

VERO SME INSURANCE INDEX **2017**

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Introduction

Welcome to the sixth edition of the Vero SME Insurance Index.

Eagle-eyed readers may note that this report looks a little different to previous editions. After five years of the Vero SME Insurance Index we have taken the opportunity to refresh the format of the Index to ensure that it continues to deliver to the needs of brokers and the insurance broking community.

Through surveys, internal reviews and countless conversations, we have listened to the views of many of the Index's readers and, as a result, have decided to release the findings of this year's Index in four stages throughout 2017. This approach is designed to make the findings easier to absorb rather than delivering a large amount of information at once, and will also ensure a flow of useful insights throughout the year. We hope that our new approach enables the broking community to make the most of these findings.

2016 was tumultuous on many levels, and insurance attitudes and behaviours have continued to evolve. The way that SMEs are choosing to purchase their insurance has been slowly shifting for years now, and in this first issue of the 2017 report we examine the trends over the last four years – how SMEs are buying their insurance; how fast this is changing and how the trends differ between different types of businesses. As internet usage continues to increase, this report also looks at its impact on insurance purchasing.

Along with changes in purchasing behaviour, SMEs are also changing the way they get advice about the risks that face their businesses. While expertise is still a major reason to choose a broker, we see evidence that SMEs are consulting an increasingly wide array of sources, and this report examines the causes and potential consequences of this in more detail. One of the clear outtakes of these findings is the need for brokers to deeply understand their SME clients, and the subsequent issues of the Index this year each explore different aspects of SMEs to help brokers gain insights to better meet their clients' various needs.

Future issues will look at the big picture beyond insurance. What are SMEs' motivations for getting into business; what ambitions do they have for their businesses; and how does this impact their attitudes to insurance? There are some widely varying motivations that have a significant influence on how they buy insurance and understanding these can help brokers to tailor their approach to different types of clients.

Women are continuing to play crucial roles in SME businesses, and we will take a deep dive into understanding female business owners and decision makers, in particular those with big growth ambitions for their businesses.

It is easy to focus on SMEs insurance behaviour and to forget that business insurance is just one of many financial decisions that SME proprietors' make, along with their personal insurance, lending, superannuation, investments and many more. For the first time this year we examine SMEs' attitudes and behaviours to other financial services and uncover insights to help brokers gain a deeper understanding of their clients as a whole.

There is no doubt that 2017 is shaping up as a year of challenges, for the insurance industry and the economy as a whole. However, with change comes opportunity, and the brokers who can understand the risks, develop appropriate strategies and embrace the prospect of change, will be those who will embrace these opportunities and thrive in years to come.



CHAPTER ONE

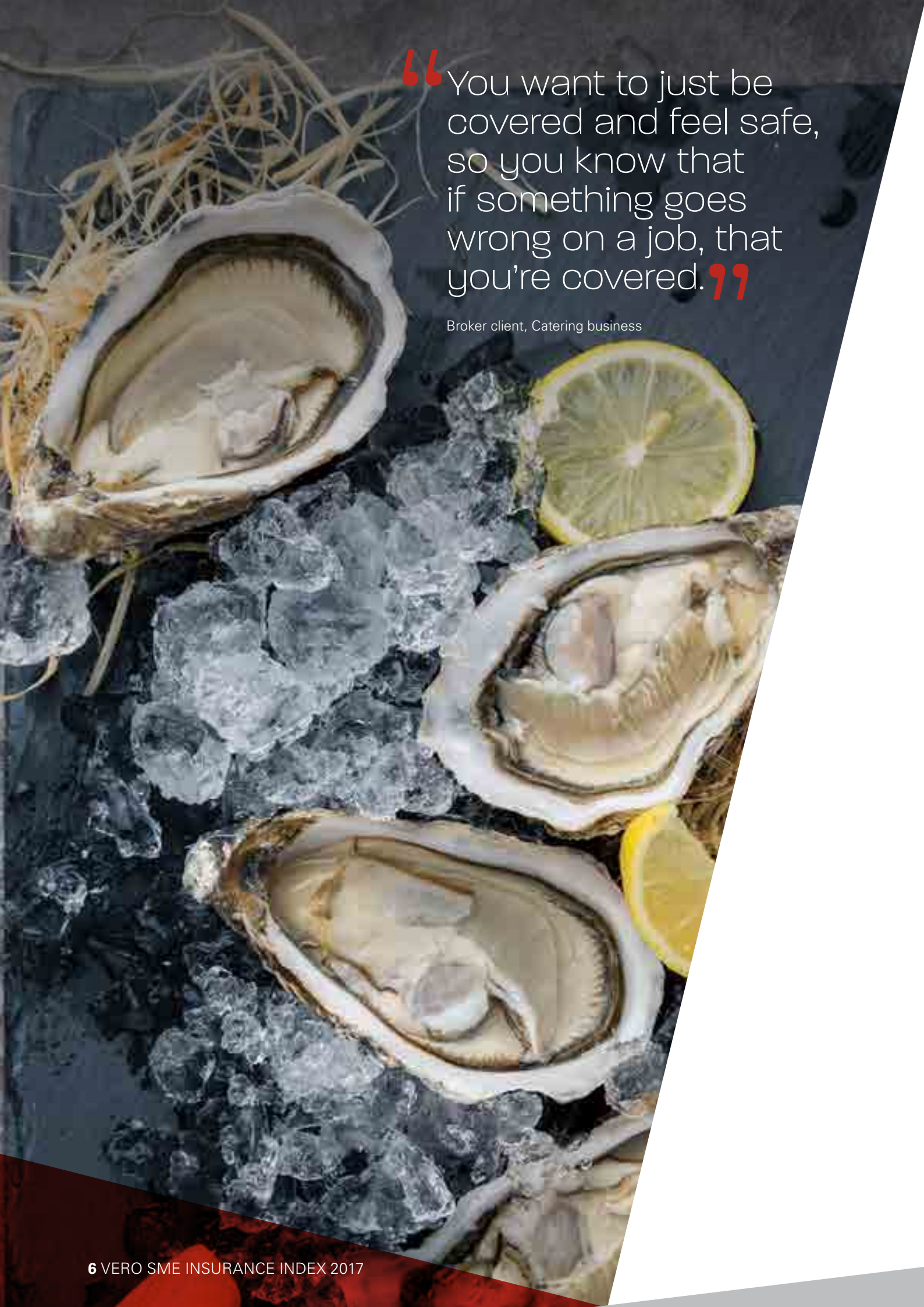
USAGE AND TRENDS

Findings

The first chapter of the 2017 Vero SME Insurance Index report focusses on the general market landscape, including:

1a Broker usage is changing.

1b The changing sources of advice.

A close-up photograph of three oysters served on a bed of crushed ice. Two lemon slices are placed next to the oysters. The background is dark and textured. The image is part of a report cover, with a white diagonal shape on the right side containing text.

“You want to just be covered and feel safe, so you know that if something goes wrong on a job, that you’re covered.”

Broker client, Catering business

1a. Broker usage is changing

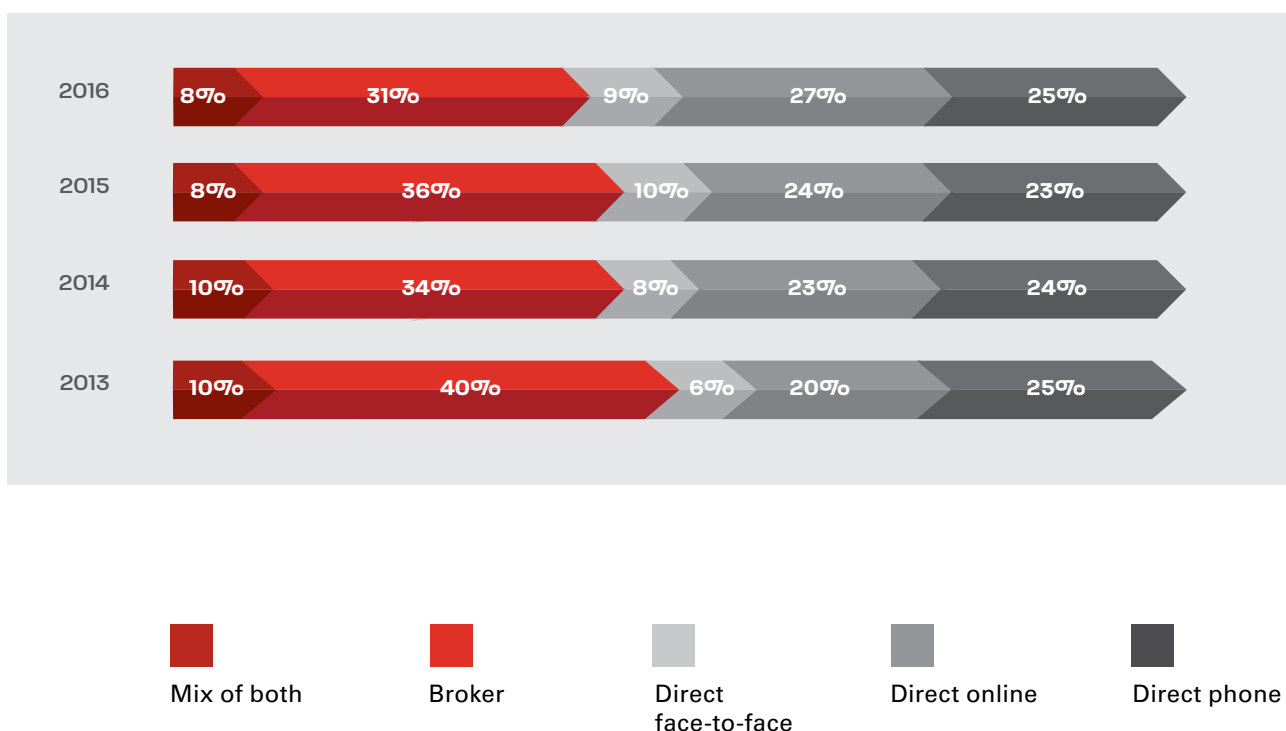
Almost every sector of the Australian economy is experiencing significant change as internet use continues to increase exponentially and people search for new, more efficient ways of meeting their needs.

