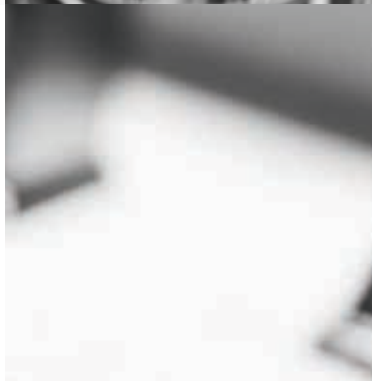


# VERO SME INSURANCE INDEX **2014**



---

<b>1</b>	INTRODUCTION
<b>2</b>	EXECUTIVE SUMMARY
<b>4</b>	THE RESEARCH
<b>6</b>	THE FINDINGS
<b>30</b>	CONCLUSION
<b>31</b>	DEMOGRAPHICS OF RESPONDENTS
<b>32</b>	SAMPLE SIZES AND WEIGHTING APPROACH

# INTRODUCTION

The small to medium business sector is a significant growth engine for the Australian economy as a whole and a major audience for the insurance industry. It is a diverse, complex, dynamic and contradictory sector and yet understanding the attitudes of this important business group has never been more critical.

While brokers know their own clients better than anyone else, it is more difficult for individual brokers and brokerages to gain a broader view of the dynamics of the sector and the trends, issues and attitudes existing in small to medium businesses. However, for brokers to plan for the future, it is critical for them to understand this sector comprehensively – how it is thinking, behaving and changing – and what role both insurance and brokers can play in this evolving environment.

This is why Vero has developed the third edition of the Vero SME Insurance Index. The research is designed to track, identify findings and shed light on the challenges and opportunities presented by 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.

In the course of this research, we interviewed over 1500 small and medium business owners and decision makers across the country – a highly diverse and representative mix of businesses from micro to medium, metro and regional, young and old, male and female, in every state and territory and across a large range of industry sectors.

Underpinning these results are 1530 individual business stories, highlighting that no two businesses are the same. Each owner and decision maker is driven by their own unique history, ambitions, conditions and attitudes to insurance. We have synthesised these stories into eight key findings about SMEs and insurance and illustrated the findings with narratives and quotes from a sample of our respondents.

Once again, the results confirm, challenge and shed light on some widely held views on the direction the industry is following. They present a picture of how SME decision makers view the value proposition that brokers provide and define a set of strategic challenges for the industry moving forward.

The findings in this report will help build a deeper understanding of commercial insurance in Australia. By understanding how SMEs approach insurance, we will have a more meaningful perspective of the challenges facing the commercial insurance industry and will be better equipped to meet them.



# EXECUTIVE SUMMARY

The findings of the Vero SME Insurance Index 2014 reflect a commercial insurance environment that is complex and dynamic. The evolving attitudes of SME business owners and decision makers present challenges for an industry that needs to evolve to stay relevant. Building an understanding of these changes can also uncover significant opportunities.

The Australian economy continues to perform more strongly than most, but our confidence is fragile. As highlighted in the Vero SME Insurance Index 2013, many of the flow-on effects from the GFC remain unresolved and as a result, we continue to watch international developments with caution. In this context, we see a number of important but contradictory trends emerging in SMEs' behaviour and attitudes to insurance.

Among broker clients, 92 per cent are either satisfied or somewhat satisfied with their broker, a number that has increased since last year. Broker clients have once again identified several distinct benefits of using an insurance broker, including that:

- ▼ using a broker saves time
- ▼ brokers provide expert knowledge and advice
- ▼ brokers understand their clients' businesses
- ▼ brokers resolve claims more quickly and easily (for those who have made a major claim only).

Relationships are central to the broker experience for SMEs. The majority of broker clients would like to be in contact with their broker more frequently than they are at present, with a phone call to catch up every couple of months being viewed by many as the optimum.

Additional positive news for the broking industry is that relatively few SMEs who currently directly purchase their insurance reject the idea of using a broker and almost a third claim to be actively considering brokers, suggesting a significant opportunity to attract new clients.

Australian business owners appear to be busier than ever, managing heavy workloads and increased administrative responsibilities, often with a reduced workforce. However, at the same time growing numbers of SMEs are prepared to personally research their own insurance needs. Many are relying on the internet and other sources of advice to do this, highlighting potential risks including under-insurance and inappropriate levels of cover. This growing reliance on self-directed search and knowledge-building is the result of a combination of factors including a distrust and devaluing of traditional expertise combined with an increased capacity to purchase directly when previously this option may not have been available.

It is important to note that the insurance industry is not alone. The direct purchase trend is replicated across many other industries, including travel and self-managed superannuation.

As with last year, there are some SMEs that are becoming less reliant upon brokers to purchase business insurance. The barriers to broker usage are the same as last year. The main factor limiting broker use is that many SMEs simply do not understand the benefits a broker can bring and think they can manage their insurance effectively themselves. For others, not understanding the risk of incomplete or insufficient insurance cover means they move forward unconsciously unaware and potentially unprotected. Other barriers include price perceptions, lack of trust and an unwillingness to relinquish control.

Medium sized business owners and decision makers are the most likely of any businesses to express a desire to be involved in the insurance process, meaning that insurance professionals need to evolve in the way they manage relationships with this type of decision maker.

Finally, we know that SMEs are a diverse group and that underlying all of these trends are many different ways of thinking about insurance. Once again we have clustered responses and this year identified an evolved model with four clear SME customer segments:

- ▼ Outsourcers
- ▼ Thoughtful Buyers
- ▼ Value Hunters
- ▼ Uninvolved Buyers.

# 57%

## OF SMEs PERSONALLY RESEARCH THE INSURANCE NEEDS OF THEIR BUSINESS

Understanding the attitudes and drivers for each of these segments can help define today's SME market and where it is heading. Importantly, by exploring these segments brokers will be able to 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 complex and dynamic, with some notable challenges but significant opportunities for evolution and growth. In these dynamic times, Vero remains committed to partnering with brokers and developing new initiatives to help brokers make the most of the opportunities the current times present.



# THE RESEARCH

---

This report is based on research involving over 1500 business owners and decision makers from around Australia. The research was independently\* conducted in two stages:

### STAGE ONE – QUANTITATIVE SURVEY

A nationwide online survey of 1518 business owners and insurance decision makers was conducted, covering a range of business types, locations and sizes. These surveys were conducted during September 2013 (after the federal election) 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 prices changes
- ▼ online behaviour
- ▼ demographics.

Respondents were screened to ensure that they were responsible for making insurance decisions at their businesses. Quotas around state and business size ensured that 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 twelve SME respondents representing a mix of business sizes, types, attitudes to insurance, insurance purchasing channels and demographics. These sessions were held at respondents' workplaces in Sydney, regional NSW and Perth during November 2013.

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).





---

# THE FINDINGS

Analysis of the research results identified eight key findings:

- 01** DEMANDS ON BUSINESS OWNERS ARE HIGH, DESPITE A BENIGN BUSINESS ENVIRONMENT.
- 02** MANY SMEs ARE CONSIDERING USING A BROKER.
- 03** CLAIMS CAN MAKE OR BREAK BROKING RELATIONSHIPS.
- 04** STRONG RELATIONSHIPS PLAY AN IMPORTANT ROLE IN BUILDING TRUST AND LOYALTY WITH CLIENTS.
- 05** SMES ARE INCREASINGLY INVOLVED IN THE INSURANCE PROCESS.
- 06** RELIANCE ON BROKERS APPEARS TO BE SOFTENING.
- 07** MEDIUM BUSINESSES ARE THE NATURAL TARGET FOR BROKERS.
- 08** NOT ALL BUSINESS OWNERS APPROACH INSURANCE IN THE SAME WAY – FOUR DISTINCT AUDIENCE SEGEMENTS HAVE BEEN IDENTIFIED.

Each of these findings will be explored in detail in the following sections of this report.



## FINDING 01

Demands on business owners are high, despite a benign business environment.

Nicole and her husband own a successful commercial refrigeration business. They enjoy the challenge of building and running a thriving enterprise, but the demands on them personally are high. The needs of their clients mean that they are on call all day, every day, even at times when most Australians are enjoying a break. If a major hotel's fridge breaks down on Christmas Day it can't wait until the next business day to be repaired. Nicole and her husband work long hours, not only servicing their clients but also managing the ever increasing paperwork brought about by regulatory requirements such as the carbon tax.

