SMES TO A SIGNIFICANT RISE IN INSURANCE COSTS SPLIT BY SME SIZE

% Who would react to a large price rise by...	Total	Micro businesses (1 to 4 employees)	Small businesses (5 to 19 employees)	Medium businesses (20 to 200 employees)
Pay more and pass on costs	38%	39%	39%	32%
Push back on current broker for a better deal	34%	32%	44%	47%
Pay more and bear costs	31%	32%	29%	39%
Reduce amount of cover	26%	25%	30%	23%
Change insurer but keep broker	24%	23%	31%	35%
Reduce number of things covered	24%	25%	24%	16%
Change broker and insurer	20%	21%	17%	24%
Move to direct insurance	20%	21%	14%	12%
Shut down business	9%	11%	3%	2%
Shop around/review needs	4%	4%	3%	2%
Nothing (no change)	4%	4%	3%	11%
Go without insurance	2%	2%	1%	2%
Other	4%	4%	2%	5%

ADDITIONAL FINDINGS 02

Insurance decisions – not typically made alone.

Most SME clients don't fully understand the various factors that must be weighed up in making an insurance decision and so get advice on their insurance. In total, 86% of SME decision makers get insurance advice from someone and on average, this advice comes from 1.5 sources – by speaking to one or two people.

For those with a broker, he or she is the most obvious contact. 77% of respondents who use brokers say they go to them for advice.

For those who don't use a broker for their main policy, the insurance company itself is viewed as a potential advisor, with 27% mentioning them as a source of advice. The other major sources of advice for those without a broker were fellow business people (23%) and accountants or bookkeepers (20%). These were also popular sources of advice for those with a broker, though they sought their advice much less often.

SOURCES OF INSURANCE ADVICE BY PURCHASE TYPE

% Who get insurance advice from	Total	Purchase main policy from a broker	Purchase main policy direct from insurer
Broker	52%	77%	5%
Accountant/bookkeeper	16%	14%	20%
Fellow business people	15%	10%	23%
Insurance company	12%	5%	27%
Friends	9%	6%	14%
Employees/colleagues	9%	8%	10%
Business planners/financial advisors	7%	8%	6%
Industry/trade associations	7%	8%	5%
Other	7%	6%	9%
No one/myself/own research	14%	11%	20%

ADDITIONAL FINDINGS 03

Brokers spend more time with larger clients than smaller ones and this is seen as appropriate.

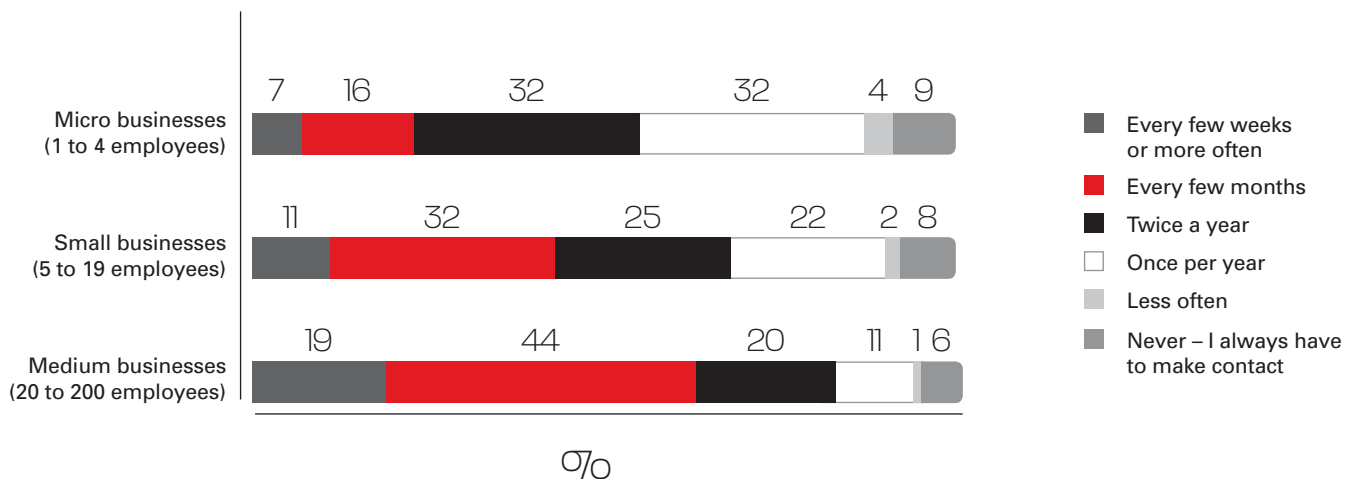
Just under three quarters of clients are contacted by their brokers as often as they would like to be contacted. 17% would like more contact from their broker and 10% receive too much contact.