Insurance, and the way people purchase it, is no exception to this. The Vero SME Insurance Index has tracked broker usage over the years, and the trend is very clear. When we ask SMEs how they purchased their last insurance policy, a

decreasing proportion claim to have bought this policy through a broker, from 40% in 2013 to 31% in 2016. At the same time, the numbers of SMEs who say they bought their last insurance policy online increased from 20% in 2013 to

27% in our latest survey (see Figure 1). (It's important to note that we also asked SMEs how they purchased the insurance policy that is most important to them, and the ongoing downward trend is exactly the same.)

Figure 1 - Broker usage trends



This data suggests that online channels are having a significant impact on the way that Australian small businesses buy insurance, with over one in four businesses claiming to have bought online. Digital disruption has been a hot topic in insurance (and in many other circles) for years now, but this data shows that it is becoming a tangible and impactful reality.

In previous indices, we have observed that the decline in broker usage is most marked amongst the over 40s and this finding is reflected in the trends of the last four years (see Figure 2). As we have previously discussed, even the latest adopters of technology

are using the internet for many everyday tasks and the purchase of insurance appears to be no exception to this.

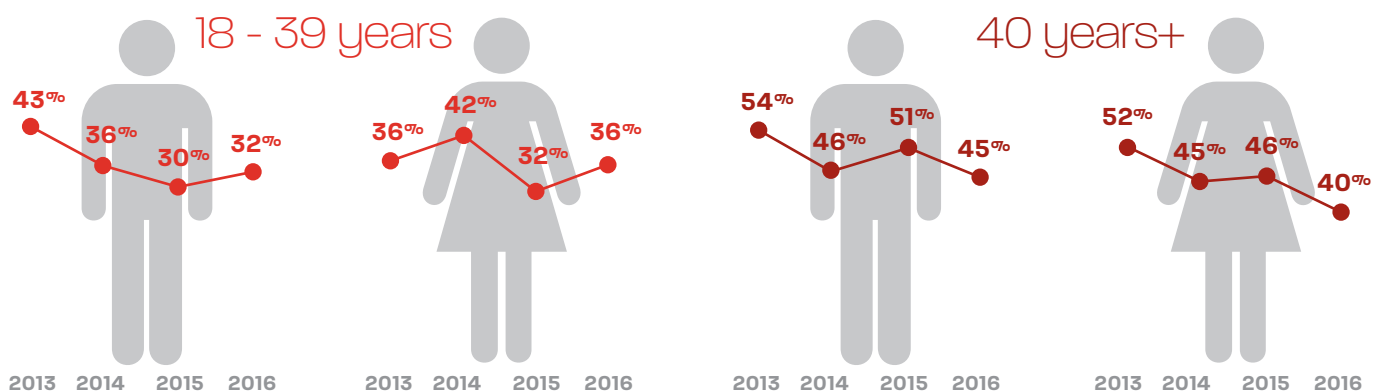
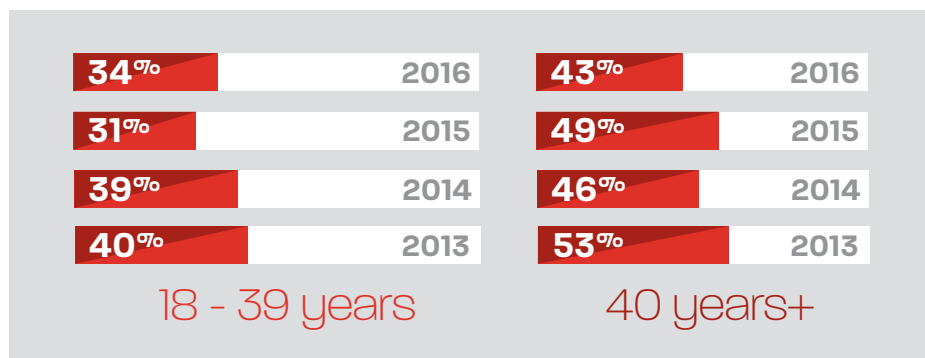
Younger women are the only demographic to experience a less consistent decline in rates of broker usage. In fact, the same proportion of younger women use brokers (36%) in 2016 as we saw in 2013. While they are still amongst the least likely of all SMEs to use brokers, the difference between their rate of broker usage and older groups has narrowed considerably.

Younger women are traditionally earlier adopters of technology, and one hypothesis for this demographic group's lower rate

of decline in broker usage is that they moved to digital purchasing earlier, with other demographics now catching up. Therefore, could we consider this group to be the "canary in the coalmine" and does this level represent the new normal for broker use amongst SMEs? Whether or not this proves to be true in the future, women are likely to play an ever-more prominent role in small businesses in Australia, and we will examine their attitudes and needs in more detail in a future issue of the 2017 Index.

Figure 2 - Broker use by demographic groups

Broker usage by age and gender

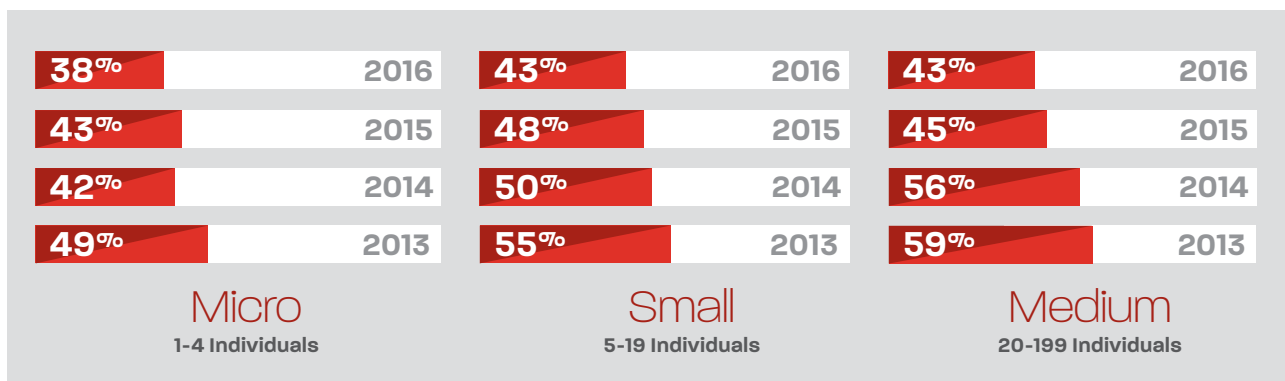


Medium-sized businesses (those with between 20 and 199 employees) have generally been more inclined to use brokers and are traditionally seen to be the most attractive target audience for brokers. However, there has been a very strong downward trend in the number of medium-sized businesses claiming to use brokers, with the same proportion of small and medium-sized businesses using brokers (43%) in 2016 (see Figure 3).

This decline is a surprise for many in the insurance broking industry and can be viewed as an indicator of the seismic shifts that are taking place in the way businesses purchase insurance and manage risk. However, when thinking about this result, we need to acknowledge the diversity that sits within this group of businesses. We define medium-sized businesses as those with between 20 and 199 employees and, while complexity and risk tend to increase with the number of

employees, there are many other factors also determining the needs of medium-sized businesses. So, for example, a long-established business in a relatively low-risk industry has much simpler requirements from their broker than other businesses.

Figure 3 - Broker use by business size



These statistics may make grim reading for those in the broking industry, but it is important to remember that these trends are impacting many, if not all, sectors of the economy. A recent report from Deloitte* found that 65% of the Australian economy is likely to experience significant impact from digital disruption, with professional services and financial services amongst the most-affected industries. Financial services, including wealth management, are particularly vulnerable to disruption, with a PwC study finding that 20% of global financial services businesses are at significant risk from FinTechs.**

So how are traditional services businesses across different industries addressing the challenges of digital disruption? There is no silver bullet solution, but current best practice suggests organisations that develop pro-active strategies to engage with disruption will be the ones best equipped to grow and thrive in the modern era. There are two key routes for brokerages to consider:

1. Embrace and integrate digital capabilities:

- Build a digitally savvy culture, through recruitment and training.
- Search for digital solutions to meet customer needs, for example, is there an online model that allows brokers to provide great service to lower volume customers (e.g. micro-businesses)?
- Explore off-the-shelf / cloud based options – you don't necessarily need to invest heavily to build a strong digital presence.
- Deliver personalised service and customer solutions, based on deep understanding of customers and their needs.
- Consider customer journey mapping exercises to identify gaps and opportunities in the customer purchasing experience.
- Reconsider marketing as no longer a "nice-to-have" for brokerages, but something that needs to be built into business strategies to ensure that brokerages are well-known and understood by their target audiences.


2. Reinforce the unique benefits you bring to customers:

- Ensure that your brokerage has a 'customer first' mind-set.
- Build a deep understanding of your customers through regular conversations and an understanding of broader industry trends. Later this year, we will release an exploration into the motivations and ambitions of SMEs which will help build understanding, and reviewing previous editions of the Vero SME Insurance Index will provide deeper insights.

* Source: Deloitte Australia's Digital Pulse 2016

** Source: PwC Global FinTech Survey 2016





“I had brokers in the past. The problem with it is, it adds another layer between me and the insurance.”

Direct buyer, Motor mechanic

Things for brokers to consider




There has never been a more important time to explain to SMEs the value that brokers can bring to their businesses.



Brokers need to think about the most appropriate service models for medium-sized businesses based on their individual needs, as this core group's usage of brokers is declining sharply.