Nicole simply doesn't have the time to spend researching all the details of her insurance and managing claims, but getting it right is very important to her. For Nicole, using a broker helps free her up to focus on the many demands of running her business.

Our research has once again identified the intense demands facing most small and medium businesses in Australia today. When we speak with business owners and decision makers, a range of pressures emerge.

Time is an ever-present challenge for the business people we spoke with, many of whom work long, punishing hours. While the benefits of owning a business generally outweigh the burdens, there is no question that many business owners make significant lifestyle sacrifices in order to enjoy the challenge and freedom of being their own boss.

Exacerbating this is the fact that many businesses have had to reduce staff numbers in order to keep costs down and protect their margins. This means that owners and managers are taking on additional tasks that would otherwise have been delegated to employees.

Costs and margins are a constant concern. Increased competition from, for example, overseas online retailers and generic offerings, means that margins need to be cut in order to remain competitive. In addition, many are finding that the still-fragile economy is increasing the likelihood of bad debts and clients who don't pay within invoice terms impacting business cash flow.

Finally, regulations are perceived to be increasingly demanding, adding to the already considerable burden of administration and paperwork on those who run small businesses.

In contrast to this, confidence and turnover measures are indicative of relatively benign business conditions. We again asked participating SMEs how they were feeling about business conditions: how was their turnover compared to the previous 12 months and how were they feeling about the year ahead?

In general turnover is flat, with half of our respondents claiming that their turnover has remained the same this year, compared to 44 per cent last year (see figure 1). Confidence, however, has increased strongly with 39 per cent claiming to be feeling more confident about the year ahead. This figure contrasts with last year when only 28 per cent were feeling more confident (see figure 2). However the timing of the survey needs to be kept in mind when assessing the year-on-year results. This year's survey was in field in mid-September, just after the Federal Election. Large-scale events such as elections can temporarily artificially inflate or deflate confidence figures and in such situations specific year-on-year comparisons should be treated with caution.



**MY KIDS SAY, 'DAD, HOW COME EVERY TIME WE SIT DOWN TO DINNER THE PHONE RINGS?' AND HE SAYS, 'IT'S BECAUSE SOMEONE'S FRIDGE HAS BROKEN DOWN'.**

#### WHAT THIS MEANS

- ▼ As with last year, this means more of the same: pressure on margins, pressure on costs and pressure on time for Australian SMEs.
- ▼ As a result, SMEs are likely be increasingly resistant to any aspect of insurance that involves extra administration or time (although this does depend to some degree on the mindset of the individual SME – see Finding 08).
- ▼ There is an opportunity for brokers to recognise that anything that can make business owners' lives simpler and more efficient will be greatly appreciated.

FIGURE 1 SME TURNOVER

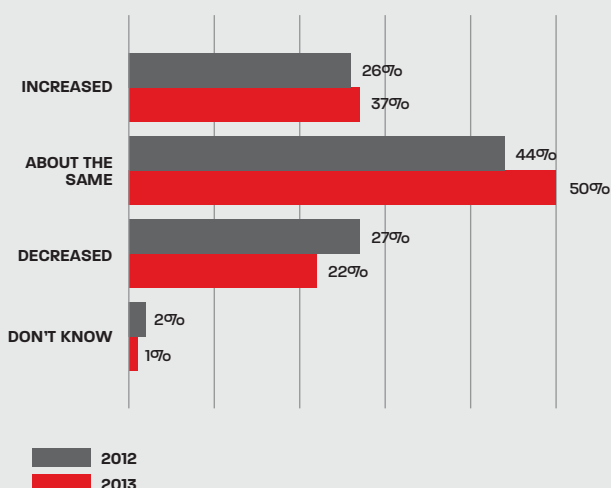
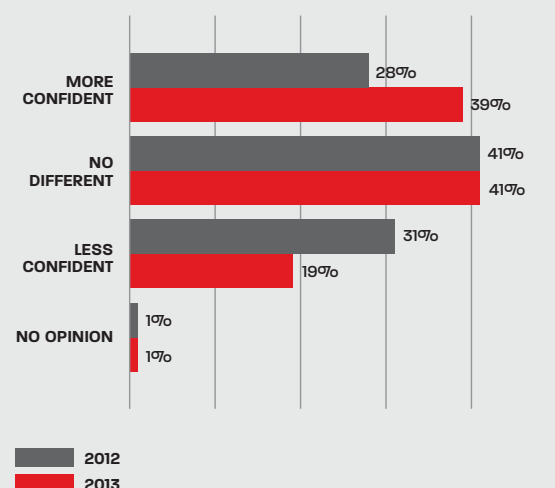


FIGURE 2 SME CONFIDENCE





## FINDING 02

Many SMEs are considering using a broker.

Two years ago Brendon left the corporate world to open his first café. He researched his insurance options carefully and decided to buy his insurance online, believing that the small scale of his current operation meant that he didn't need specialist guidance at that stage. However, his business is now growing strongly and he has plans to open two more cafés in the near future. When this happens he will most likely use a broker because he thinks that with increased business complexity he will need the expert advice of an insurance professional.

In particular, Brendon will be looking for a broker with deep understanding of the café industry. He wants a broker who will be able to review his existing insurance and critique it in detail, pointing out potential flaws and things he may not be adequately covered for. Brendon is hoping that a broker can share real-life stories of similar businesses, the types of claims they make and experiences they have had, bringing him knowledge and understanding that he doesn't have today.

Once again the Vero SME Insurance Index 2014 has found that existing broker clients are overwhelmingly satisfied with their brokers. This year 70 per cent of broker clients claim to be satisfied with their broker, up from 66 per cent last year (see figure 3). Ninety-two per cent of broker clients are either satisfied or somewhat satisfied.

Broker clients are able to articulate clear benefits of using brokers. As with last year, the benefits of using an insurance broker can broadly be described using four main themes, illustrated in figure 5.

Importantly, even SME customers who currently use direct channels do not reject brokers outright. This year we asked direct clients if they would consider using a broker and a sizeable number are open to the idea. Specifically, 35 per cent are either definitely or maybe considering using a broker, 36 per cent aren't sure and only 29 per cent are unlikely to or definitely will not consider using a broker (see figure 4).

FIGURE 3 SATISFACTION WITH BROKERS

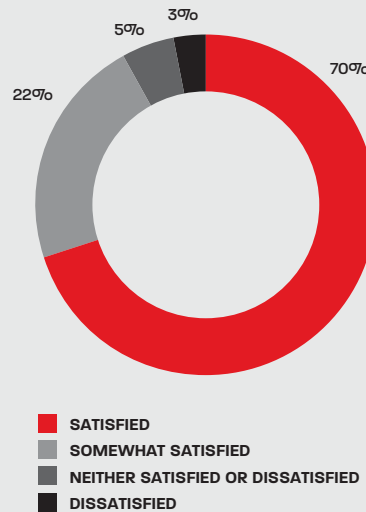


FIGURE 4 CONSIDERATION OF USING A BROKER

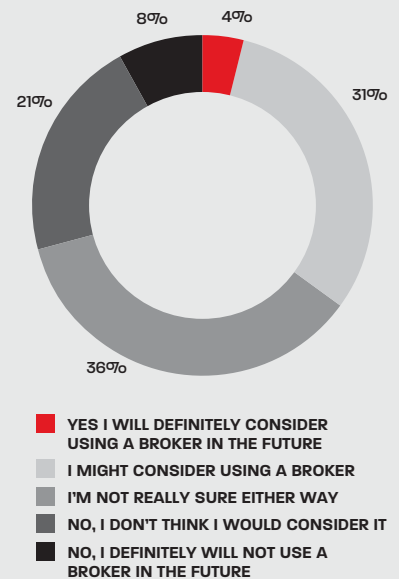


FIGURE 5 BENEFITS OF USING A BROKER

#### TIME

53 per cent of broker clients value the fact that their broker saves them time, which enables them to focus on their business.

**"YOU DON'T HAVE TIME TO RESEARCH EVERY SINGLE LITTLE IN AND OUT OF EVERY POLICY."**  
MEDIUM BUSINESS OWNER



#### EXPERTISE

45 per cent think that their broker provides expert knowledge and advice. For SMEs with a deeper understanding of insurance, this often equates to more nuanced expressions of expertise. For instance, 24 per cent of SMEs value the fact that their broker has access to better wording than they could get if buying direct.

