

VERO  
SME INSURANCE  
INDEX **2013**

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# INTRODUCTION

Welcome to the second edition of the Vero SME Insurance Index. This research is designed to track, identify insights and shed light on the challenges and opportunities arising in the small to medium enterprise (SME) insurance segment. It looks at the attitudes and needs of those who make decisions concerning insurance for SMEs and their responses to the broader economic and business environment.

We have compared these results with last year's to better understand the dynamics at play in the commercial insurance market. While the changes are mostly incremental, they are occurring against a backdrop of the significant and far-reaching influences facing SMEs in Australia.

Just as the global financial crisis (GFC) was not a normal downturn in the economic cycle, the global economy's recovery from this extraordinary event has been far from normal, smooth or predictable.

Many of the flow-on effects from the GFC remain unresolved. At the same time, other seismic changes are occurring and affecting both the world economy and how business is done. These are adding to the level of uncertainty about what the future will look like.

Australian commercial insurance appears to be 'returning to normal' after the intense focus on the industry generated by the spate of natural disasters experienced in Australia and New Zealand in late 2010 and early 2011. This report tracks how attitudes are changing as the memory of these events becomes more distant.

Despite recent Reserve Bank interest rate cuts, business confidence remains flat with indicators of inflation, unemployment and retail spending reflecting uncertainty and caution among SMEs. Rather than

outright pessimism, SMEs maintain a 'wait and see' attitude to factors that are beyond their control.

Key drivers of change are technological developments that create both opportunities and threats to current business methods and significantly, how businesses present their value propositions.

Another key factor revealed by the report is the potential impact of generational change among SME owners and decision makers. The next generation is exhibiting some significant differences in attitude. It seems brokers must adapt and respond if they are to maintain their market position.

The one constant is change. This requires more than an understanding of the current state of the economy. It also suggests changes in our approach to business in general.

This will have a considerable and ongoing impact on insurance and the attitudes of those who purchase it. Changing technology, greater access to information, changes to the way people and businesses do business and increased pressure on margins for SMEs will further contribute to shifts in the insurance marketplace.

The Vero SME Insurance Index 2013 outlines the findings of this research. It provides a useful picture of how organisations across Australia employing between one and two hundred individuals make decisions about insurance and crucially, how they will react in the future.

These findings are the result of a comprehensive program of qualitative and quantitative market research, including in-depth discussions and surveys with over 800 business owners and insurance decision makers around the country.

The report highlights:

- ▼ business confidence and performance for the coming year
- ▼ how SMEs buy insurance, paying particular attention to the channel they use – broker or direct from insurer – and the reasons for that choice
- ▼ frequency of shifting insurance arrangements and the reasons that prompt the change
- ▼ attitudes of SMEs to buying insurance and to the industry in general
- ▼ price sensitivity and the potential impact of change.

The results confirm, challenge and shed light on some widely held views on the direction the industry is following. It presents a picture of how SME decision makers view the value proposition that brokers provide and defines a set of strategic challenges for the industry to face.

The insights in this report will be of interest to those seeking a better understanding of commercial insurance in Australia – whether they are SMEs, brokers who serve those businesses or others in the industry. By understanding how SMEs approach insurance, we will have a closer understanding of the challenges facing commercial insurance and will be better prepared to meet them.

# EXECUTIVE SUMMARY

The findings of this research highlight both challenges and opportunities for the commercial insurance industry in 2013 and beyond.

At the end of 2012, business confidence remained flat despite signs of a slow and steady recovery a year earlier. Key factors were the flow-on effects and unresolved problems stemming from the global financial crisis. Further uncertainty is generated by the fast pace of change and the increasing pressures on margins felt by many businesses.

However, as memories of the extraordinary natural disasters in Australia and New Zealand in late 2010 and early 2011 have become more distant, so too has the anxiety and the intense scrutiny the insurance industry experienced last year. Attitudes towards insurance have become more relaxed and with a return to normality, complacency could now become a bigger factor.

Most clients are anticipating rises in their insurance premiums over the coming year with 75% of respondents expecting this to happen – even more than the previous year. Of these, 54% expect these rises to be more than 10%.

Significantly, many SMEs appear to be fast reaching a 'breaking point' where they expect to change their purchasing behaviour in response to price rises. Far fewer than last year said they would either pay more or pass on the costs.

This highlights the need for the insurance industry to enhance the inherent value of its offering – and this means going beyond pricing.

Most SMEs are choosing to buy their insurance through brokers with 61% of respondents purchasing their main business insurance policy through this channel. A substantial and slowly growing segment of the SME market is purchasing insurance directly, however brokers remain dominant.

There is some evidence of a softening of the market for brokers among medium-sized businesses – an important market – and generational change appears to be driving this. Younger decision makers (aged 18-39) are less inclined to use brokers, as are women (increasing participants in small business). This data suggests brokers are struggling to reach these important market segments, which is a threat to the future of brokers.

A strong positive for brokers is that the benefits of a broker relationship are clear to their current clients. Most are highly satisfied and this leads to stable, long-term broker/SME client

relationships. Brokers have a strong and relevant value proposition to these SMEs built on:

- ▼ saving time
- ▼ the best prices
- ▼ access to expertise
- ▼ understanding their client's business.

The pressure is on brokers to continue to deliver benefits and communicate them more widely and effectively.

SMEs that don't buy through a broker appear satisfied with their arrangements with little motivation to change. The key driver for them is a sense of control. They also have limited awareness of the relevance of brokers and the benefits of a broker relationship.

This lack of inclination to use brokers is not a product of negative attitudes but rather a failure to see the relevance of the services offered by them. Brokers are perceived as middlemen rather than trusted advisers.

Brokers did not appear to be 'on the radar' for many who purchased insurance directly. While a lack of trust and perceptions about price are factors, the overriding issue is relevance.

The challenge for brokers is to communicate the benefits and value they offer so that SMEs can make better informed choices.

A key finding was the widely differing perceptions between broker and direct clients of the costs of buying insurance. Those who did not purchase through a broker strongly believed that it would cost more to do so.

**THE PRESSURE IS ON BROKERS TO CONTINUE TO DELIVER BENEFITS AND COMMUNICATE THEM MORE WIDELY AND EFFECTIVELY.**

Finally, not all SMEs feel the same about insurance. By clustering responses, we have identified three, clear SME customer segments:

- ▼ grudge buyers
- ▼ thoughtful buyers
- ▼ outsourcers.

Understanding the attitudes and drivers for each of these segments can help define today's SME market and where it is heading. Importantly, brokers can better understand the needs and motivations of different clients and tailor service offerings to each of them.

This report paints a picture of an industry that is undergoing considerable change, yet performing well and working hard to prepare itself for new challenges.

# THE RESEARCH

This report is based on research involving over 800 business owners and decision makers from around Australia. The research was independently\* conducted in two stages:

## STAGE ONE – QUANTITATIVE SURVEY

A nationwide survey of 885 business owners and insurance decision makers was conducted covering a range of business types, locations and sizes. These interviews were held during September 2012 and the data was weighted by state and organisational size to current Australian Bureau of Statistics (ABS) statistics. The questionnaire covered:

- ▼ general business sentiment
- ▼ attitudes towards insurance
- ▼ insurance purchase process
- ▼ purchase channel (broker or direct)
- ▼ attitudes towards insurance brokers
- ▼ expectations and impact of price changes
- ▼ demographics.