Digital disruption is not coming, but is already here and brokerages (as well as the broader industry) need to develop strategies to adapt to this new reality.

A woman in a business suit is sitting at a desk, using a calculator and a pen. The image is a close-up, focusing on her hands and the desk. The background is blurred, showing a laptop and some papers. The overall tone is professional and business-oriented.

“One of my really good friends owns her own business as well, that helps because she goes through the same decisions.”

Broker client, Catering business

1b. The changing sources of advice

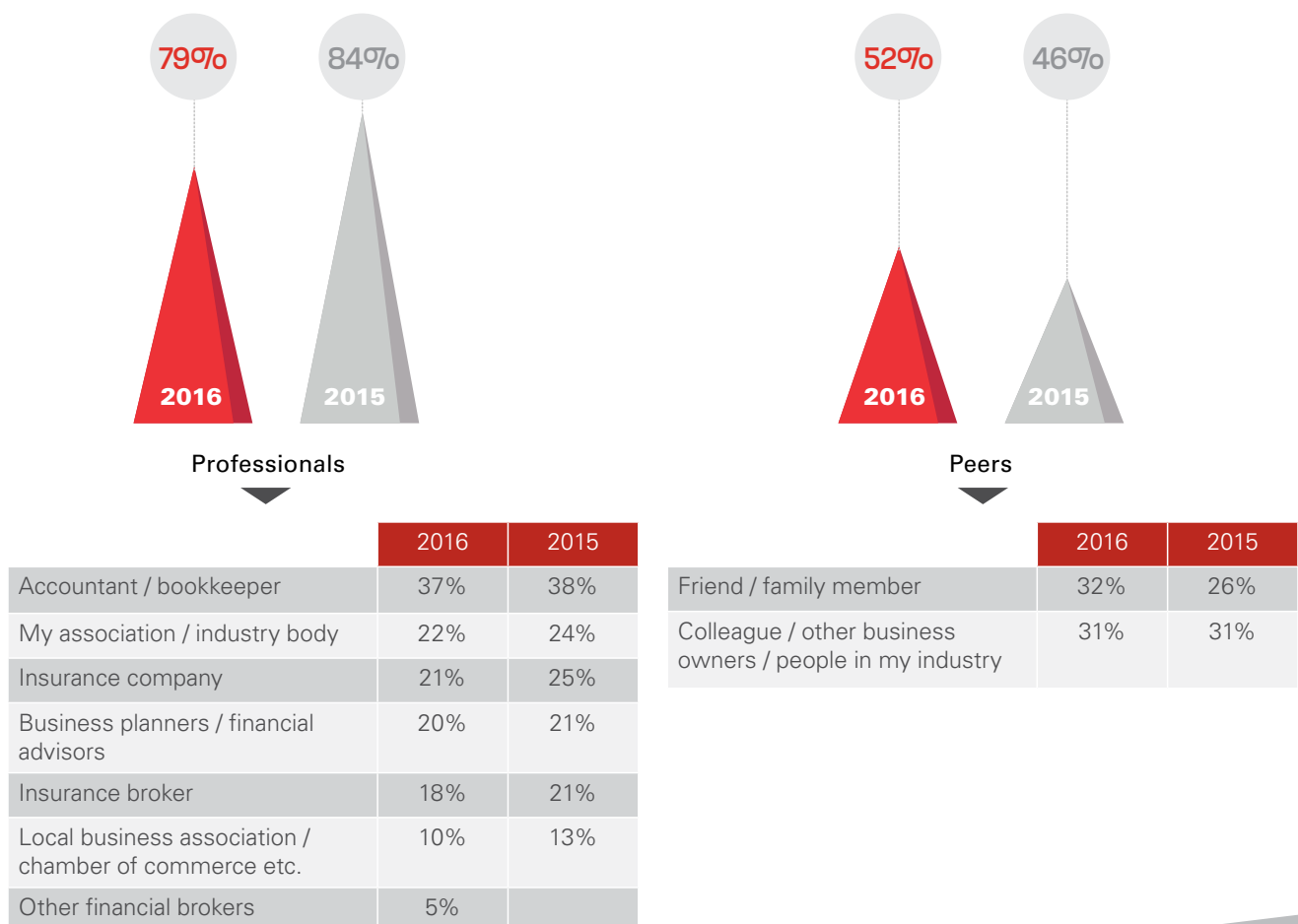
Insurance is complicated. Business insurance is especially complex and getting it right or wrong can have major implications for small businesses.

The vast majority of SMEs turn to some sort of professional advisor, such as accountants, lawyers, business advisors and industry bodies, as well as insurance brokers and insurance companies. In 2016, 79% of SMEs claimed to seek guidance from professionals, down from 84% in 2015 (see Figure 4a).

On the other hand, the proportion of SMEs who say they get at least some advice from peers, such as friends, family, colleagues and other business owners increased from 46% in 2015 to 52% in 2016 (see Figure 4b).

Of these, 19% are seeking advice from peers only, meaning that they are making complex insurance and risk management decisions with no trained, professional input to guide them.

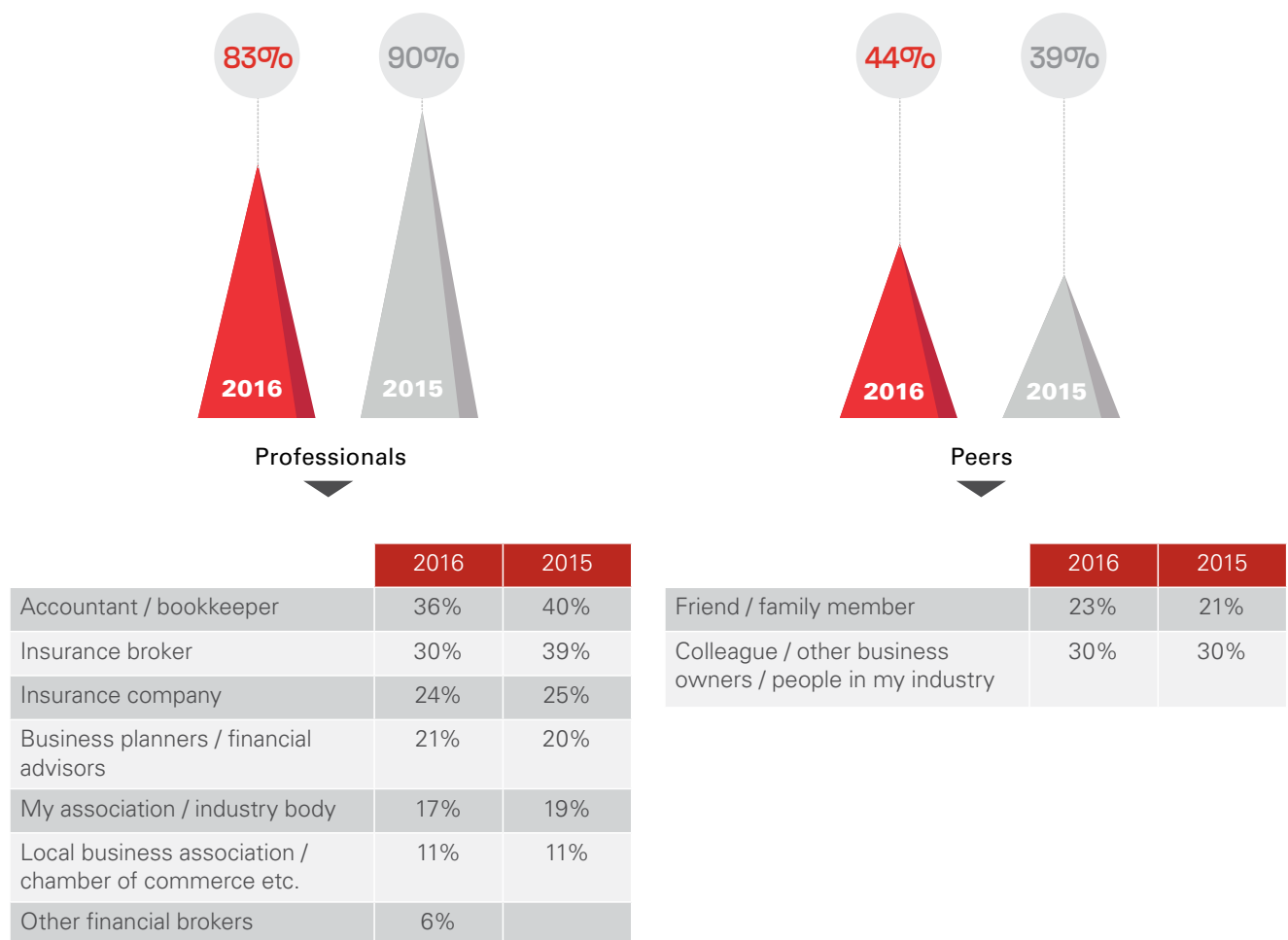
Figure 4a and 4b - Sources of risk advice



When we look at broker clients in particular, the numbers getting advice from professionals is slightly higher at 83%, but has also declined from 2015 (90%) (see Figure 5). Worryingly, only 30% of broker clients claim to be getting

advice on business risks from their insurance broker, down from 39% in 2015. Instead, they are turning to accountants, colleagues and contacts in their industry, and even friends and family.

Figure 5a and 5b - Sources of risk advice (broker clients)



Unsurprisingly, advice appears to play a significant role in driving positive overall perceptions of brokers. Broker clients who get advice from their broker are significantly more satisfied than those who don't (see Figure 6), and are more likely to see greater benefits of working with a broker.