**"I'D WANT HIM TO OFFER ME OTHER THINGS THAT I'M NOT AWARE OF THAT MAY BE USEFUL TO ME AND THAT I SHOULD REALLY BE COVERED FOR, RATHER THAN JUST GOING 'HERE'S YOUR OPTIONS.'"**  
SMALL BUSINESS OWNER



#### BUSINESS UNDERSTANDING

42 per cent claim that their broker knows and understands their business needs, and 31 per cent value having service that is personalised to the needs of their business.

**"HE MAY HAVE SOME INFORMATION ABOUT SOME ISSUE THAT THE BOWLING CLUB DOWN THE ROAD FACED, OR SOME CHANGE IN GOVERNMENT REGULATION."**  
MEDIUM BUSINESS OWNER



#### VALUE

53 per cent of broker clients trust their broker to get them the right insurance at the right price.

As in previous years, there is a clear gap between the perceptions of broker pricing by broker and direct clients, with broker clients generally believing that they get a great deal from their brokers while 49 per cent of direct clients believe using a broker would be more expensive.



## FINDING 02 (CONT.)



**I'D WANT A BROKER TO TELL ME, 'YOU DIDN'T TICK THAT BOX, A CAFE DOWN THE ROAD BURNT DOWN AND THEY DIDN'T HAVE THAT COVER'... THIS IS GREAT, THIS IS STUFF I DIDN'T KNOW.**

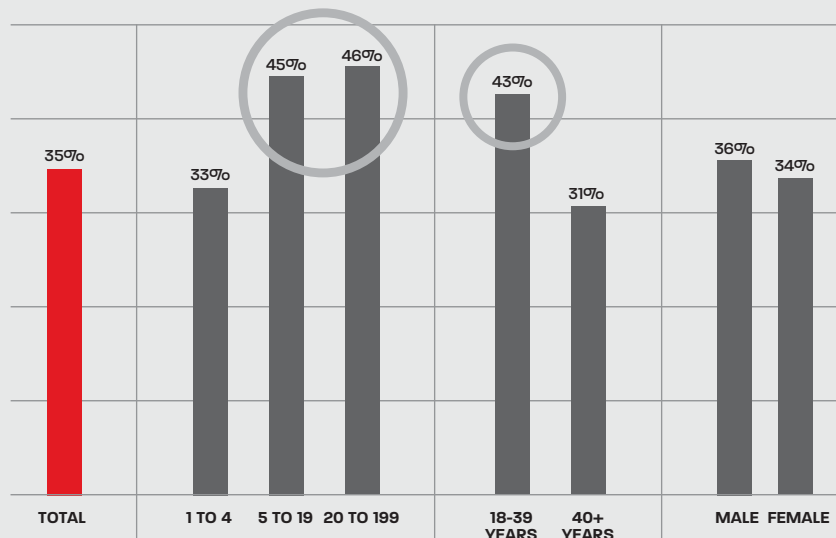
Those considering using brokers are more likely to be small and medium businesses and younger business owners (see figure 6).

As part of this research we asked direct clients what circumstances or benefits might inspire them to try using a broker. The results demonstrated some overlap with the benefits that broker clients most appreciated, with expertise and business understanding being highly valued. Business growth and increased complexity was the most common trigger mentioned for switching to a broker. Overall, the main themes identified by direct clients can be seen in figure 7.

**WHAT THIS MEANS**

- ▼ Brokers have a clear value proposition with benefits that are highly relevant to today's time-pressured business owners and decision makers.
- ▼ Many SMEs are actively considering using brokers in the future. This means that there are clear opportunities for brokers to attract new clients, especially growing small and medium sized businesses and younger business owners.

**FIGURE 6 DEFINITELY OR MIGHT CONSIDER USING A BROKER IN THE FUTURE**



**FIGURE 7 WHY SMEs WOULD CONSIDER USING A BROKER**

**1. INCREASED BUSINESS COMPLEXITY**

For many, the main trigger is business expansion and the subsequent increase in complexity. This is reflected by the fact that small and medium sized businesses are more likely to use brokers than micro businesses overall.



**2. EXPERTISE**

38 per cent of those who are considering using brokers claim to be looking for guidance on insurance issues, and 37 per cent of them are looking for expert knowledge and advice.



**3. BUSINESS UNDERSTANDING**

27 per cent of those who would consider using a broker want service that is personalised to their needs. For many, this is expressed as the ability to bring a deep understanding of their category and the special needs their industry has.



**4. PRICE**

38 per cent want a broker to get them cheaper prices, and 34 per cent expect a broker to offer them more quotes.





## FINDING 03

Claims can make or break broking relationships.

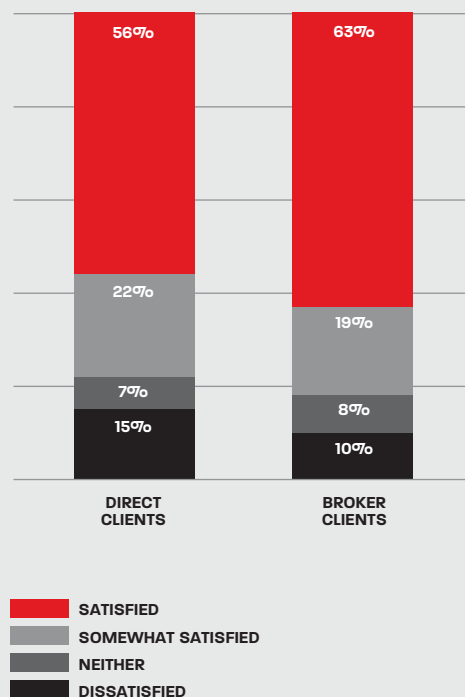
Nicole's commercial refrigeration business has a fleet of commercial vehicles. These vehicles are on the road in heavy city traffic for most of the day and are often driven by apprentices or younger drivers. Unsurprisingly, these vehicles are frequently involved in minor accidents, which mean that Nicole needs to make regular insurance claims. Without her broker, this would involve significant time and effort calling insurers, coordinating paperwork and following up claims – time she doesn't have in an already busy schedule.

Nicole thinks her insurance claims process is hassle-free. All she needs to do is make one call to her broker and send off the paper work and he looks after it all for her.

The claims process is seamless for Nicole, and this is a major advantage of dealing with a broker.

FINDING **03** (CONT.)

**82%**  
OF BROKER CLIENTS  
ARE SATISFIED OR  
SOMEWHAT SATISFIED  
WITH THEIR CLAIMS  
EXPERIENCE

FIGURE 8 **SATISFACTION WITH CLAIMS EXPERIENCES**

While making a claim is a defining part of insurance perceptions for some, thankfully not all small businesses have had the experience of making a claim. In fact, only 21 per cent of those surveyed had made a major claim in the last five years.

For those who have made a claim, levels of satisfaction are broadly in line with industry standards, with 80% of all respondents somewhat satisfied or satisfied. However, broker clients are more likely to be satisfied with their claims experience and less likely to be dissatisfied than direct clients (see figure 8). Significantly, direct clients who have made a major claim are more likely to consider using a broker in the future (see figure 9).

When asked what benefits of using a broker are most appealing to them, direct clients that have made a claim are more likely to be impressed by a broker's expertise, access to better policy wording, service and support rather than any specific benefits around claims being resolved faster or with less hassle. This suggests that the experience of making a claim makes direct clients more aware of the potential risks of buying insurance without expert advice and therefore more open to hearing about what a broker can deliver in terms of guidance and support.

FIGURE 9 MAY CONSIDER USING A BROKER IN THE FUTURE

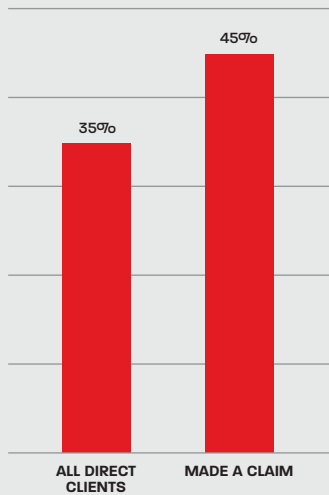
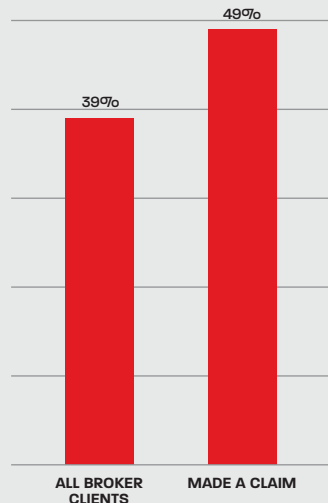


FIGURE 10 SATISFACTION WITH BROKERS



45%

OF DIRECT CLIENTS  
WHO HAVE MADE  
A CLAIM WOULD  
CONSIDER USING  
A BROKER

Broker clients who have made a claim tend to be even more satisfied with their broker than broker clients overall (see figure 10), and particularly appreciate the fact that their claims have been resolved more quickly and with less hassle to them.