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

Businesses were divided into three groups, following ABS standards:

**Micro** – businesses which employ 1-4 individuals

**Small** – businesses which employ 5-19 individuals

**Medium** – businesses which employ 20-200 individuals

## STAGE TWO – IN-DEPTH QUALITATIVE INTERVIEWS

A series of one-hour, face to face interviews were conducted with eight SME respondents representing a mix of business sizes, types, attitudes to insurance, insurance purchasing channels and demographics. These sessions were held at respondents' workplaces during November 2012.

These interviews were filmed and highlights can be viewed on our website.

\* This research was conducted by BrandMatters. See [www.brandmatters.com.au](http://www.brandmatters.com.au).

# BUSINESS AND INSURANCE **INSIGHTS**

THESE INSIGHTS ALLOW US TO UNDERSTAND THE ATTITUDES AND NEEDS OF THOSE WHO MAKE DECISIONS CONCERNING INSURANCE COVER FOR SMES AND THEIR RESPONSES TO THE BROADER ECONOMIC AND BUSINESS ENVIRONMENT.

**INSIGHT 1**

BUSINESS SENTIMENT IS FLAT COMPARED TO LAST YEAR.

**INSIGHT 2**

ATTITUDES TO INSURANCE ARE MORE RELAXED COMPARED TO LAST YEAR.

**INSIGHT 3**

PRICE RISES ARE EXPECTED AND ARE INCREASINGLY LIKELY TO IMPACT PURCHASING BEHAVIOUR.

**INSIGHT 4**

NOT ALL SMES FEEL THE SAME WAY ABOUT INSURANCE – THREE CLEAR AND SIMPLE CUSTOMER SEGMENTS.

# 01

## INSIGHT

Business sentiment is flat compared to last year.

While in late 2011 business confidence appeared to be slowly improving, it remained flat in 2012 despite many businesses reporting increased turnover.

Early in the year, there were tentative hopes of a steady ongoing recovery from the effects of the GFC. The general expectation was of a return to normality, despite the fact many of the problems generated by the GFC remain as unresolved threats – particularly in Europe and the US.

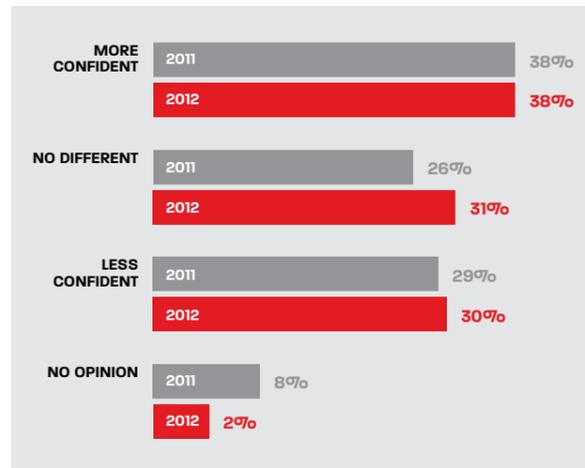
The impact of the high Australian dollar on non-mining sectors of the economy plus differences brought about by technological change (in particular, the growth of online business) have created a climate of continuing uncertainty and caution. This has contributed to the generally flat business sentiment.

A widespread concern for many businesses is increased pressure on margins as the result of more intense competition. This is key to understanding the SME business environment, despite turnover improving for many businesses.

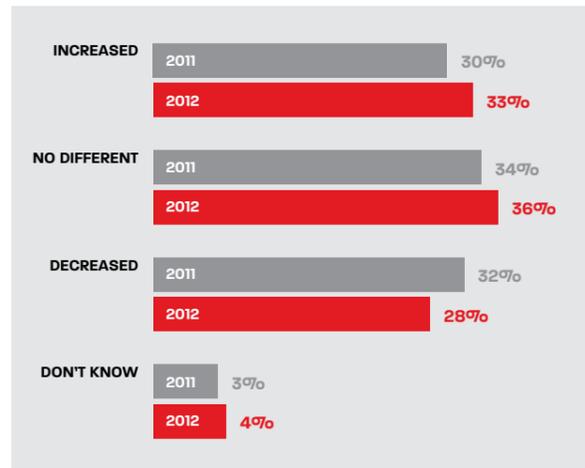
The result of this added pressure on margins is a perception of increased risk and vulnerability in the face of market competition and an uncertain economy. SMEs are therefore locked into chasing increased turnover and/or focussing on costs. Business insurance is a significant cost component for many.

Despite flat business sentiment, most respondents' businesses were growing in 2012 or were at least holding steady. Some had a tough start to the year, but generally things have since picked up.

### CONFIDENCE

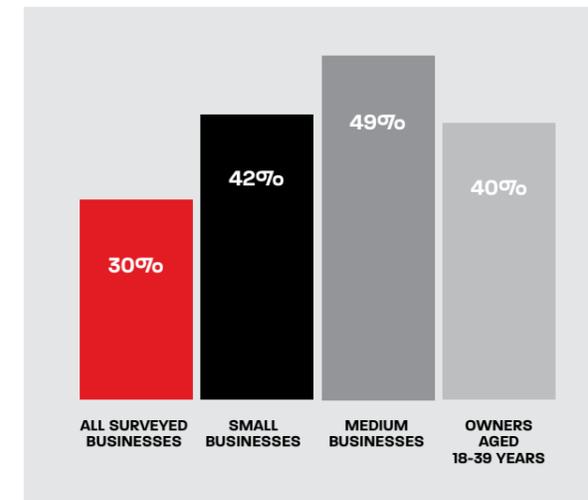


### TURNOVER



However, some groups appear more likely to have experienced improvements than others, in particular medium-sized business owners were more likely to have increased their turnover during 2012.

### INCREASED TURNOVER DURING 2012



### WHAT THIS MEANS...

Broadly, this means more of the same. Although it is worth noting that despite flat sentiment, there is a trend towards improving turnover and a recovery in business – notwithstanding some threats.

A common factor is the pressure on margins businesses are experiencing, resulting in a focus on costs. SMEs are facing increased competition so there will be losers as well as winners whose businesses will grow.

It is therefore important for brokers to consider their clients' situations and adapt accordingly.

**"YOU HAVE TO RUN VERY LEAN... THERE JUST ISN'T THE FAT THAT THERE USED TO BE IN MARGINS."**  
SMALL BUSINESS

# INSIGHT 02

## Attitudes to insurance are more relaxed compared to last year.

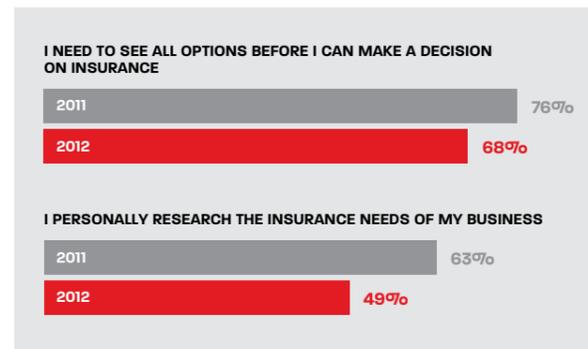
Extraordinary natural disasters in Australia and New Zealand in late 2010 and early 2011 led to added scrutiny of the insurance industry. While the 2012 SME Index reflected this, it also showed that the vast majority of SMEs were happy with their insurance.