The fact that many broker clients do not seek risk advice from their broker is a significant concern. One potential reason for this is that broker clients may not see their broker as a credible source of business risk advice. Another interpretation is that SMEs do not consider brokers able to deliver holistic business advice and to understand the bigger picture. Whatever the reason, this discussion raises the question as to what the role of a broker is in the mind of many SMEs. Are brokers seen as professional experts who offer relevant

business advice, or do many clients perceive them as having a more transactional role?

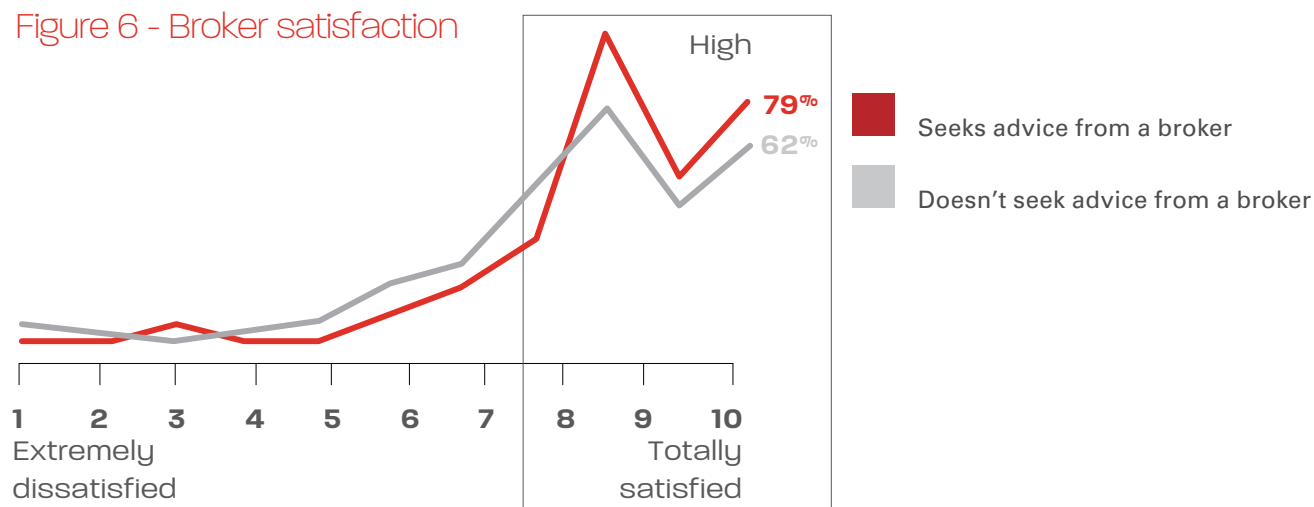
Expertise is still one of the major reasons that broker clients say that they work with their broker. In 2016, 68% of broker clients cited expertise-related benefits as among the main reasons they choose to use a broker (for example, "my broker gives expert advice" and "my broker understands my business needs"). The challenge for brokers is to reinforce this perception of expertise and then to translate it in a way that more broker clients see their broker as their primary source of advice on business risk.

An additional factor to consider when giving advice is to think about how that advice is best delivered. Over the last few years, the Vero SME Insurance Index has found that SMEs are increasingly willing to become

involved in the insurance process and are prepared to do their own research. This trend has continued in 2016, with 60% of SMEs claiming that they personally research their own insurance, up from 52% in 2015. This suggests that brokers may need to evolve the way they deliver advice, to be more collaborative, and less prescriptive.

The implications of the decline in broker advice being sought and the decline of perceptions of broker expertise are particularly important given the rise of digital disruption. Transactional relationships are relatively easy to replace with automated and online solutions, while tailored advice is a clear demonstration of personalised understanding and individual expertise which is far harder to replicate in a digital environment.

Figure 6 - Broker satisfaction



Things for brokers to consider



Advice can be a valuable way of demonstrating expertise and, to be most effective needs to be tailored to suit the clients' size and needs.



Consider how you can harness technology to enable you to offer better advice, more frequently and cost-effectively.



Brokers could consider a more collaborative approach to delivering advice to some clients, so that these SMEs feel more involved in the process.



CHAPTER TWO

BUSINESS MOTIVATIONS

Insurance broking is, above all, a relationship business and many in the industry recognise the importance of brokers moving beyond transactional interactions with their clients to becoming trusted risk advisors.

However, to become a trusted advisor, brokers need a deep understanding of their clients beyond their immediate insurance needs. What drives their businesses? Why did they get into business in the first place? What are their hopes, dreams and fears for their businesses?

This issue aims to explore these questions in more detail, in order to give brokers a deeper insight into what makes SMEs tick.

To start with, we examine business owners' ambitions, and in particular, seek to understand the importance of growth. Ensuring that their business continues to grow is a common theme for many small business owners. But which businesses are more focused on growth? How well do they plan for the future? And how do they prepare for any roadblocks along the way?

There are many reasons why SMEs choose to become business owners. In this issue we explore to what extent these motivations influence attitudes to insurance and insurance brokers, and investigate how brokers can attract and retain the most

attractive group. We also look at what worries them and how this differs by business type.

Ultimately, the message to brokers remains the same: to attract and retain the best SME clients, brokers need to demonstrate the value they can deliver to businesses beyond a transactional relationship.

The opportunity for brokers is to ensure that as many SMEs as possible understand the power of quality risk advice to underpin their business success.

Findings

The second chapter of the 2017 Vero SME Insurance Index focusses on SMEs' broader business motivations, including:

2a Growth is the main ambition for many SMEs.

2b Business motivations can affect attitudes towards insurance.



“We’ve set a target that we want to double the sales of the business in the next five years.”

Broker client, commercial vehicle fit-outs

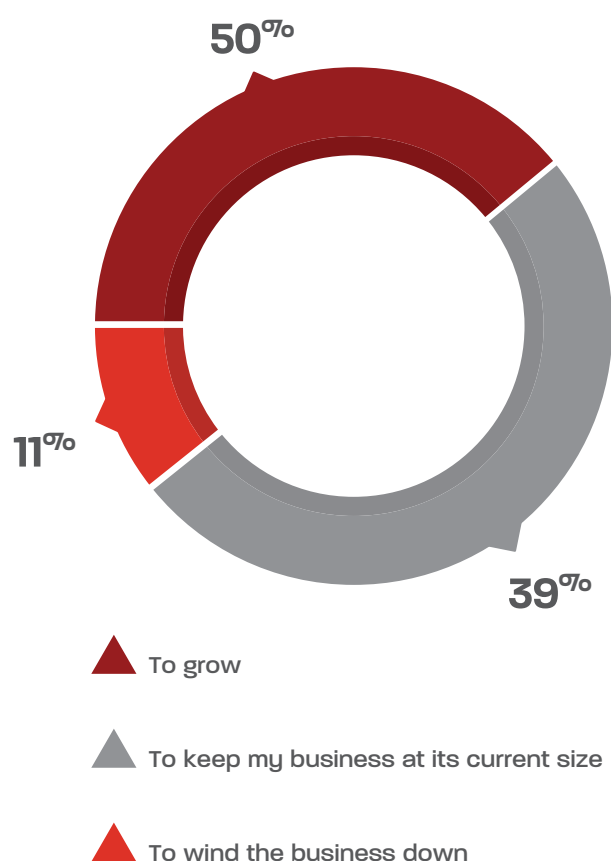
2a. Growth is the main ambition for many SMEs

Where do SMEs want to take their businesses and, indeed, how much do they plan for the future?

This year, for the first time, we asked business owners how they would like to see their businesses change over the next two to five years. The results show that growth is the most common ambition, with

50% of small businesses claiming that they want their business to grow. 39% wish to keep their business at the same size and 11% are looking to wind the business down (see Figure 1).

Figure 1 – Future ambitions



Not surprisingly, these results change significantly between different types of businesses. The larger the business, the more likely they are to have growth ambitions, with

69% of small businesses and 85% of medium businesses aiming for growth (see Figure 2). Age also plays a role, with 72% of 18-39 year old business owners saying

they want their business to grow compared to only 40% of business owners who are 40 years or older (see Figure 3).