Qualitative feedback has demonstrated that for many broker clients, brokers can make a significant difference to the claims experience, making it easier and faster and relieving the administrative burden for time poor SMEs. Conversely, a bad claims experience can significantly damage the broker-client relationship.

Finally, resolving claims more quickly or easily is really only a relevant benefit to those who have already had a claims experience. In fact, in qualitative interviews, many clients, both direct and broker, tell us that they did not even realise that brokers can assist with making claims.

#### WHAT THIS MEANS

- ▼ Broker clients that have made a claim are more satisfied with their claims experience than direct clients who have made a claim, suggesting that managing claims is an important benefit of brokers.
- ▼ However, this benefit is really only valued by those who have had experience of a major claim, and is not widely appreciated by the majority of businesses who have not had to make a major claim. This makes it problematic for brokers to use the claims experience as a significant value proposition for potential new clients.

“

**USING A BROKER TO  
MANAGE MY CLAIMS  
SAVES ME TIME, AND  
AT THE END OF THE DAY  
TIME IS MONEY WHEN  
YOU'RE RUNNING  
A SMALL BUSINESS.**



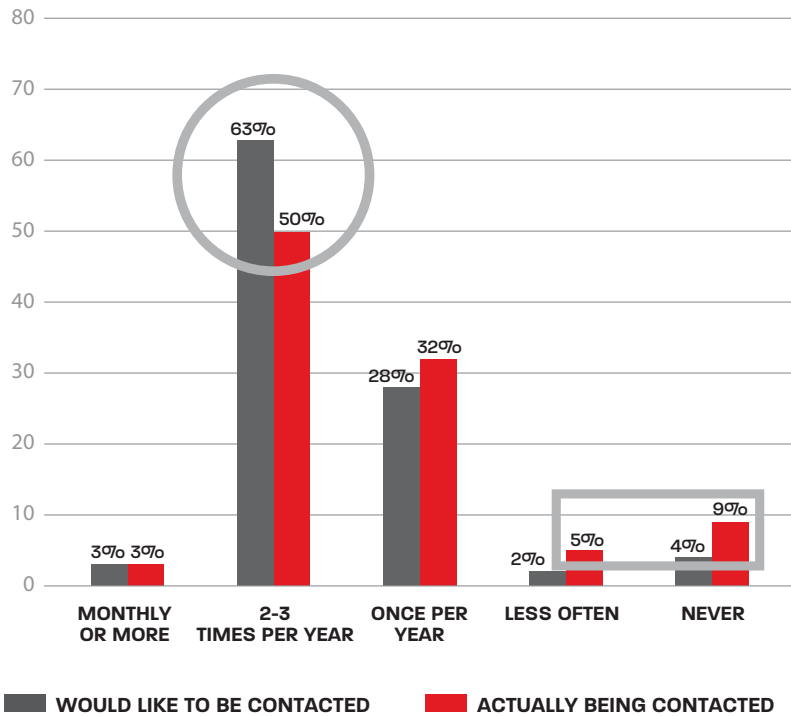
## FINDING 04

Strong relationships play an important role in building trust and loyalty with clients.

Stan is the General Manager of a bowling club in a fast-growing town in regional NSW. He oversees all aspects of the running of the club. Insurance is a responsibility he takes very seriously. However, he doesn't have the time or skills to give insurance the attention he believes it deserves and so he relies heavily on his broker to look after all of the club's insurance needs.

Stan's relationship with his broker is deep and long-standing. The broker keeps in regular contact, dropping into the club once every few months to catch up with Stan, talk about the business and keep Stan updated on any relevant changes, such as in the club's insurance or government legislation. Stan particularly values the fact that his broker looks after several similar clubs and is able to share experiences and stories that directly impact the club's insurance.

FIGURE 11 CONTACT WITH BROKERS – DESIRED vs. ACTUAL



Dedicated personal contact is one of the major differentiators between buying insurance direct or through a broker. This contact has the ability to make a big difference to the quality of broker-client relationships because it allows brokers to understand their clients' businesses, demonstrate their expertise and ultimately build trust and loyalty.

Once again, broker clients have told us that they would like more contact with their broker. Specifically, 63 per cent of clients say that they would like to hear from their broker two to three times a year, but in reality only 50 per cent hear from their broker that frequently (see figure 11).

Despite the majority of businesses preferring to hear from their broker two to three times per year, 14 per cent of clients hear from their broker less than once a year or never. A deeper analysis of clients who rarely or never hear from their broker shows that they are considerably more dissatisfied than most broker clients (see figure 12) and more likely to use a mix of broker and direct channels.

FIGURE 12 RELATIONSHIP BETWEEN BROKER COMMUNICATION AND SATISFACTION

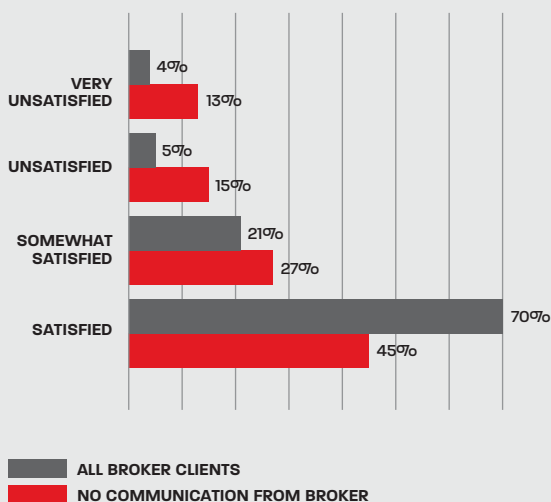


FIGURE 13 **WHAT BROKER CLIENTS WANT FROM THEIR BROKER****1. REGULAR CONTACT**

Only four per cent of broker clients claim to never want to hear from their broker. Conversely, most aren't looking for a high touch, day-to-day relationship either, with almost two thirds suggesting they would like to hear from their broker two to three times a year. Qualitatively, participants suggested that they expect this to be a simple phone call to check how things are going, find out about any changes in their business and update them on any relevant changes in insurance that may affect them.

**"I LIKE A PHONE CALL ONCE A QUARTER OR HALF YEAR TO SAY 'HEY, HOW ARE YOU GOING, THIS IS WHAT WE'VE GOT, THIS IS WHAT'S HAPPENING, THIS IS MY RECOMMENDATION.'"**  
MEDIUM BUSINESS OWNER

**2. UNDERSTANDING OF THEIR NEEDS**

Broker clients tell us that they want their broker to focus on their needs – to take the time to listen to their plans, objectives and concerns.

**"FOR US SERVICE IS IMPORTANT AND EQUALLY WE WANT THAT BACK."**  
MEDIUM BUSINESS OWNER

**3. EXPERTISE AND LEARNINGS**

As previously noted, business people are hungry for information they cannot find elsewhere, particularly if it is specific to their business or industry.

**"SURELY CAFÉS HAVE DONE CLAIMS IN YOUR TIME BEING A BROKER, I WANT TO KNOW WHAT THEY ARE... GIVE ME A REAL LIFE EXPERIENCE."**  
MICRO BUSINESS OWNER



“

**MY BROKER DROPS IN EVERY FEW MONTHS FOR A CHAT. WE'LL DO A WALK AROUND, TALK ABOUT HOW THINGS ARE GOING, HE'LL SHARE ANY INFORMATION HE MAY HAVE... IT'S ALL GOOD.**

So what do clients want from their relationship with their broker?

This varies between clients with some preferring more contact and involvement than others. Beyond personal contact, the research demonstrated that clients generally have three key requirements from their brokers:

- ▼ regular contact
- ▼ understanding of their needs
- ▼ expertise and learnings.

These are further explored in figure 13.

**WHAT THIS MEANS**

- ▼ Many broker clients claim to want more contact with their broker. This suggests an opportunity for brokers to review their service models to ensure businesses are getting personal contact in line with their expectations.
- ▼ Businesses are seeking understanding and expertise. There is an opportunity for brokers to explore ways to demonstrate their expertise to help them attract and retain new clients within industries where they can demonstrate specific experience.