The 2013 report suggests the industry may be recovering, with more relaxed attitudes towards insurance as the memory of these disasters becomes more distant. While this appears to reflect a return to normality, there remains a need for brokers to promote value and credibility.

Many SMEs are more relaxed than in the previous year and appear to be less insecure and distrustful of the industry.

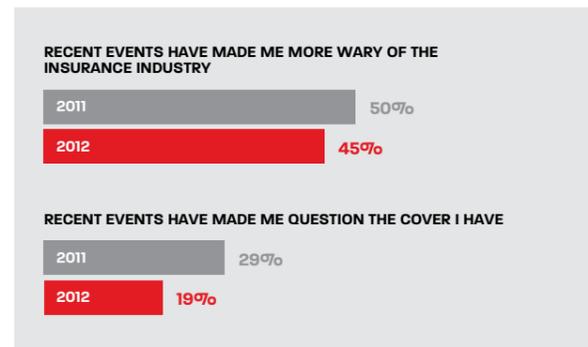
### LEVELS OF DILIGENCE HAVE DECLINED

While involvement levels are quite high, last year's focus on diligence has diminished. The requirement to review all options before making decisions has decreased as has the need to be hands on when researching insurance needs.



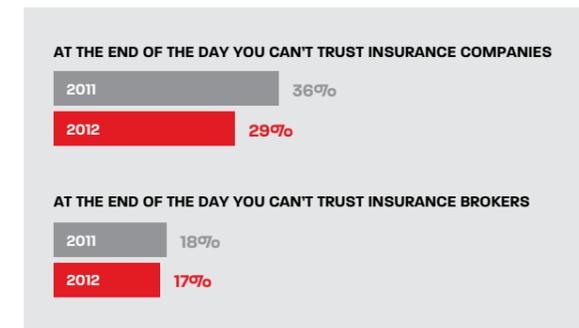
### CONFIDENCE IS STABILISING

Confidence in insurance has begun to stabilise as memories of the events of 2010-2011 become more distant. While they had an initial impact – causing some to question the value of their cover – there does not appear to be a lasting impact.



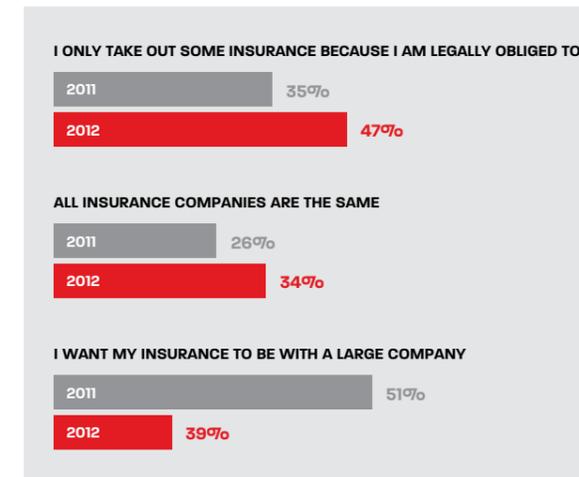
### DISTRUST HAS REDUCED

While the events of 2010-2011 increased distrust of insurance companies, it did not appear to generate any similar feelings towards brokers. As the memory of these events becomes more distant, sentiment towards insurance companies appears to be returning to normal.



### A MORE RELAXED STATE OF MIND

Changes from last year are significant, reflecting reduced stress around insurance and a more relaxed approach from SMEs. This may also be leading to complacency as more SMEs are saying they only take out insurance because of legal obligations.



### WHAT THIS MEANS...

Last year's crisis of confidence appears to have passed. SMEs are less anxious than they were a year ago. There is less need to reassure them, but complacency could become a risk.

Past events led to scrutiny of the insurance category with accompanying stress and distrust, yet top of mind awareness of the importance of insurance appears to have receded. The need to review the appropriateness of insurance cover becomes more relevant as the top of mind awareness of insurance diminishes.

Also worth considering is the impact on confidence if natural disasters occur again and a significant number of SMEs hold inadequate cover.

**"I DON'T HAVE THE BEST COVER BECAUSE I HOPE THAT NOTHING BAD WILL HAPPEN AND I GUESS MY BUSINESS DOESN'T NEED TOP COVER."**  
MICRO BUSINESS

# 03

## INSIGHT

Price rises are expected and are increasingly likely to impact purchasing behaviour.

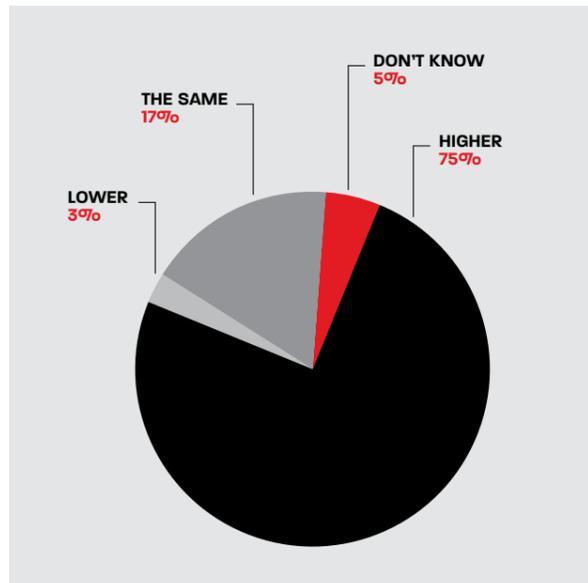
### MORE SMES ARE EXPECTING PRICE RISES IN 2013 – BIG PRICE RISES

75% of respondents expect the cost of their insurance to rise this year. This is a significant increase from the 65% expecting price rises in 2012. Just 3% expect prices to fall.

54% of those that expect a price rise believe the increase will be significant – up 10% or more.

The strength of this expectation may reflect concerns about future increases – irrespective of past events. Even if increases don't occur in 2013, there is an expectation costs will continue to rise.

### EXPECTATION OF INSURANCE PRICE RISES IN THE NEXT YEAR



### THE WAY SMES EXPECT TO DEAL WITH PRICE RISES HAS SHIFTED

The potential impact of this finding is significant. Many SMEs appear to have reached breaking point in terms of what increase in insurance costs they can bear.

There is a dramatic drop in respondents who say they could pay increased costs and/or pass them on to their clients.

Influences affecting this include more intense market competition. SMEs are also suffering increased pressure on margins from both price competition and cost pressures. Insurance price increases are a component of this.

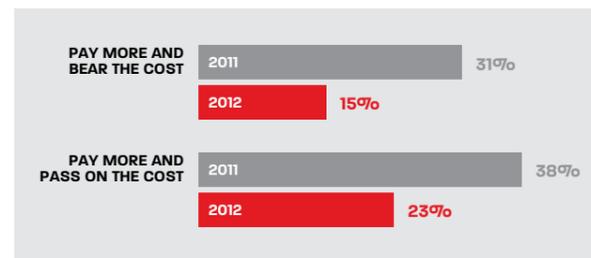
The research also found variations in the impact of insurance costs on SMEs. The key differentiator is 'what proportion of costs does insurance make up for my business?'