Figure 2 - Future ambitions by business size

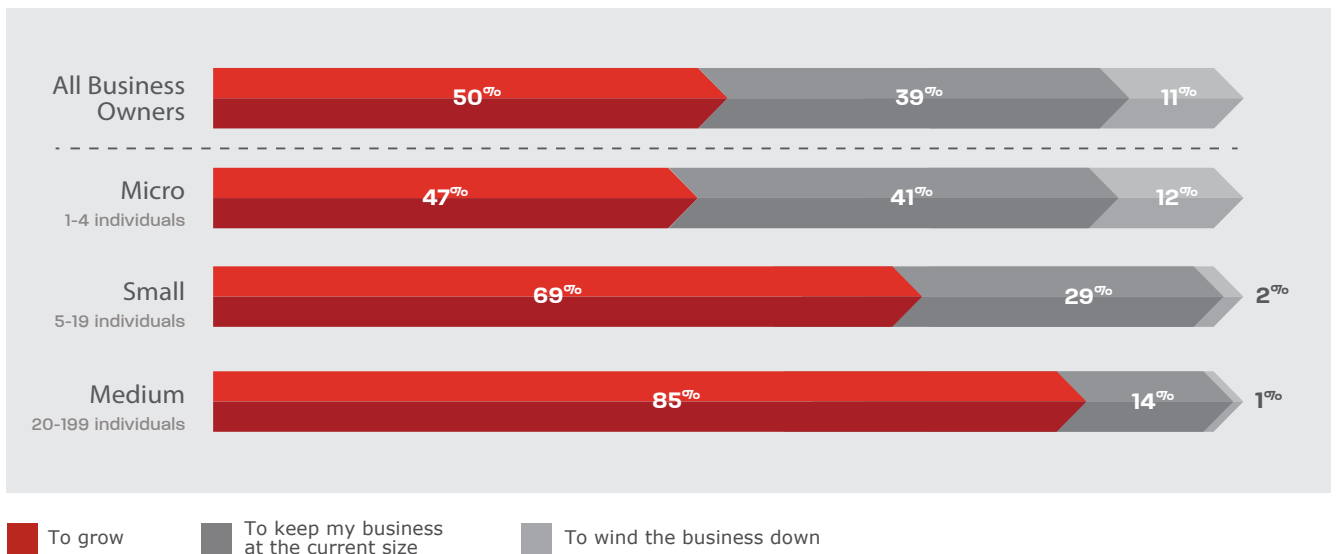
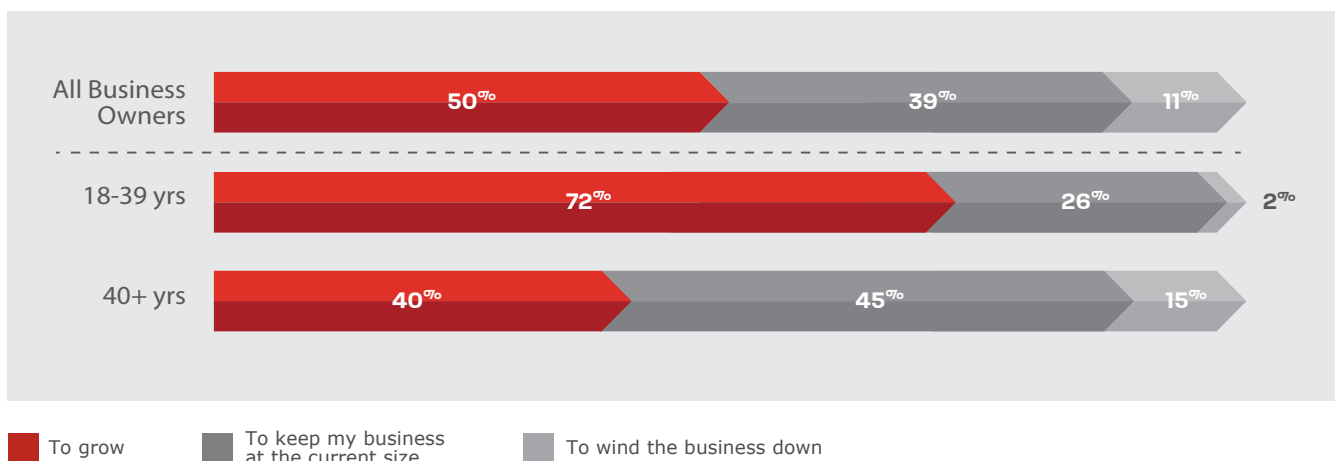


Figure 3 - Future ambitions by age



Growth is a worthy ambition and one that can easily be derailed by unforeseen events or a lack of planning. So how much do SME business owners plan for the future and put contingency plans in place?

Just over half of all SME owners claim to have a clear succession

plan in place (see Figure 4), with 'small and medium sized' businesses and businesses 'with growth ambitions' far more likely to have put thought into how their businesses will continue to grow once they retire or leave the business.

56% of all SME business owners claim to have contingency plans in place in case they are unable to work in the business (e.g. due to illness or accident). This increases to 71% of small businesses and 62% of those who want to grow their business (see Figure 5).

Figure 4 - Succession planning

I have a clear succession plan for my business.

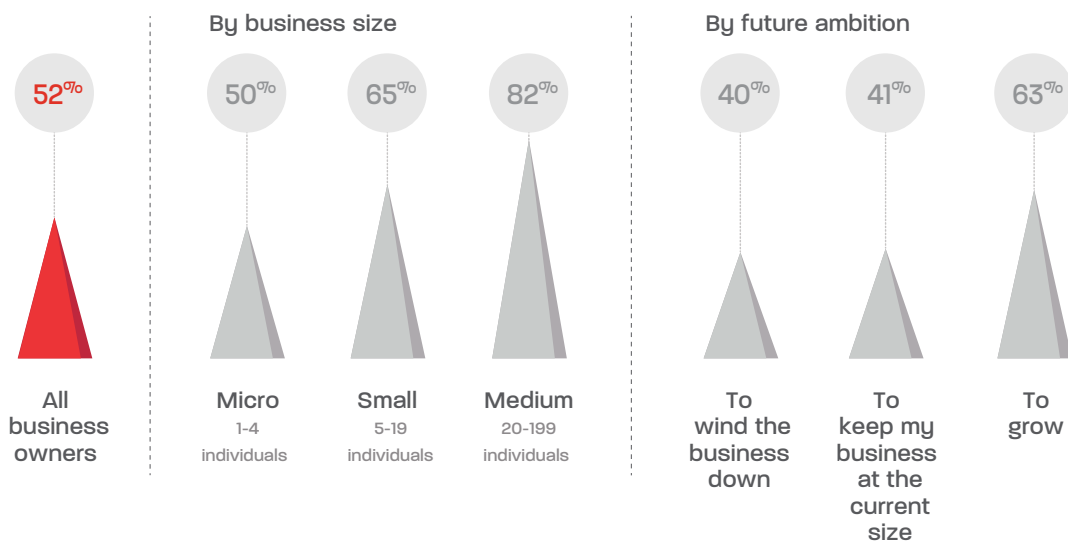
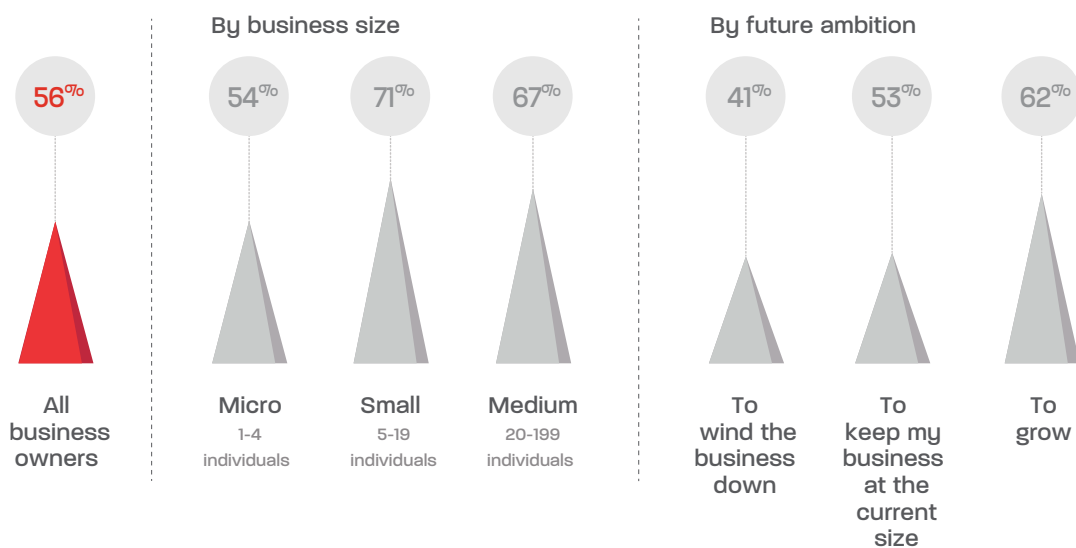


Figure 5 - Contingency planning

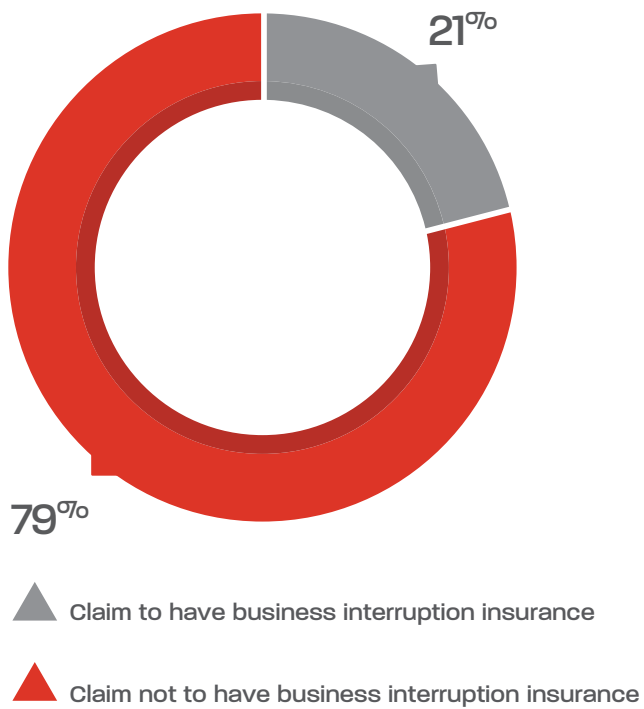
I have contingency plans in place in case I am unable to work in the business (e.g. due to illness).



However, in general, these contingency plans do not appear to include business interruption insurance. Surprisingly, only 21% of those who have contingency plans claim to have business interruption insurance (see Figure 6). While this figure is slightly higher than businesses overall, it means

almost 80% of these businesses could be missing this cover. This suggests a significant gap in business interruption insurance and an opportunity to recommend this cover to business owners who want to protect their businesses for future growth.

Figure 6 - Contingency Planners - Business interruption cover





“I’d like to sell the business eventually and take that money and start something else. I want to create, I want to build.”

Broker client, call centre operations

Things for brokers to consider



Growth is a powerful message for SMEs. Consider having a discussion with your clients on the ways you can contribute to their business growth and success.



Talk to your clients about their growth plans and tailor insurance advice, not only to their business of today, but where they wish their business to be in the future.



Brokers should consider discussing contingency planning with their customers. Risk Management tools can help SMEs with this planning, which can effectively position brokers as risk advisors.



Consider discussing longer term issues such as succession planning. While these have less direct relevance to insurance, showing interest in your clients’ broader business direction can help deepen your understanding and help in earning trusted advisor status.