**4%**

**OF BROKER CLIENTS CLAIM TO NEVER WANT TO HEAR FROM THEIR BROKER**

## FINDING 05

SMEs are increasingly involved in the insurance process.

Kathie and her husband are directors of a company with divisions that span the entire fruit and vegetable supply chain, from farms to wholesale distribution to restaurants. As would be expected with such a complex business, Kathie believes getting the right insurance is very important and devotes considerable time to researching insurance and ensuring the business is properly covered.

Kathie buys her insurance direct and manages the entire process herself, which takes a substantial amount of time out of her already busy schedule.

Due to a previous claims experience where Kathie's business was under-insured she is focused on understanding each of her policies in detail, even if this means reading wordings several times and phoning the insurer for clarification. When she used a broker in the past she felt she lost control of the process and was unsure exactly what she was covered for. Kathie now feels in control of her insurance.



## FINDING 05 (CONT.)

Despite the time pressures faced by most SMEs, this year the research demonstrates an increase in the number of business people who are willing to be actively involved in the insurance process. Fewer SMEs have a hands-off attitude to insurance, with 72 per cent wanting to see all of their insurance options before making a decision (up from 68 per cent last year) and 57 per cent claiming to personally research their insurance needs (up from 53 per cent last year) (see figure 14).

This trend is, unsurprisingly, most prominent amongst business owners and decision makers who buy their insurance direct, with online research particularly common amongst direct buyers (see figure 15).

This year we asked our respondents how knowledgeable they feel about insurance, and how complex they find business insurance. Overall, there appears to be a healthy degree of respect for the complexity of insurance, with 35 per cent of business people claiming to be knowledgeable about insurance and 63 per cent considering business insurance to be complex. There is a small but notable gap, however, between the perceptions of broker and direct clients, with 41 per cent of direct clients believing that they have good insurance knowledge. It is important to note that this is based on the respondent's personal perception, rather than any objective measure of insurance knowledge.

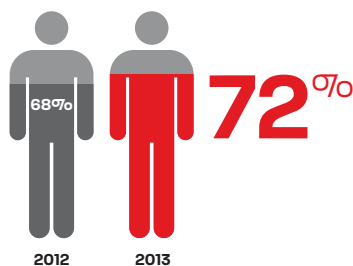
It is possible there may be a degree of over-confidence amongst some direct insurance clients.

So where do business owners and decision makers get information and advice about insurance? There is a clear and obvious difference between broker and direct clients here, with broker clients relying heavily on their broker while direct clients use a wide variety of sources including insurance companies and their personal networks (see figure 16).

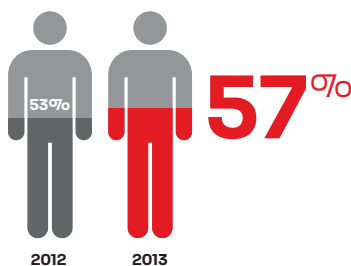
This growing degree of personal involvement translates to a willingness to use online as a purchase channel for insurance, with 47 per cent of all respondents agreeing that they would be willing to manage their business insurance online if they could.

FIGURE 14 **INSURANCE INVOLVEMENT – 2013 vs. 2012**

"I NEED TO SEE ALL THE OPTIONS BEFORE I CAN MAKE A DECISION ON INSURANCE"



"I PERSONALLY RESEARCH THE INSURANCE NEEDS OF MY BUSINESS"



"I USE THE INTERNET TO RESEARCH MY INSURANCE OPTIONS BEFORE BUYING"

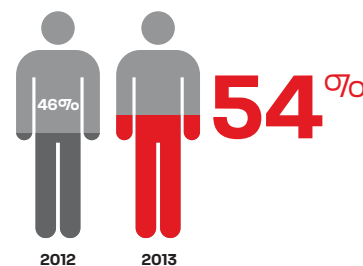
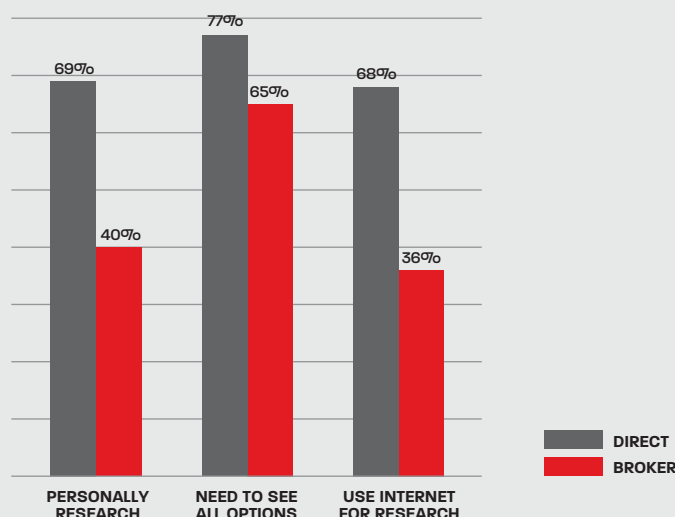


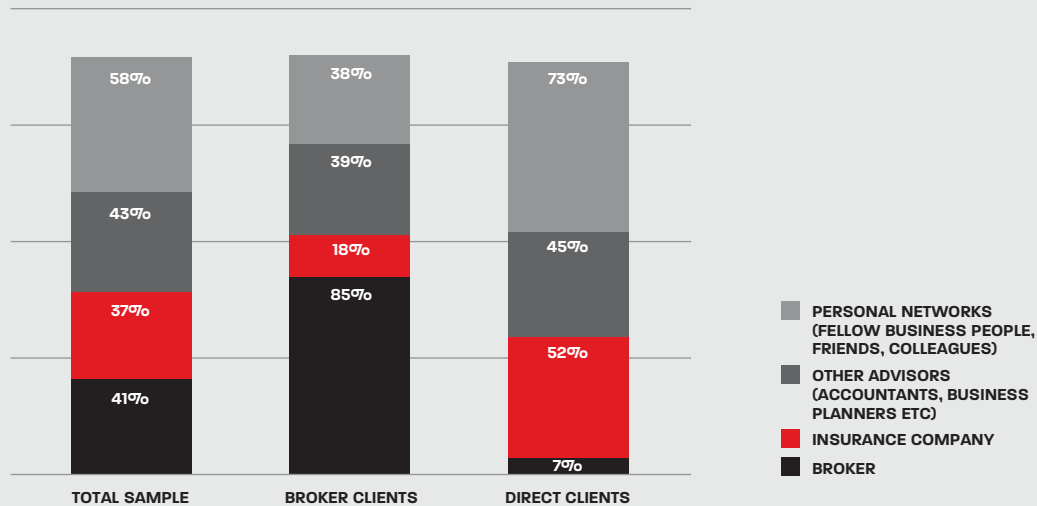
FIGURE 15 **INSURANCE INVOLVEMENT – DIRECT vs. BROKER**



“

**I'LL READ IT FOUR, FIVE, SIX, MAYBE EVEN 10 TIMES TO MAKE SURE I UNDERSTAND ALL THE DETAILS COMPLETELY, AND IF ANYTHING STILL ISN'T CLEAR I'LL ASK.**

FIGURE 16 SOURCES OF INSURANCE INFORMATION



73%

OF DIRECT CLIENTS  
GET INSURANCE  
ADVICE FROM  
THEIR PERSONAL  
NETWORKS

#### THE SELF-SERVICE TREND

Insurance is not alone in this trend. The rise of the internet, and the access to the information and tools that it provides, has meant that Australians are increasingly able to perform a range of tasks themselves that were previously conducted by professionals, including booking holidays and managing investments. At the same time, there has been a significant decline of trust in experts providing paid advice, and a corresponding rising reliance on informal, unpaid forms of advice. Some examples include:

- ▼ 40 per cent of super contributions now go into **self-managed super funds**. Changes to superannuation legislation mean that investors, who believe they can manage their superannuation more effectively than traditional funds, are now able to manage their super themselves while at the same time incurring fewer fees and charges
- ▼ Use of traditional **stock brokers** has declined dramatically as investors embrace the convenience, value and accessibility of online share trading and even the rise of social share trading networks

- ▼ Traditional **travel agents** are suffering with the rise of online travel booking providers and search engines.

Each of these examples has been created by a lack of trust combined with increased personal capability as a result of the internet.