Unresponsive or absent brokers are a key factor in why SMEs change brokerage. However, for the most part brokers are contacting their client about as often as they would like with 73% saying their broker contacts them as often as they would like. How often that actually is tends to vary with the size of the business.

Larger businesses are contacted most often by their broker, with 63% of medium businesses contacted by their broker every few months or more often. In contrast, 44% of small businesses are contacted every few months or more and only 23% of micro businesses are contacted that often.

10% of respondents received more contact than they would like, however more were not being contacted often enough (17% of those who use brokers). 80% of these people were being contacted only once a year or less, while the preferred level of contact was usually in the realm of every few months, to twice a year.

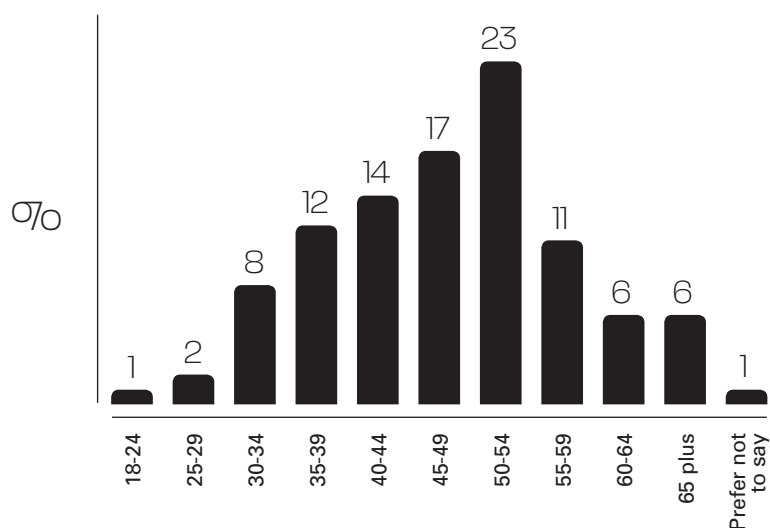
HOW REGULARLY BROKERS CONTACT THEIR CLIENTS



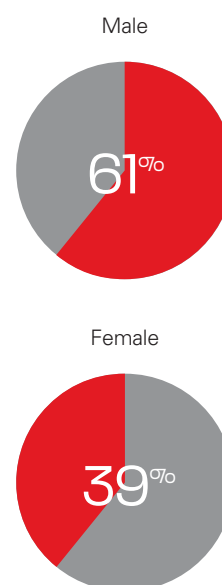
DEMOGRAPHICS OF RESPONDENTS

The makeup of insurance decision makers.

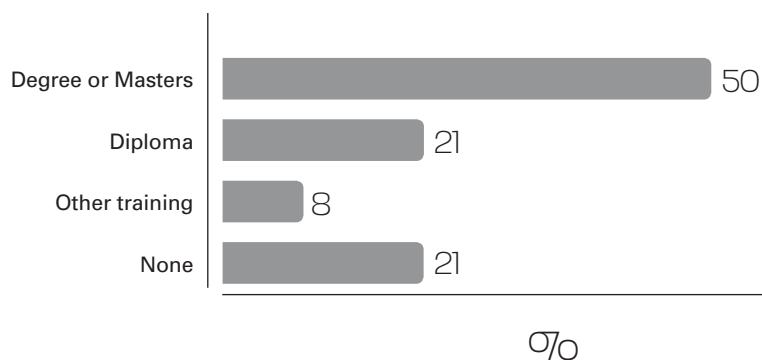
AGE GROUPS OF RESPONDENTS



GENDER



LEVEL OF BUSINESS EDUCATION



SAMPLE SIZES AND WEIGHTING APPROACH

The quantitative phase of the report was based on 600 phone interviews conducted with SME businesses around Australia. These were subsequently weighted to ABS statistics to ensure an accurate representation of the attitudes and behaviours of all Australian businesses.

Number of employees	Sample size	ABS population proportion
1 to 4	213	81.79%
5 to 19	192	14.59%
20 to 200	195	3.62%
Total	600	100.00%

State	Sample size	ABS population size
NSW/ACT	195	34.90%
VIC/TAS	188	26.95%
QLD/NT	158	18.19%
WA	30	11.18%
SA/NT	29	8.06%
Total	600	100.00%

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For further information please contact:

Rob White
External Communications Manager
Telephone: 02 8121 0467
Mobile: 0411 881 887
Rob.white@suncorp.com.au

vero.com.au

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