Where insurance is a smaller component of costs, businesses believe they can absorb premium increases. But if insurance costs are significant, businesses have less room to move.

Another factor is the perception of the value of insurance relative to cost. This adds urgency to the need to help SMEs understand their insurance, its value to them and the appropriateness of their cover.

The research also provided an understanding of how insurance costs affect decisions about business strategy. Considerations of cost can affect decisions about whether to expand into new markets or to withdraw from others. This is an area where strategic advice is important to the business.

### SMES ARE LESS LIKELY TO ABSORB OR PASS ON INCREASED INSURANCE COSTS



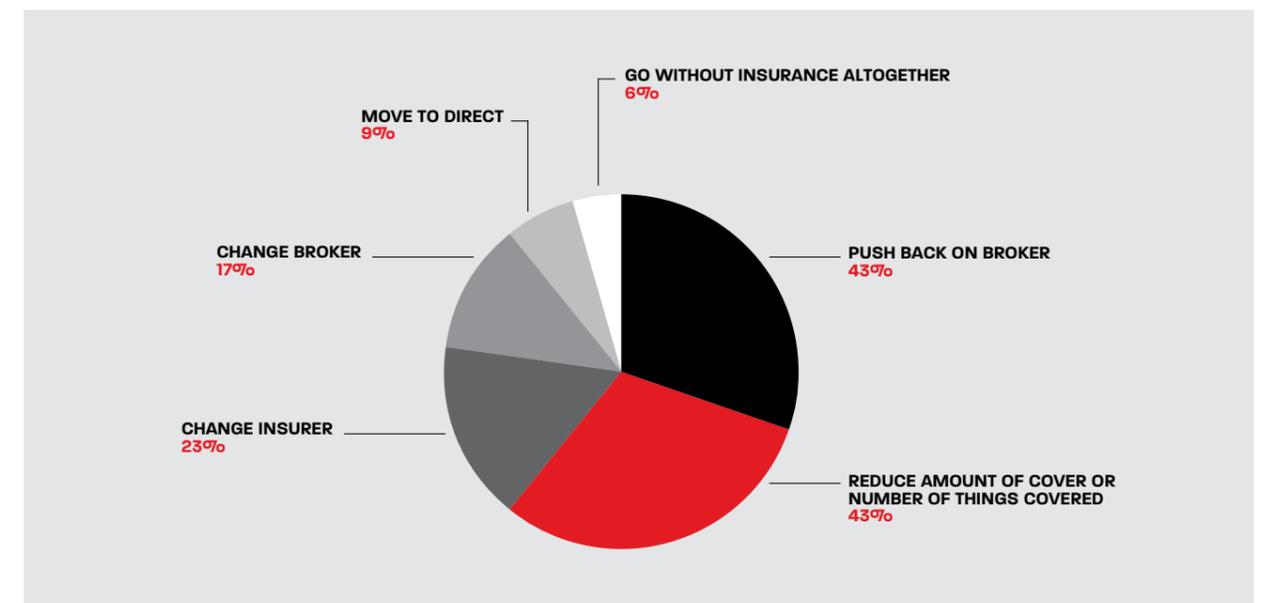
### WHAT WILL THEY DO INSTEAD?

SMEs are questioning the value and affordability of their insurance and seeking solutions. This makes them consider changes – either to their broker, or to the amount and type of cover they buy. Alternatively they could switch insurers or channels and buy directly.

This questioning creates the opportunity to provide advice – to examine alternatives and help with a better understanding of the options.

**"I WOULD BE INSTRUCTING THE BROKER TO REVISIT THE MARKET, AND IF HE COULDN'T COME BACK WITH SOME REALLY GOOD EXPLANATIONS, I'D MAKE OTHER ENQUIRIES. I DEFINITELY DON'T WANT TO BE THAT BUSINESS WHO IS BEING SLACK ON OVERHEADS."**  
SMALL BUSINESS

### WHAT WILL BROKER CLIENTS DO INSTEAD?



# 03

## INSIGHT

Price rises are expected and are increasingly likely to impact purchasing behaviour. (cont...)

### PRICE IS THE MAIN REASON FOR LEAVING – A KEY ISSUE FOR BROKERS

At 37%, price was the biggest single reason given for clients changing or leaving their broker over the past 5 years.

This is an increase from 29% the previous year and suggests that after years of large price rises, it is now even more important.

This links to the widely differing perceptions of the cost of using a broker – see Insight 10.

Given that 72% had never changed broker or had been with their current broker for over 5 years, this finding also illustrates the remarkable stability of current broker/SME relationships.

### WHAT THIS MEANS...

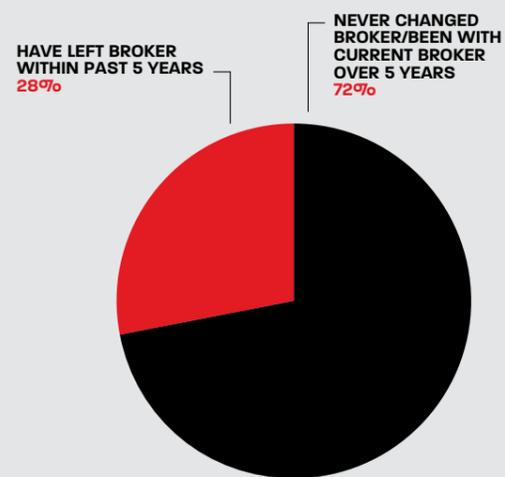
Expectation of significant price rises is a key issue and the main reason for SMEs to leave generally stable broker relationships.

In addition, many claim they would react to a big price rise by reducing coverage, meaning potential losses in gross written premiums. However the impact of and reaction to price rises varies across businesses.

For many SMEs, the cost of insurance will affect business strategies, impacting decisions about which markets the business finds profitable to operate in.

Brokers need to work with clients to understand their businesses – in particular the role of insurance costs in determining business strategy.

### LENGTH OF BROKER RELATIONSHIPS



### REASONS FOR LEAVING A BROKER

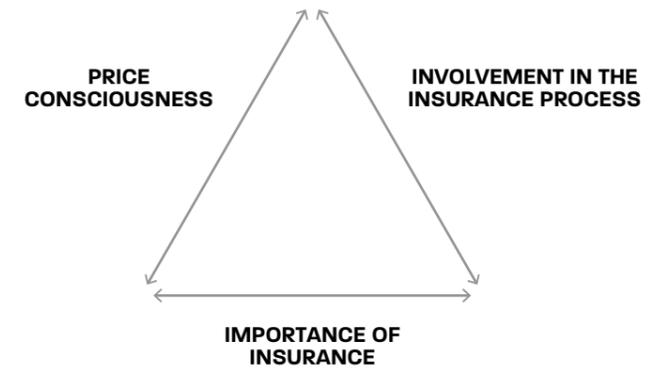
- A PRICE RISE WAS TOO HIGH 37%
- INSURANCE NEEDS CHANGED 23%
- COULDN'T SEE WHAT BENEFIT I WAS GETTING FROM THE BROKER 15%
- APPROACHED BY SOMEONE ELSE 13%
- BROKER WAS UNRESPONSIVE OR HARD TO GET HOLD OF 9%
- BROKER DIDN'T UNDERSTAND MY BUSINESS 8%