#### WHAT THIS MEANS

- ▼ The provision of high quality, accessible information and education about insurance is increasingly valued by SMEs to facilitate their feeling of involvement and to help reinvest in building trust.
- ▼ Insurance professionals need to be aware that the increasing degree of involvement and confidence amongst SME businesses who do not have in-depth knowledge of insurance heightens the risks of policy misunderstanding, inappropriate and/or inadequate cover.

## FINDING 06

Reliance on brokers appears to be softening.

Graham owns a growing real estate agency in outer-suburban Perth, focussed on residential sales and rentals. His insurance needs are not complex, but he needs professional indemnity cover on top of his basic business insurance. Graham uses a mix of channels to purchase his insurance. He buys most of his business insurance direct but uses a broker for his professional indemnity cover. He is very satisfied with the cover he buys direct, and only uses a broker because he has found he cannot buy professional indemnity cover any other way. While he is not dissatisfied with his broker, he views him as an unnecessary middle-man and can't see what benefit the broker brings. He would happily buy all his insurance direct if he was able to do so.

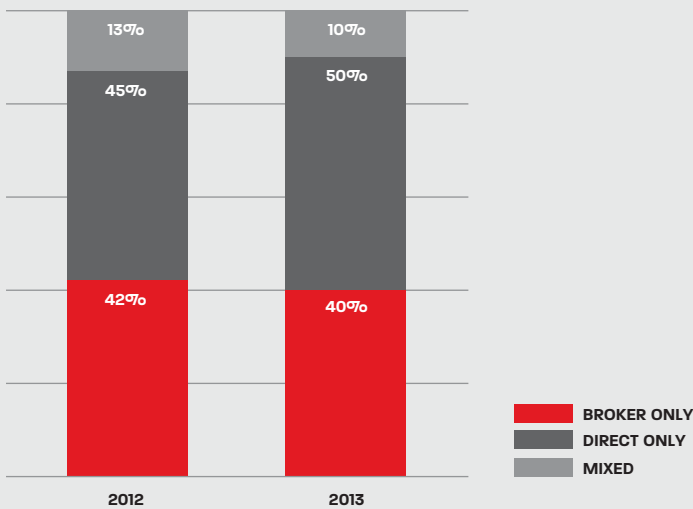
The insurance industry has been predicting a decline in broker usage for many years, fuelled by concerns over the rise of insurers selling business insurance directly to clients, the emergence of online channels and the ever-increasing cost-consciousness of Australian SMEs.

The study shows indications of a weakening in broker usage. This will need to be validated by further research. When asked about the most recent policies they purchased for their business, only 40 per cent of SMEs claim to have purchased this exclusively through a broker (see figure 17).

Importantly, this weakening in broker use has been relatively widespread. The over 40s, small businesses (five to 19 employees) and older males are slower adopters when it comes to technology and new ways of doing things. It is possible that they have only recently started to explore the possibility of buying insurance direct.

This is an important message for brokers as it suggests that even previously 'rustied-on' audiences are beginning to experiment with other purchase channels and that there is the risk of declines in the future.

FIGURE 17 PURCHASE CHANNELS



**50%**  
**OF SMEs ARE ONLY USING  
DIRECT CHANNELS TO  
PURCHASE INSURANCE**



## FINDING 06 (CONT.)

So what is affecting SMEs' use of brokers?

According to the research there are four key reasons contributing to the change in SMEs using brokers. The barriers are very similar to those uncovered last year, with only minor changes in the data.

### 1. No need

Many direct clients claim that they simply do not see any need for brokers and are capable of handling their insurance themselves. Specifically:

- ▼ 54 per cent think they can do it easily enough themselves
- ▼ 38 per cent don't want to deal with a middleman
- ▼ 35 per cent don't see the benefit of a broker.

Unsurprisingly, these sentiments are strongest amongst smaller business respondents who presumably have lower risk businesses and less complex insurance needs. However, there are many larger businesses who also share these doubts about the need for brokers, with 38 per cent of medium sized direct clients saying they can do it themselves and 31 per cent saying they don't see the benefits of a broker.

### 2. Uncertainty about remuneration

There is a degree of scepticism among direct clients about whether brokers will act in their clients' best interests or their own interest, with 31 per cent believing that a broker will recommend them a policy that offers a better commission.

### 3. Need for control

Detail-oriented clients (particularly the Thoughtful Buyers audience segment, refer to Finding 08) may feel as if they are relinquishing control of their insurance affairs when they use a broker which makes them uncomfortable.

### 4. Price

As we found last year, the perceived cost of using a broker is a significant barrier, with 49 per cent of direct clients thinking that using a broker would be more expensive.

### WHAT THIS MEANS

- ▼ There is evidence emerging of a possible shift in broker usage. This will need to be further researched.
- ▼ Some of the reasons that direct customers list as reasons that they do not use a broker can, in some cases, be inaccurate. Two examples of this are lack of need and price. As identified in Finding 05, personal expertise is self-identified, and not objective. Further, as the insights in Finding 02 demonstrate, brokers can often secure more cost-efficient insurance for their customers than direct channels.
- ▼ Brokers need to find ways to demonstrate the value of their expertise in order to curb this decline. Refer to Finding 02 for more detail.
- ▼ Relationships with broker clients need to be valued and nurtured. Refer to Finding 04 for more detail.



**OUR INSURANCE NEEDS  
ARE FAIRLY SIMPLE SO  
I'D RATHER CUT OUT THE  
MIDDLE-MAN.**

## FINDING 07

Medium businesses are the natural target for brokers.

Micki owns a medium sized recruitment agency, offering recruitment services for permanent positions as well as managing a team of temps for short-term placements. While her insurance needs are not complex, she employs over 20 people and is very conscious of her obligations to them.

Micki is a believer in the importance of using paid experts when the occasion requires. She values the expertise that specialists bring, particularly in fields such as law, accounting and insurance, and is willing to pay for advice that combines technical skills she doesn't have with strong understanding of her business needs. She uses a broker for her insurance and while she considers this the right choice for her, she feels little loyalty to her current broker. She has very limited dealings with him and would greatly appreciate a more pro-active approach and regular contact.

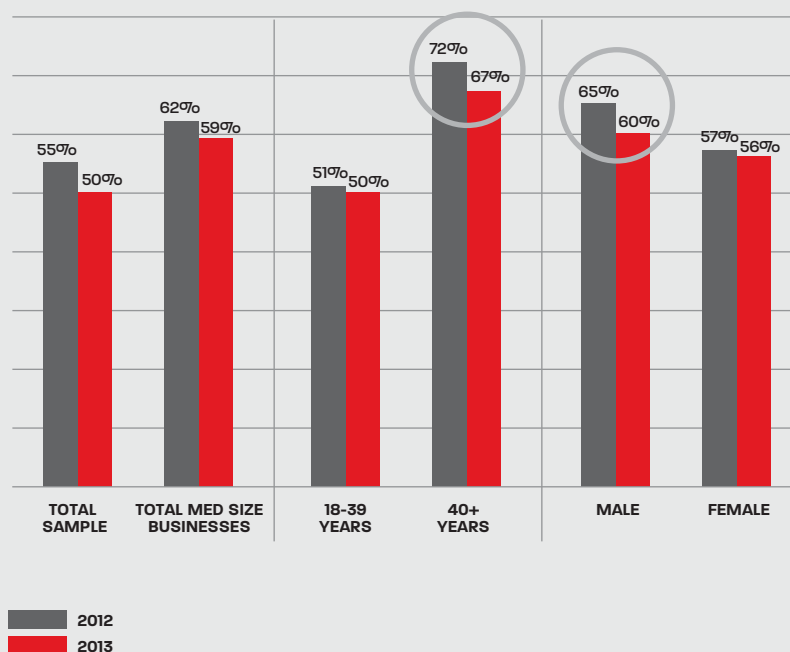
59%

OF MEDIUM SIZED  
BUSINESSES USED  
BROKERS TO BUY  
THEIR MOST RECENT  
INSURANCE POLICY

“

I WOULD LIKE THEM  
TO BE PROACTIVE,  
TO UNDERSTAND  
OUR BUSINESS AND  
RECOMMEND NEW  
OPTIONS IF ANYTHING  
SHOULD CHANGE.