“I feel that by buying direct we have a bit more control rather than dealing with an intermediary.”

Direct buyer, event management

2b. Attitudes towards insurance vary depending on business motivations

There are many reasons people decide to go into business for themselves, but does this impact how they behave with regard to insurance?

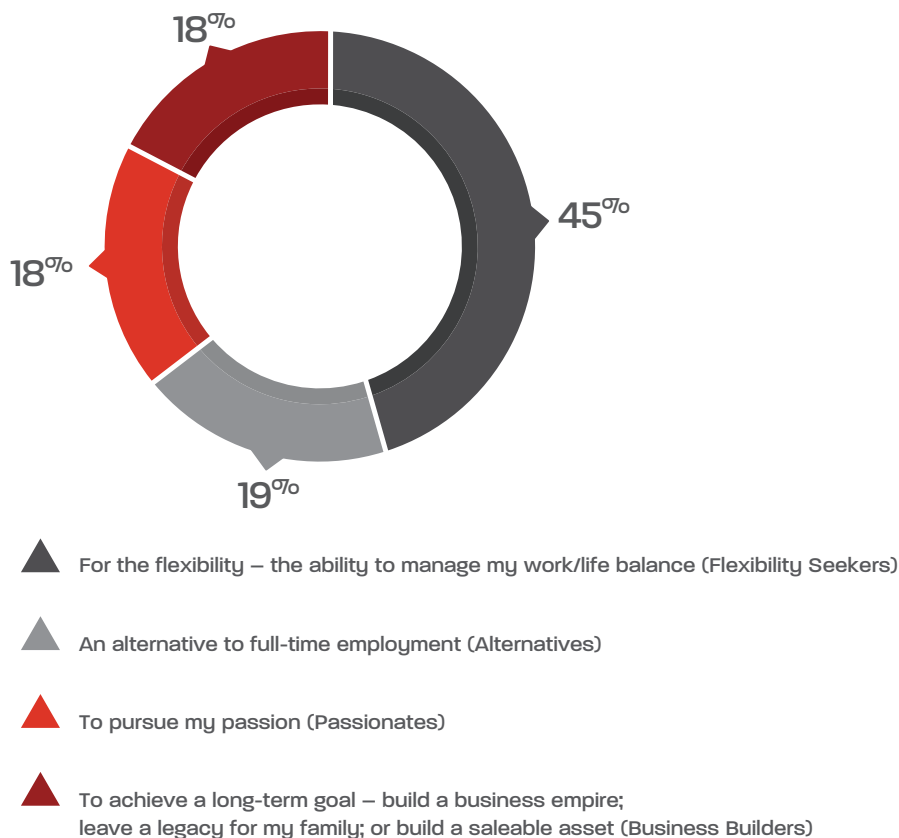
This year, for the first time, we asked SMEs to nominate their main motivations for being in business (see Figure 7). 45% of our sample claimed they are in business for the flexibility – the ability to manage their own work / life balance. While this

group is the largest, it contains many micro businesses with turnover less than \$200k per year. A further 19% of respondents are in business as an alternative to full-time employment and are more likely to be smaller businesses with lower turnover.

Those who are in business to pursue a passion represent 18% of all SMEs and tend to be younger, higher revenue

businesses. Another 18% are in business because they want to achieve a long-term goal, such as building a business empire, leaving a legacy or creating a saleable asset. These 'Business Builders' tend to be younger, have the highest average business revenue, are significantly more likely to have growth ambitions and demonstrate a degree of forward planning.

Figure 7 - Business motivations



For many reasons, these Business Builders appear to be the most attractive target for brokers. In particular, their size and ambition should suggest that they may be more likely to place importance on protecting their business and seeking expert insurance advice.

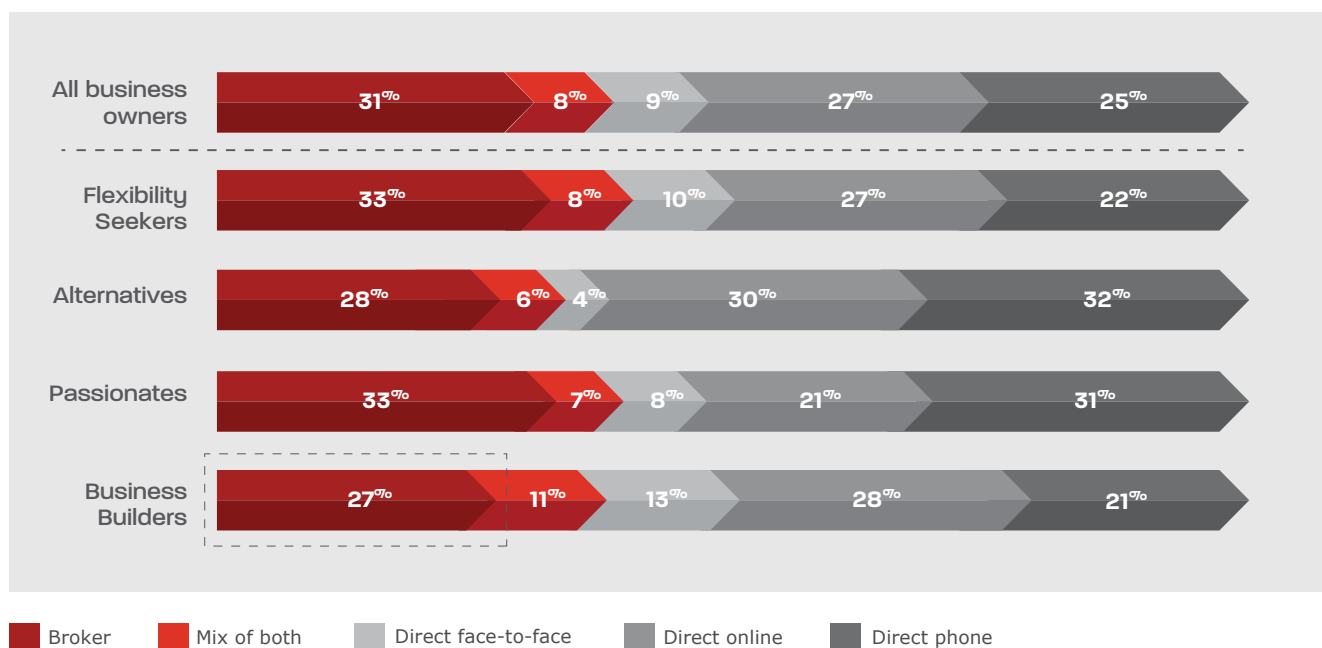
However, this suggestion is not being reflected in current insurance buying behaviour. While each of

these motivational groups has markedly different characteristics, none of them is significantly more likely to claim to use a broker to buy their insurance (see Figure 8). Notably, only 27% of Business Builders claim to exclusively use a broker, which suggests that there is an opportunity for brokers to increase their presence with these more sophisticated business owners.

So how can brokers best attract and retain Business Builders?

To answer this, we have explored the behaviours of Business Builders who are broker clients and Business Builders who buy direct.

Figure 8 - Broker use by business motivations



Business Builders who are broker clients

Those Business Builders who already use a broker are more likely to be doing so because they value the service, business understanding and broader financial service assistance

that their broker provides (see Figure 9).

However, they are significantly less likely to be satisfied with their broker than other SMEs,

with only 55% scoring their broker eight or more out of 10 on overall satisfaction scales, compared to 66% of all business owners (see Figure 10).

Figure 9 - Reasons to work with current broker (broker clients)

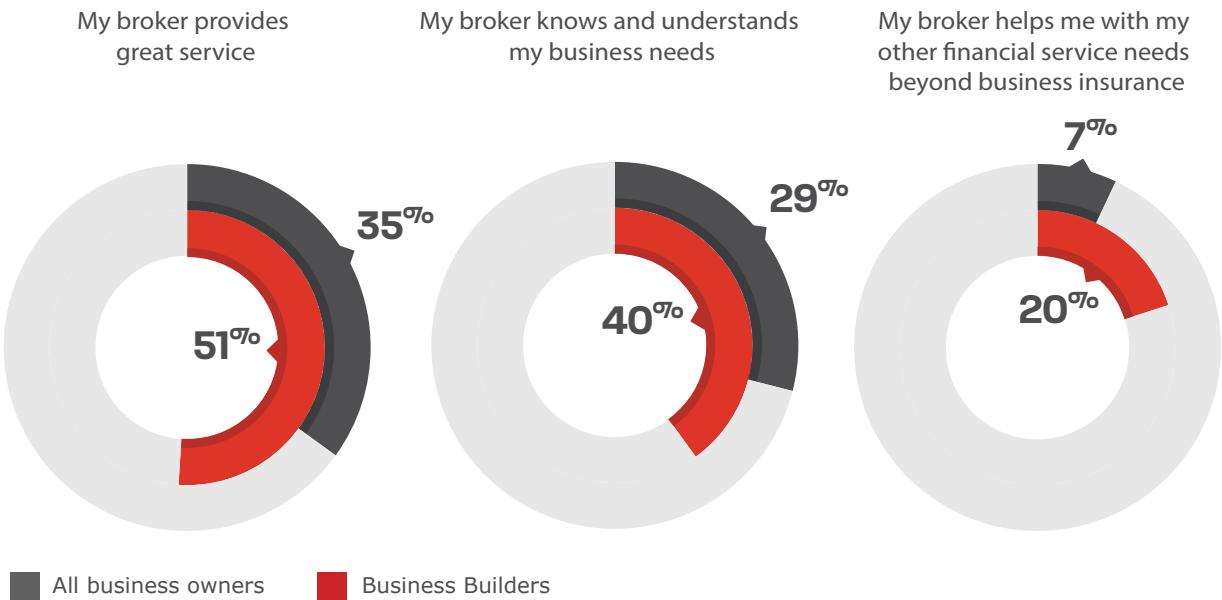
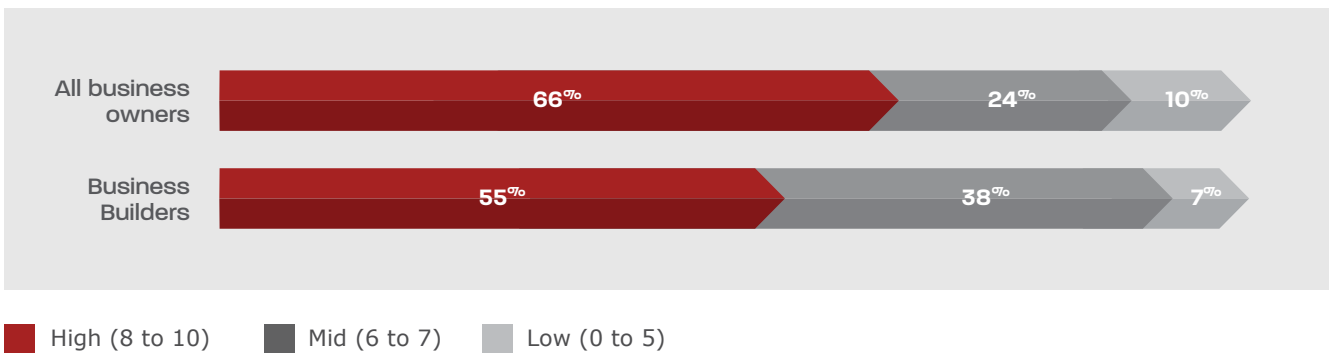