# 04

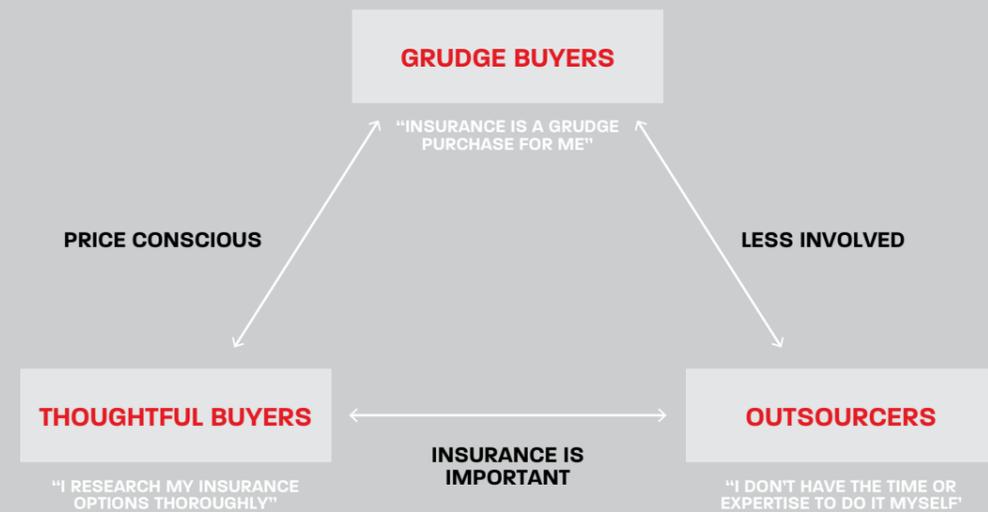
## INSIGHT

Not all SMEs feel the same about insurance – three clear and simple customer segments.

By clustering responses we found three main differentiators among SMEs concerning their attitude to insurance:



Across both direct and broker channels three main SME segments emerged:



The attitudes and drivers for each of these segments can be key to understanding how to meet SME needs.



# BROKER INSIGHTS

AS AN INTERMEDIATED INSURER, VERO'S ROLE IS TO PARTNER WITH BROKERS – TO ENSURE SHARED SUCCESS AND OPTIMAL RESULTS FOR CLIENTS, BROKERS AND VERO. THESE INSIGHTS ADD TO AN UNDERSTANDING OF THE OFTEN COMPLEX RELATIONSHIPS BETWEEN BROKERS AND CLIENTS, AS WELL AS THE ATTITUDES UNDERPINNING THESE RELATIONSHIPS.

#### **INSIGHT 5**

BROKERS ARE STILL THE DOMINANT CHANNEL FOR SMES.

#### **INSIGHT 6**

THE NEXT GENERATION OF BUSINESS LEADERS IS LESS INCLINED TO USE BROKERS.

#### **INSIGHT 7**

THE BENEFITS OF USING A BROKER ARE CLEAR TO BROKER CLIENTS AND MOST ARE HIGHLY SATISFIED.

#### **INSIGHT 8**

SMES THAT DON'T USE BROKERS ARE ALSO SATISFIED WITH THEIR INSURANCE ARRANGEMENTS, WITH LITTLE MOTIVATION TO CHANGE.

#### **INSIGHT 9**

THE MAIN BARRIER TO USING BROKERS IS A PERCEIVED LACK OF RELEVANCE AND LIMITED AWARENESS OF THE BENEFITS BROKERS CAN BRING.

#### **INSIGHT 10**

THERE ARE WIDELY DIFFERENT PERCEPTIONS ABOUT THE COST OF USING A BROKER.

# 05

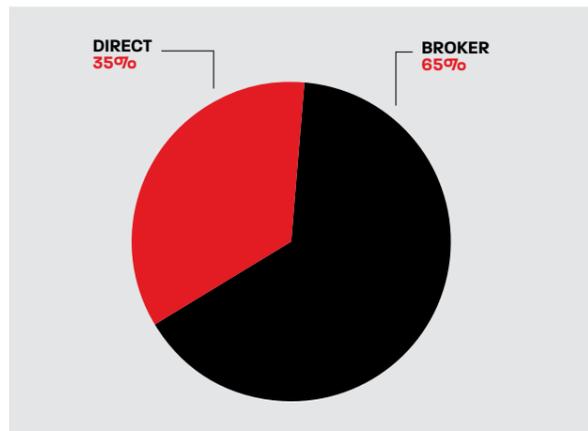
## INSIGHT

Brokers are still the dominant channel for SMEs.

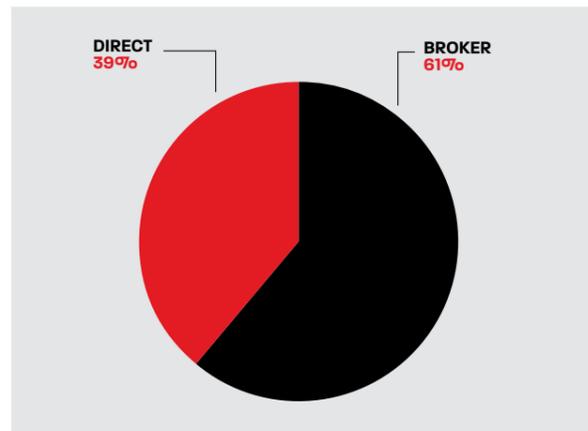
### WHILE BROKERS REMAIN THE DOMINANT CHANNEL, A SUBSTANTIAL AND SLOWLY GROWING PORTION OF THE SME MARKET PURCHASES INSURANCE THROUGH THE DIRECT CHANNEL

The research showed a small shift towards direct from 2011 to 2012.

DIRECT VS. BROKER CHANNEL 2011



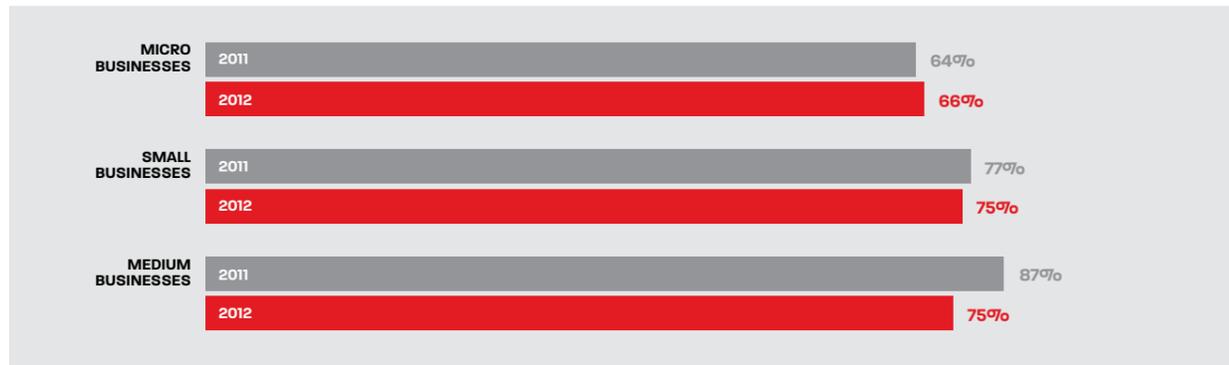
DIRECT VS. BROKER CHANNEL 2012



### MEDIUM AND SMALL BUSINESSES ARE THE MOST LIKELY TO USE BROKERS, WHILE MICRO BUSINESSES ARE THE MOST LIKELY TO PURCHASE DIRECT

While the portion of micro and small SMEs using a broker remained relatively steady from 2011 to 2012, medium-sized SMEs, previously the key market with the highest penetration for brokers, experienced a decline from 87% to 75% penetration.