FIGURE 18 MEDIUM BUSINESS BROKER USAGE BY KEY GROUPS

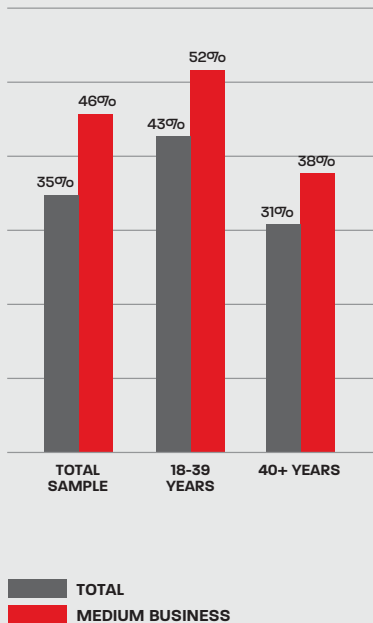


Medium businesses have traditionally been the most likely of all businesses to use brokers. Having more employees and higher turnover generally leads to higher complexity, greater risk and more demands on business owners and decision makers, meaning brokers have an important role to play.

Of course, small businesses employing between five and 19 people are also an important target audience for brokers. However, the complexity and scale of medium sized businesses makes them particularly suited to the use of brokers and therefore this finding focusses on their specific needs.

Notably, over the past 12 months there have been indications of a softening among the traditional broker heartland: businesses run by males and over 40s (see figure 18). As mentioned in Finding 06, older males are slow adopters when it comes to technology, and may have only recently started to explore the possibility of buying direct online. However, this is an important warning for brokers who may need to act quickly to reduce the risk of declines.

**FIGURE 19 DEFINITELY OR MIGHT CONSIDER USING A BROKER IN THE FUTURE**



When looking at future consideration of broker use, medium businesses are the most likely to consider using brokers, particularly medium businesses run by under 40 year olds (see figure 19).

As we saw in Finding 03, business owners are increasingly taking an active part in the insurance purchase process and this is particularly noticeable amongst medium sized business owners. Medium businesses appear to take insurance very seriously. They are more likely to consider business insurance to be complex than other business owners and decision makers, but are also more likely to consider themselves to be knowledgeable about insurance (see figure 20).

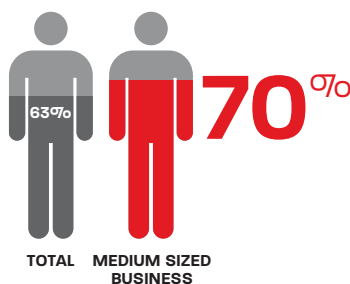
In general, medium sized businesses value the same benefits of their brokers as other businesses, and as previously mentioned, these values are largely unchanged from last year. However, medium sized businesses are more likely to make claims, and consequently are more inclined to value the role of the broker in managing claims (see figure 21).

#### WHAT THIS MEANS

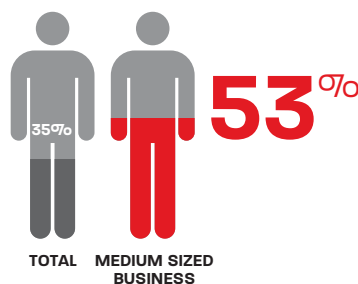
- ▼ Medium sized businesses are experiencing significant change, and the owners and insurance decision makers of these businesses are showing an increasing willingness to get involved with their insurance.
- ▼ Traditional broker audiences of businesses run by males and over 40s appear to be experimenting with buying their insurance directly.
- ▼ This means that traditional insurance relationships are changing and insurance professionals need to evolve the way they deal with these businesses.

**FIGURE 20 PERCEPTIONS ABOUT INSURANCE – TOTAL vs. MEDIUM BUSINESS**

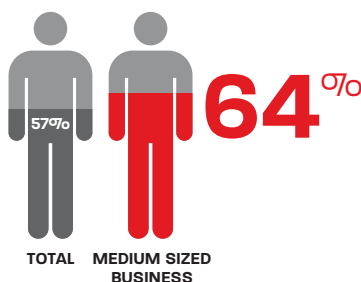
"BUSINESS INSURANCE IS COMPLEX"



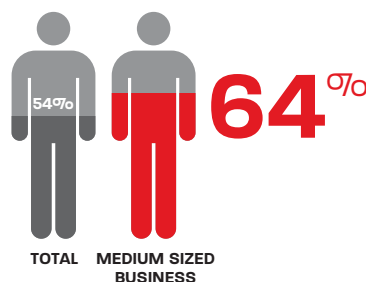
"I AM QUITE KNOWLEDGEABLE ABOUT BUSINESS INSURANCE"



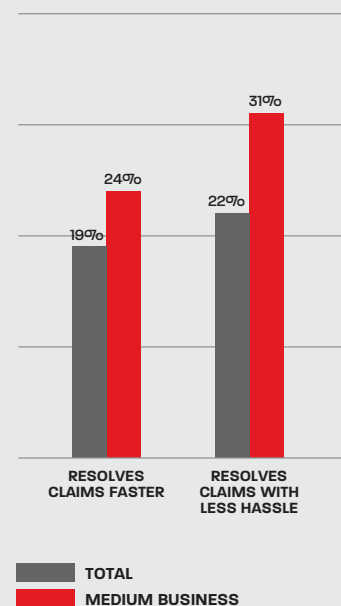
"I PERSONALLY RESEARCH"



"I USE THE INTERNET TO RESEARCH"



**FIGURE 21 BENEFITS OF USING A BROKER – TOTAL vs. MEDIUM BUSINESS**





## FINDING 08

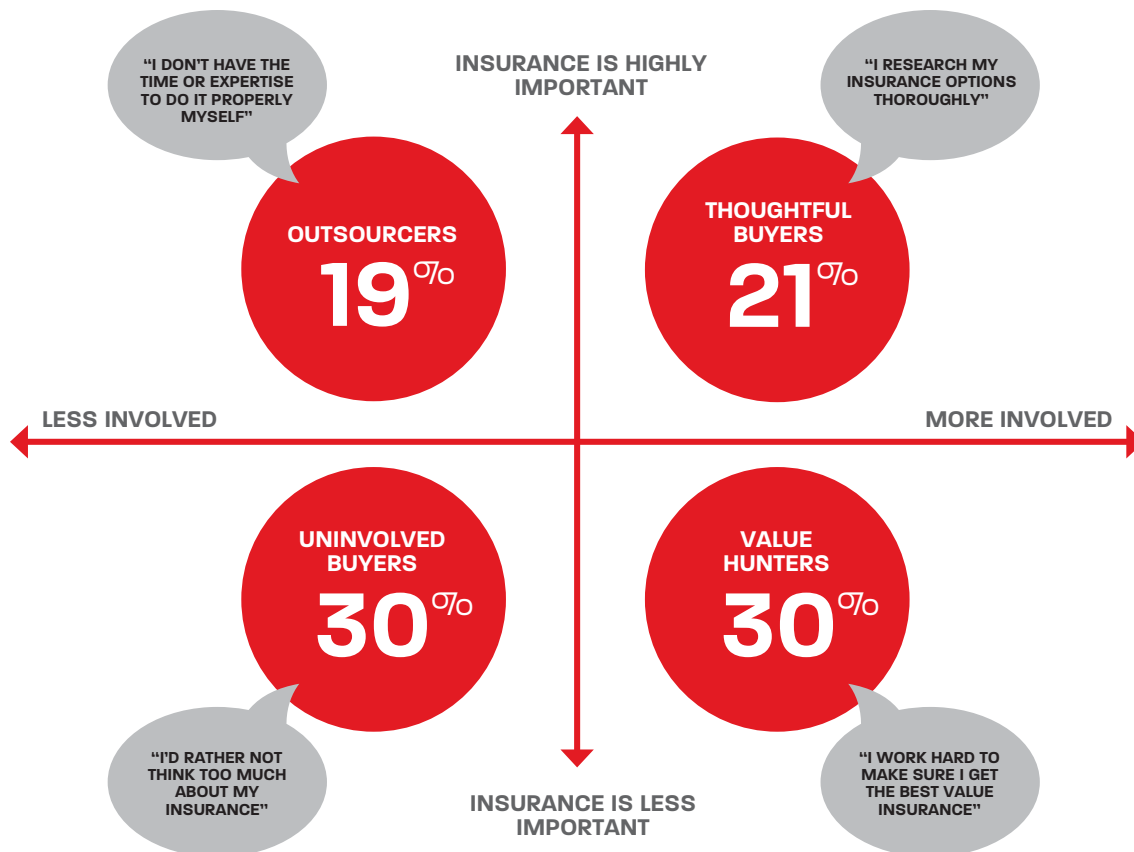
Not all business owners approach insurance in the same way - four distinct audience segments have been identified.