Figure 10 - Level of satisfaction with current broker (broker clients)



Part of the explanation for this may lie in the expectations they have of their broker. When asked about the types of broker tasks they consider important, they are markedly more likely to place importance on tasks that require greater expertise, such

as providing in-depth information and analysis, general information, assessing risk profiles and providing advice on financial services beyond business insurance (see Figure 11).

Business Builders also require

more contact than other SMEs. 79% of Business Builders would like to see their broker face-to-face at least once a year, and 59% expect a phone call every few months (see Figure 12).

Figure 11 - Broker task importance (broker clients)

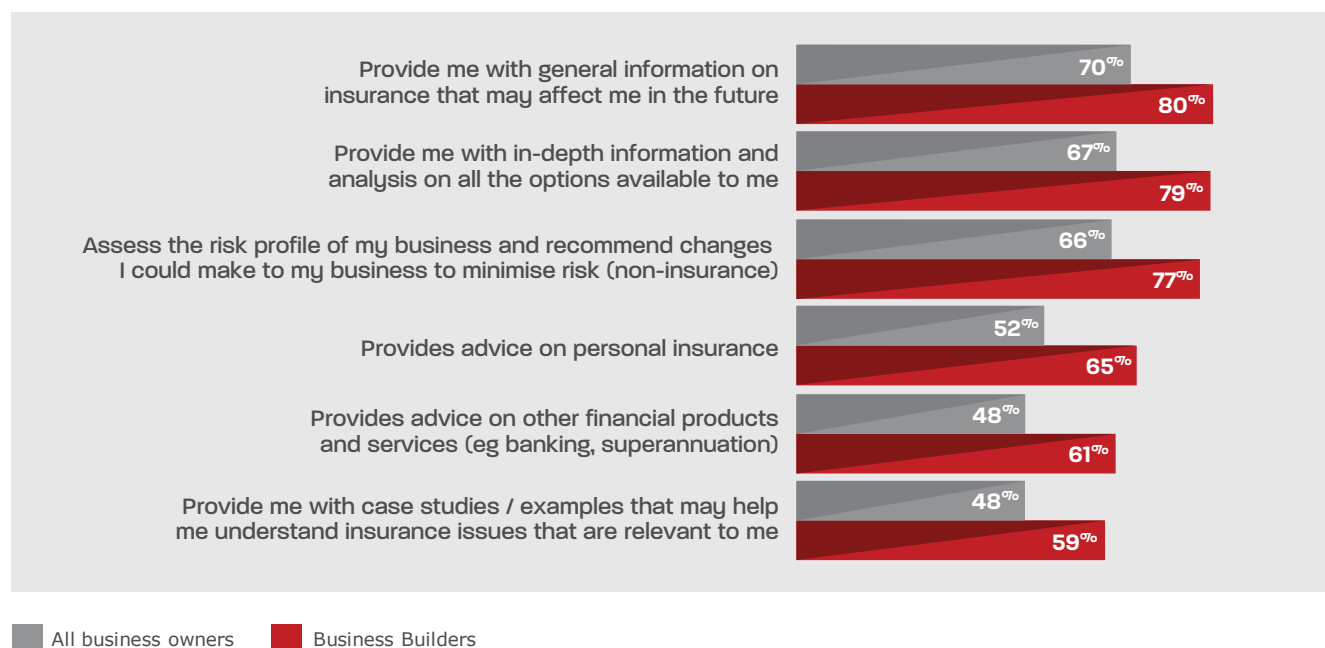
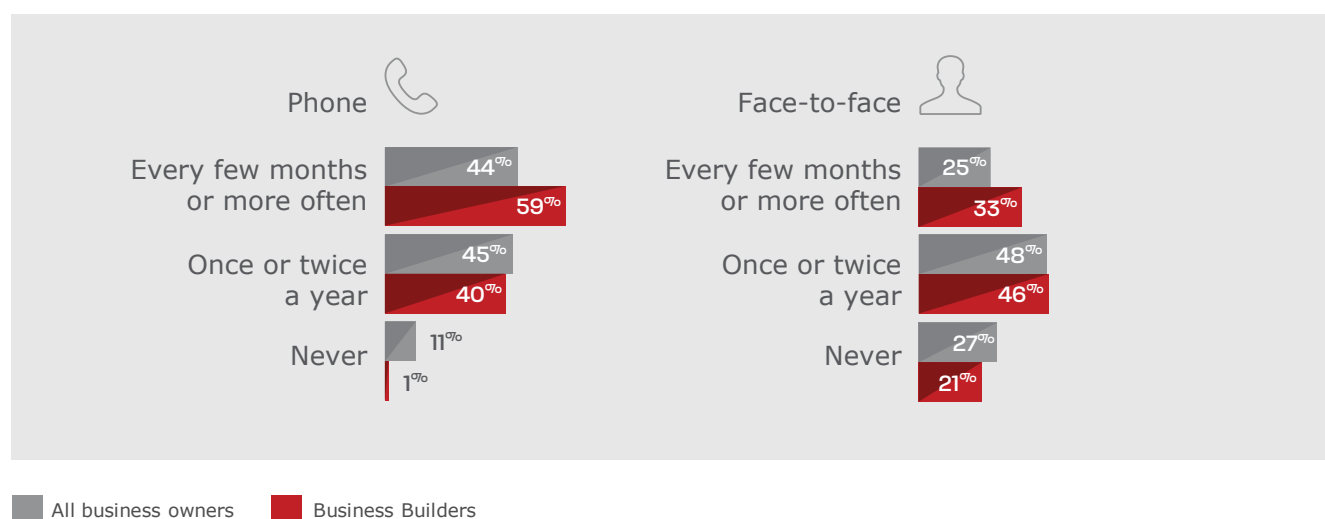


Figure 12 - Contact preference (broker clients)



Business Builders who buy direct

Business Builders are less likely than other direct buyers to say they don't use a broker because they can do it easily enough themselves (see Figure 13). Rather, they are more likely to say that they don't want to deal with a middleman, suggesting that they do not understand the benefits a broker can deliver to their business.

There are many factors, however, that would make Business Builders more likely to consider using a broker. These include obtaining guidance on insurance issues, knowing that a broker could free them up to focus on their business and the assurance of knowing their broker would provide them with the correct insurance (see Figure 14).

Business Builders who would consider switching to brokers are interested in a wider range of information than other businesses, including bundling opportunities, industry updates, risk analyses and case studies (see Figure 15, page 18).

Figure 13 - Reasons for not using a broker (direct clients)

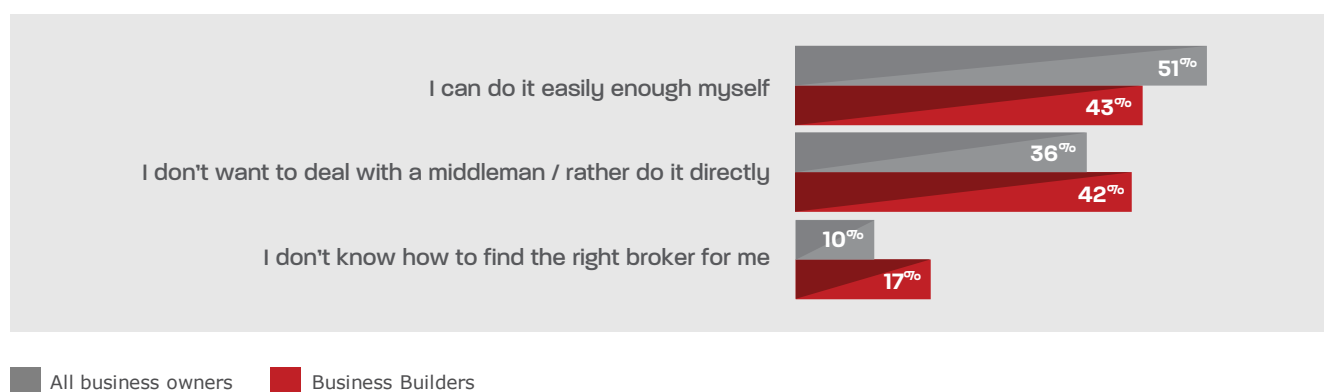


Figure 14 - Reasons to consider a broker (direct clients)