BROKER USAGE BY SME BUSINESS SIZE

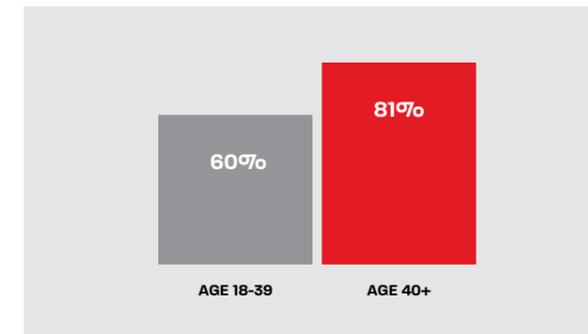


### GENERATIONAL CHANGE IS HAVING AN IMPACT

This is one of the most significant findings of the research – younger owners of medium SMEs are significantly less likely to use brokers than their older counterparts. This sounds a warning for brokers as this younger generation starts to take on business decision making.

**61%** OF SMES USE A BROKER

MEDIUM SME BROKER USAGE



### WHAT THIS MEANS...

The research shows a continued longer term shift to direct. This however, is happening slowly with only minimal movement over the past year.

Small to medium-sized businesses with more complex insurance needs (where broker advice is likely to be of value) continue to be important to brokers.

There is however strong evidence of generational change beginning to result in a softening of broker usage among medium-sized businesses as younger business people increasingly take the lead. This is likely to be the result of greater familiarity of younger owners with the internet and the strong shift to doing business online. Other key factors are the greater availability of information online and the improving sophistication of direct offers.

The key question for brokers is how to convey their value proposition and remain relevant to younger business owners as this next generation takes over.

# 06

## INSIGHT

The next generation of business leaders is less inclined to use brokers.

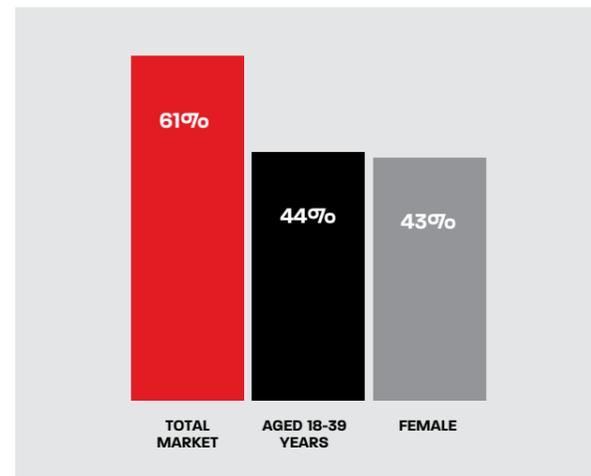
Change is a key theme of the insurance market and business in general in Australia in 2013, and nowhere is this more evident than in the demographic make-up of SME business owners.

The next generation of SME business owners and decision makers are younger people currently aged 18-39. Also important are women who are increasingly participating in the small business economy. Understanding what drives these groups is key to understanding what the needs, wants and behaviour of SME business owners may look like in years to come.

### YOUNGER PEOPLE AND WOMEN ARE SIGNIFICANTLY LESS LIKELY TO USE BROKERS

While males aged 40+ is currently the core market for brokers, younger males and females present key challenges to brokers. Given both will play an increasing role in future insurance decision making, there will be a longer term threat to broker businesses if they fail to engage these groups.

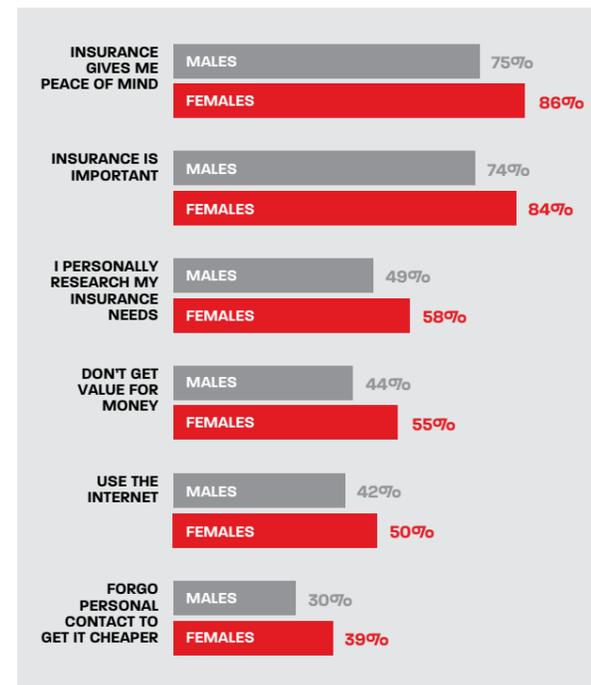
### BROKER USAGE AMONGST YOUNGER AND FEMALE BUSINESS OWNERS



### MALES AND FEMALES HAVE NOTABLY DIFFERENT ATTITUDES TO INSURANCE

The research shows women are more concerned about 'getting it right' and are more diligent researchers – especially online. They are less inclined to believe they are getting value for money and more willing to do it themselves to save money.

#### ATTITUDES TOWARDS INSURANCE



### YOUNGER AND OLDER AGE GROUPS ALSO HAVE DIFFERENT ATTITUDES TO INSURANCE

The internet has a major impact on the way younger SMEs buy insurance. This is unsurprising given that the medium is a rapidly growing component of the way modern businesses operate. Younger SME decision makers are leading the way.

For them, the internet has become the default medium to gather and research information and to transact. They are less likely to use brokers and need to be given a good reason to do business by means other than the internet.

As we learnt in last year's study and reinforced this year, younger SME decision makers are both more confident to research their options and more cost conscious.

#### WHAT THIS MEANS...

Females and younger business owners and decision makers represent a market gap for brokers.

This is a significant threat as these groups are bound to play an increasing role in decision making for SMEs and are important for the future. For younger SME decision makers, it is a matter of generational change where new ways of doing business are likely to become embedded as they grow older and more experienced.

To become more relevant to females, brokers need to be proactive and present clear benefits that represent value for money.

Brokers need to embrace online technology and new ways of working with these groups. They need to present value for money and be aware of online communication mediums as this younger generation are likely to be conducting internet research.

"I'M A CONTROL FREAK WHEN IT COMES TO MY BUSINESS, I'D RATHER DO IT MYSELF."  
MICRO BUSINESS

# 07

## INSIGHT

The benefits of using a broker are clear to broker clients and most are highly satisfied.

### BROKER CLIENTS CAN IDENTIFY CLEAR AND RELEVANT BENEFITS

Despite the slow drift to direct channels and issues with reaching women and younger SME decision makers, current broker clients see clear benefits in their broker relationship, including saving time, price, access to expertise and a personalised understanding of their business.