By clustering participant responses we have identified two main differentiators among SMEs concerning their attitudes to insurance:

- ▼ how important they perceive insurance to be
- ▼ how involved they get in the insurance purchase process.

As a result, across both direct and broker channels, four main SME segments have emerged, as illustrated in figure 22.

FIGURE 22 **SME SEGMENTS**



**THE ATTITUDES AND DRIVERS FOR EACH OF THESE SEGMENTS CAN BE KEY TO UNDERSTANDING HOW TO MEET THE WIDELY VARIED NEEDS OF AUSTRALIAN SMEs. TO FIND OUT MORE ABOUT THESE SEGMENTS, PLEASE CONTACT YOUR VERO BDM.**

# CONCLUSION

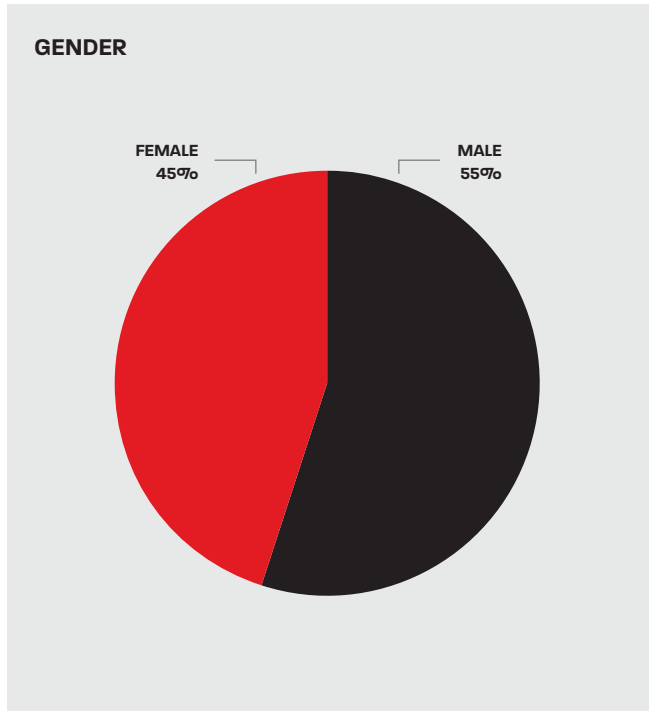
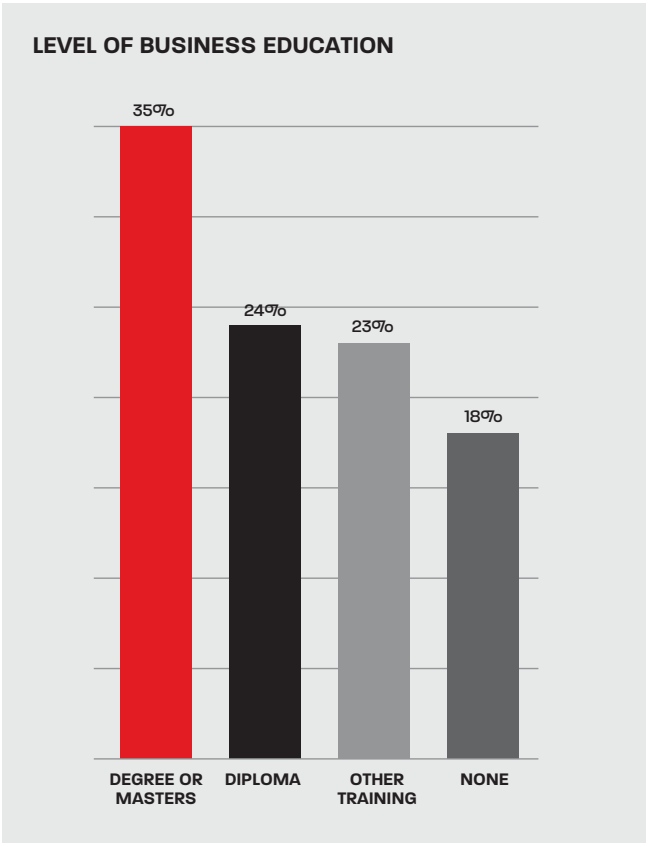
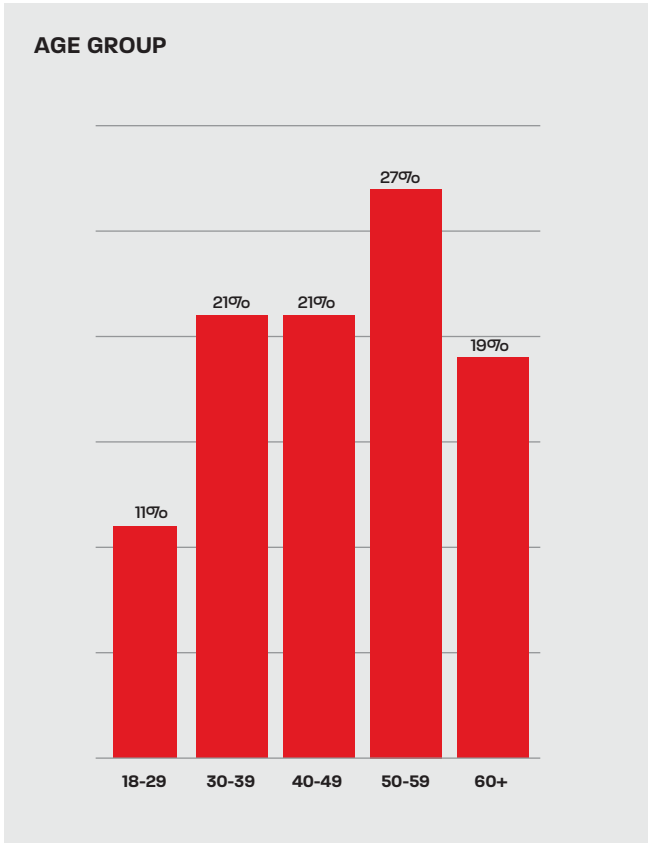
The old cliché of the constancy of change has never been truer than it is today.

Traditional ways of buying insurance are evolving rapidly. SMEs are increasingly willing to become involved in managing their insurance, and technology means that many of them are doing extensive amounts of research on their own.

This is having an impact on brokers, as more and more SMEs of all sizes decide that they can look after their insurance themselves. While this represents a significant challenge to the broking industry, it does not need to be bad news. Time-pressured SMEs have a clear need for the skills that brokers bring and a large proportion of them are willing to consider using a broker, meaning that opportunities for long term growth abound.

Vero is committed to partnering with brokers in this evolving environment and this year has created a series of tools based on the SME Index to help brokers. To further explore the opportunities that exist, please contact your Vero BDM.

# DEMOGRAPHICS OF RESPONDENTS





# SAMPLE SIZES AND WEIGHTING APPROACH

The quantitative phase of the report was based on 1518 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
1-4	814	85%
5-19	406	11%
20-200	298	4%
TOTAL	1518	100%

STATE	SAMPLE SIZE	ABS POPULATION PROPORTION
NSW/ACT	536	34%
VIC/TAS	418	27%
QLD/NT	346	21%
WA	119	10%
SA	99	8%
TOTAL	1518	100%



## DISCLAIMER

AAI Limited ABN 48 005 297 807 trading as Vero Insurance has prepared this SME Insurance Index Report (Report) for general information purposes only. Vero and its related bodies corporate do not assume or accept any liability whatsoever (including liability for special, indirect, consequential or incidental damages, or damages for loss of profits, revenue or loss of use) arising out of or relating to this Report or the information contained therein. Vero and its related bodies corporate do not invite reliance upon or accept responsibility for the information it provides on or through this Report. Vero and its related bodies corporate do not give any guarantees, undertakings or warranties concerning the accuracy, reliability, completeness or currency of the information provided. This Report is not a recommendation or statement of opinion about whether a reader should either acquire insurance from Vero (or its related bodies corporate) or services from any insurance intermediary such as a broker. This Report is based on commissioned research by Vero and should not be used as the basis for any decision in relation to the acquisition or disposal of insurance products or the use of broker services. Readers should confirm information and interpretation of information by seeking independent advice if they believe it is of sufficient importance for them so to do.

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**

AAI Limited ABN 48 005 297 807 trading as Vero Insurance

V9290 CS 01/03/14 A