Brokers have a clear value proposition that is highly relevant to their SME clients.

Expertise is really important. Broker clients feel that no matter how savvy they are, it takes a professional to provide the detailed understanding to assess their needs and get their insurance right.

Understanding their business – or perhaps more importantly their industry – is critical. Many refer to the need for specialist understanding as risk factors differ from industry to industry and between businesses.

### FOUR KEY BROKER BENEFITS TO SMES

#### TIME SAVINGS

**56%** SAID USING A BROKER SAVES TIME SO THEY CAN FOCUS ON THEIR BUSINESS

“WITHOUT A BROKER FOR MY INSURANCE I'D SPEND HOURS DOING WORK I'D OTHERWISE SPEND IN THE BUSINESS.” MEDIUM BUSINESS

#### ACCESS TO THE BEST PRICE

**48%** TRUST THEIR BROKER TO GET THE RIGHT INSURANCE FOR THE RIGHT PRICE

**26%** SAID THEY GET CHEAPER PRICES THROUGH THEIR BROKER

#### UNDERSTANDING OF THEIR BUSINESS

**40%** SAID THEIR BROKER KNOWS AND UNDERSTANDS THEIR BUSINESS

**36%** SAID THEIR BROKER PROVIDES SERVICE PERSONALISED TO THEIR NEEDS, AND THE NEEDS OF THEIR BUSINESS

“I'VE BEEN WITH THE SAME BROKER SINCE I BOUGHT THE BUSINESS MORE THAN 6 YEARS AGO, SO HE KNOWS EXACTLY HOW MY BUSINESS IS BUILT, HOW IT'S GROWN.” MEDIUM BUSINESS

#### ACCESS TO EXPERTISE

**40%** SAID THEIR BROKER PROVIDES EXPERT KNOWLEDGE AND ADVICE

**30%** SAID THEIR BROKER GIVES THEM PEACE OF MIND BY PROVIDING THEM WITH THE CORRECT INSURANCE

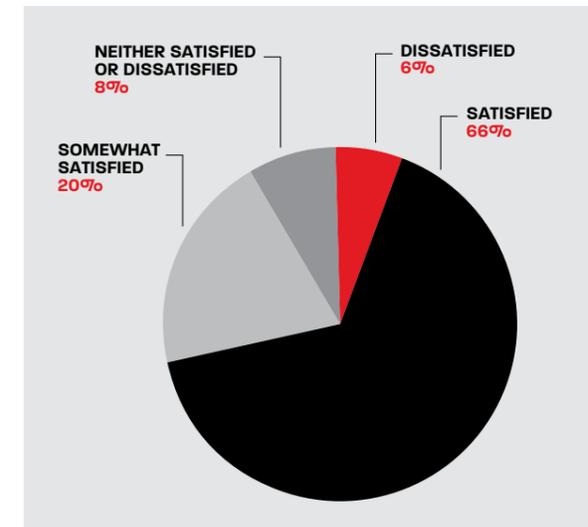
**16%** SAID THEIR BROKER PROACTIVELY KEEPS THEM UPDATED ABOUT INSURANCE ISSUES

“AM I AN EXPERT – NO, BUT EVEN IF I WAS, I'D NEED TO STILL HAVE A BROKER WHO COULD GIVE US ADVICE AND QUESTION US ABOUT WHAT WE HAVE IN PLACE.” MEDIUM BUSINESS

### BROKER CLIENTS CAN IDENTIFY CLEAR AND RELEVANT BENEFITS AND THIS CONTINUES TO TRANSLATE INTO LONG-TERM, LOYAL RELATIONSHIPS.

86% of SME broker clients expressed satisfaction with their current relationship.

#### SATISFACTION WITH BROKERS



#### WHEN SMES LAST CHANGED THEIR BROKER

	2011	2012
WITHIN LAST YEAR	14%	7%
WITHIN LAST TWO TO FIVE YEARS	20%	21%
LONGER/NEVER	66%	72%

Relationships have stabilised over the past year.

“THE ADVANTAGE OF A BROKER IS NOT HAVING TO THINK ABOUT IT. I DON'T HAVE TO RESEARCH AN AREA I DON'T HAVE EXPERTISE IN. GOING TO SOMEBODY AND GETTING THEM TO DO THE WORK FOR YOU IS ABSOLUTELY IMPERATIVE... THINGS ROLL AROUND YEAR AFTER YEAR, AND IT ALL WORKS SEAMLESSLY.” MEDIUM BUSINESS

#### WHAT THIS MEANS...

To those that have experienced a broker relationship, brokers have a clear value proposition relevant to them. Time saving, expertise, personalised service and an understanding of the client's business are all highly relevant benefits for busy SMEs.

Also increasingly relevant is the SME perception that they are able to get the right price or an even cheaper price through their broker.

In this competitive environment, brokers need to ensure they continue to deliver these clear and relevant benefits. They represent a strong value proposition and a timely and powerful message, particularly to those not currently dealing through a broker.

# 08

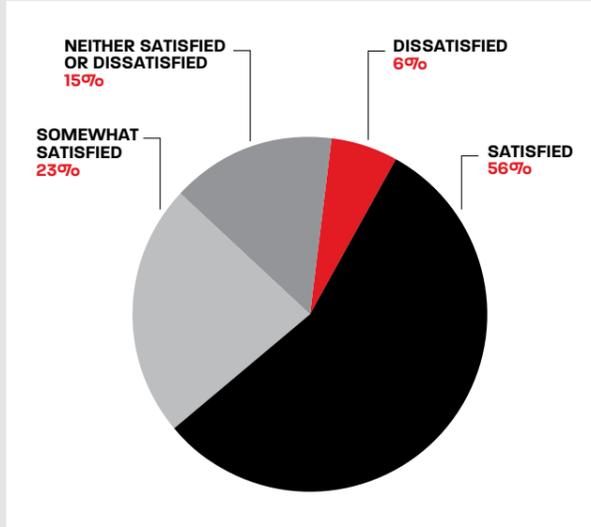
## INSIGHT

SMEs that don't use brokers are also satisfied with their insurance arrangements, with little motivation to change.

### DIRECT CLIENTS ARE VERY SATISFIED WITH THEIR INSURANCE ARRANGEMENTS

Having control is a key driver for SMEs that don't use brokers. This appears to be a major reason behind high levels of satisfaction with purchasing insurance directly.

### DIRECT CLIENTS' SATISFACTION WITH THEIR ARRANGEMENTS



"I HAVE THE CONFIDENCE THAT I'VE RESEARCHED MY BUSINESS NEEDS ON MY OWN."  
SMALL BUSINESS

### EXCEPT FOR MANAGEMENT LIABILITY, DIRECT CLIENTS ARE JUST AS LIKELY TO FEEL THEY HAVE ENOUGH COVER AS BROKER CLIENTS

	BROKER	DIRECT
FIRE/DEFINED EVENTS	93%	91%
THEFT	89%	84%
LIABILITY	84%	80%
BUSINESS INTERRUPTION	85%	86%
MANAGEMENT LIABILITY	85%	77%
WORKERS COMPENSATION	86%	84%

# 09

## INSIGHT

The main barrier to using brokers is a perceived lack of relevance and limited awareness of the benefits brokers can bring.

A key insight from the research was that for those SMEs that do not currently use them, brokers are not top of mind. This was not a negative against brokers – these SMEs had simply not thought of using a broker.

Some said they didn't know where to find a broker. Others felt it would be hard work to find the right one. Some saw brokers only as middlemen and therefore could not see the value. They felt that no-one understands their business as well as they do and could not see the value of specific insurance expertise and advice.

### WHAT ARE THE BARRIERS TO USING A BROKER?

#### NO BENEFIT

- 51% – I CAN DO IT EASILY ENOUGH MYSELF
- 44% – I DON'T WANT TO DO IT WITH A MIDDLEMAN/RATHER DO IT DIRECTLY
- 28% – I DON'T SEE THE BENEFIT OF USING A BROKER

#### LACK OF TRUST

- 33% – I THINK THEY ARE MORE LIKELY TO RECOMMEND A POLICY THAT OFFERS THEM THE BIGGEST COMMISSION
  - 14% – I DON'T TRUST THEM TO OFFER ME THE BEST POLICY FOR MY BUSINESS
- "I CAN'T BE CONFIDENT THEY UNDERSTAND EXACTLY WHAT I NEED," SMALL BUSINESS

#### PRICE

- 25% – IT WOULD BE MORE EXPENSIVE TO GO THROUGH A BROKER

"THAT'S INTERESTING, I NEVER HAVE THOUGHT ABOUT GETTING A BROKER, BUT YOU'RE MAKING ME THINK ABOUT IT."  
MICRO BUSINESS

### WHAT THIS MEANS...

While cost perceptions and distrust are barriers, the most critical issue is that brokers are off the radar and not seen as relevant to direct clients.

In contrast to those SMEs that currently purchase insurance through a broker, understanding of the benefits offered by brokers was extremely low – most had not even considered using one.

Although many direct customers appear quite diligent in researching their insurance needs, it is a case of 'they don't know what they don't know' in terms of insurance expertise and the potential value of advice.

The challenge for brokers is to increase their relevance to this group. They need to communicate their value and move the conversation away from distrust, perceptions of 'middlemen' and additional cost. This will enable SMEs to make a more informed choice about either purchasing insurance direct or through a broker.

# 10

## INSIGHT

There are widely different perceptions about the cost of using a broker.

There are widely different perceptions of the cost of dealing through a broker, between those that have a broker relationship and those that don't.

Broker clients believe they are getting a good deal on the cost of their insurance. Direct clients think they would pay more through a broker. This is consistent with last year's findings with no significant shift in this understanding.

For direct clients, this additional cost is likely to be seen as coming from the broker's perceived role as a middleman. If they recognise the broker's role as providing expertise and advice, additional cost is seen as a price for advice that they don't need or understand.

### WHAT THIS MEANS...

As margin pressure is becoming a fact of life for SMEs, costs (including insurance) are increasingly under the microscope. Because perceptions of higher costs are a barrier to those that currently don't deal through a broker, there is an opportunity for brokers to convey their value proposition. They can communicate the benefits of the advice they provide and reassure prospective clients that this won't involve additional costs.

### PERCEIVED COST OF USING A BROKER

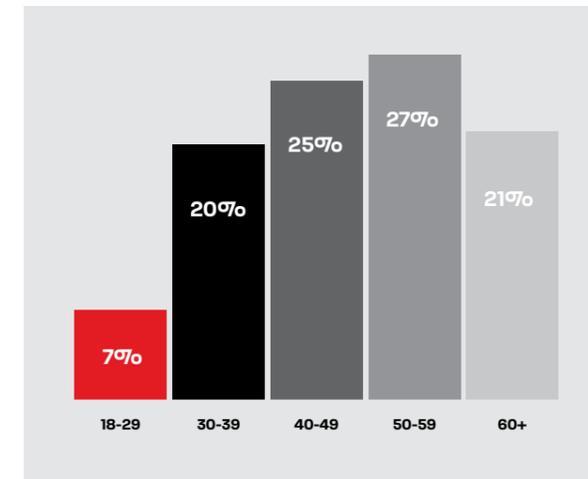
	BROKER CLIENTS	DIRECT CLIENTS
CHEAPER THAN BUYING DIRECT	19%	9%
ABOUT THE SAME	53%	36%
1% TO 5% MORE EXPENSIVE	6%	2%
6% TO 9% MORE EXPENSIVE	0%	0%
10% TO 20% MORE EXPENSIVE	8%	29%
OVER 20% MORE EXPENSIVE	2%	12%

"THE BROKER IS GETTING US THE BEST DEAL." MEDIUM BUSINESS

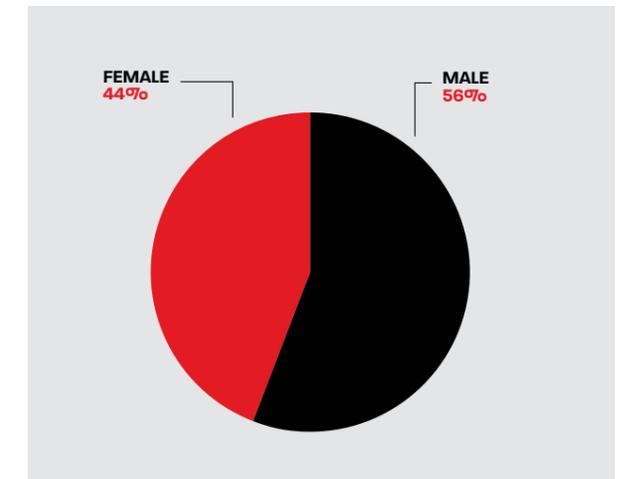
"IT HAS TO COST MORE, THEY'VE GOT TO BE PAID." MICRO BUSINESS

## DEMOGRAPHICS OF RESPONDENTS

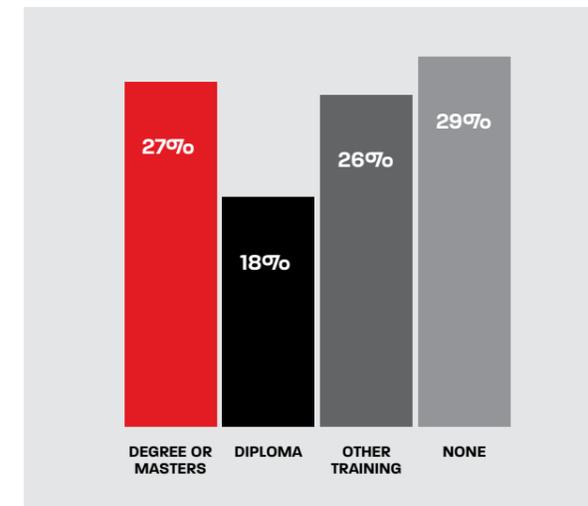
### AGE GROUPS



### GENDER



### LEVEL OF BUSINESS EDUCATION



## SAMPLE SIZES AND WEIGHTING APPROACH

The quantitative phase of the report was based on 200 phone interviews and 685 online surveys 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	360	85%
5 TO 19	286	11%
20 TO 200	239	4%
TOTAL	885	100%

STATE	SAMPLE SIZE	ABS POPULATION PROPORTION
NSW/ACT	331	34%
VIC/TAS	222	27%
QLD/NT	209	21%
WA	60	10%
SA	63	8%
TOTAL	885	100%

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