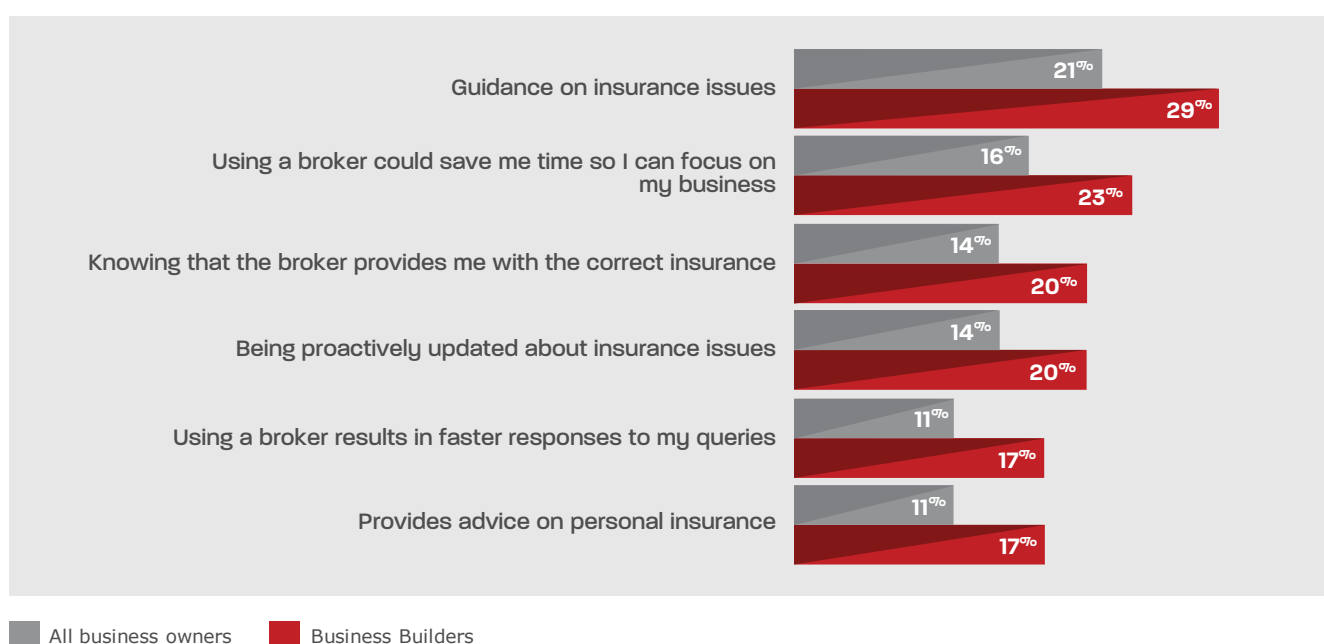
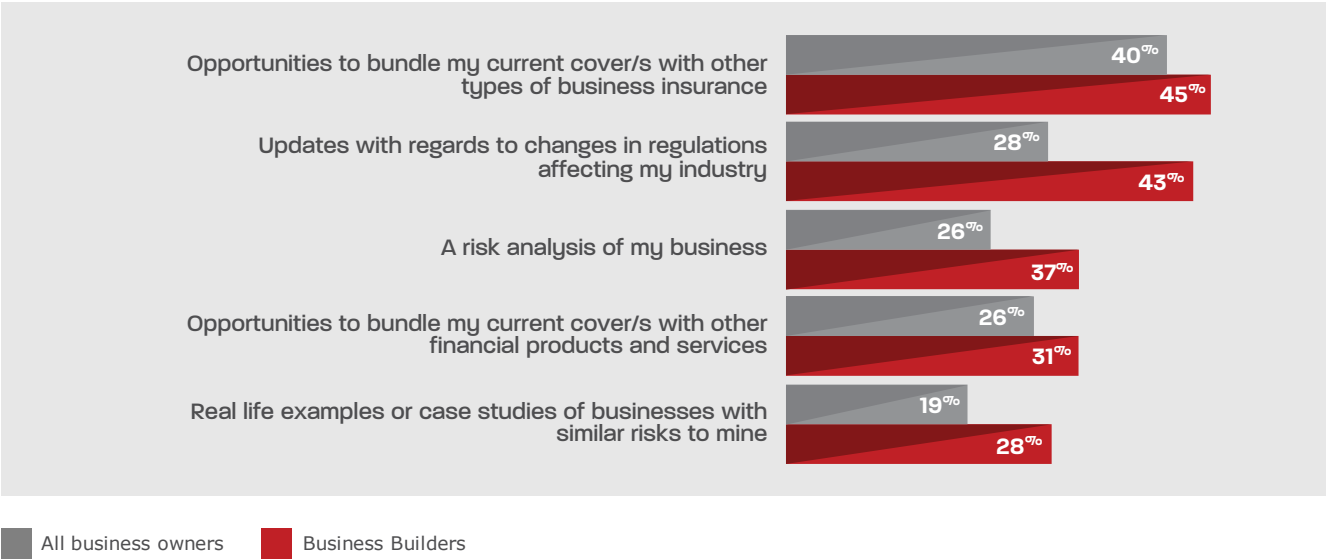


Figure 15 - Desired information from broker (direct clients)



Things for brokers to consider



While Business Builders with long term goals are attractive targets for brokers, they are more demanding than other business owners. To attract and retain them, brokers need to demonstrate expertise and high levels of service.



Promote your brokerage in a way that attracts Business Builders, highlighting your services, your relationship style and your support for business growth.



Staying in contact is critical – they are more likely to want frequent personal contact, either in person or on the phone.





CHAPTER THREE

FEMALE DECISION MAKERS OF SMES

Understanding what makes SMEs tick is a fundamental objective of the Vero SME Insurance Index, and part of this involves looking at how key groups of SMEs differ.

Since the first Index in 2012, we have observed that female decision makers of SME are less likely to use brokers. While the gap is narrowing, female decision makers of SMEs still use brokers at a lower rate than males, and so in this issue we are exploring their attitudes and behaviours in more detail.

How different are they really compared to male decision makers of SMEs? Does behaviour differ based on attributes such as business size, motivations and attitudes towards insurance? And what differences can brokers learn from, to ensure that they are meeting the needs of this large and growing group of SMEs?

There are several important nuances between male and female SME decision makers and understanding these will enable brokers to fine-tune their approach to providing them with the most appropriate and relevant range of services.

Of course, many key needs of SMEs are largely consistent, and brokers need to show expertise and build deep relationships in order to attract and retain the best clients.

However, the following report will help uncover some of the fundamental insights and themes into how female decision makers of SMEs are different and how these findings can help brokers assist their clients with their service offering accordingly.

Findings

The third chapter of the 2017 Vero SME Insurance Index focusses on the attitudes and behaviours of female decision makers of SMEs towards insurance including:

3a Female decision makers of SMEs¹ differ in some interesting ways.

3b Female decision makers of small and medium businesses² take insurance very seriously.

1. The term 'SME' includes micro, small and medium businesses.

2. The term 'small and medium businesses' includes small and medium businesses only (it excludes micro businesses). (See page 14 for business size definitions).

“The best thing about using a broker is that it gives you the feeling that someone is listening to your needs and will act.”

Broker client, catering business



3a. Female decision makers of SMEs differ in some interesting ways

Female decision makers of SMEs are a significant contributor to the overall dynamism of the small business sector in Australia. In fact, in 2015 females represented 34.1% of all SME decision makers in Australia, an increase of 46% over the last decade.¹

Interestingly, they are slightly more likely to have smaller businesses than their male counterparts. 85% of all female decision makers of SMEs are

in micro businesses (that is, with 4 or less people working in the business) compared to 79% of males (see Figure 1).

Turnover is also likely to be lower, with 43% of female SMEs reporting an annual turnover of less than \$100k (see Figure 2).

Figure 1 – Business size

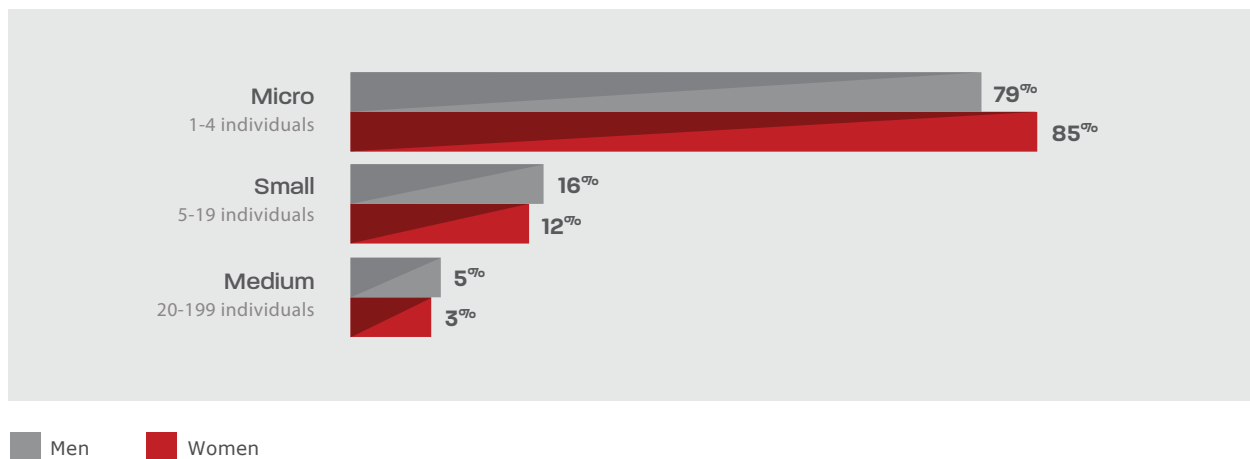
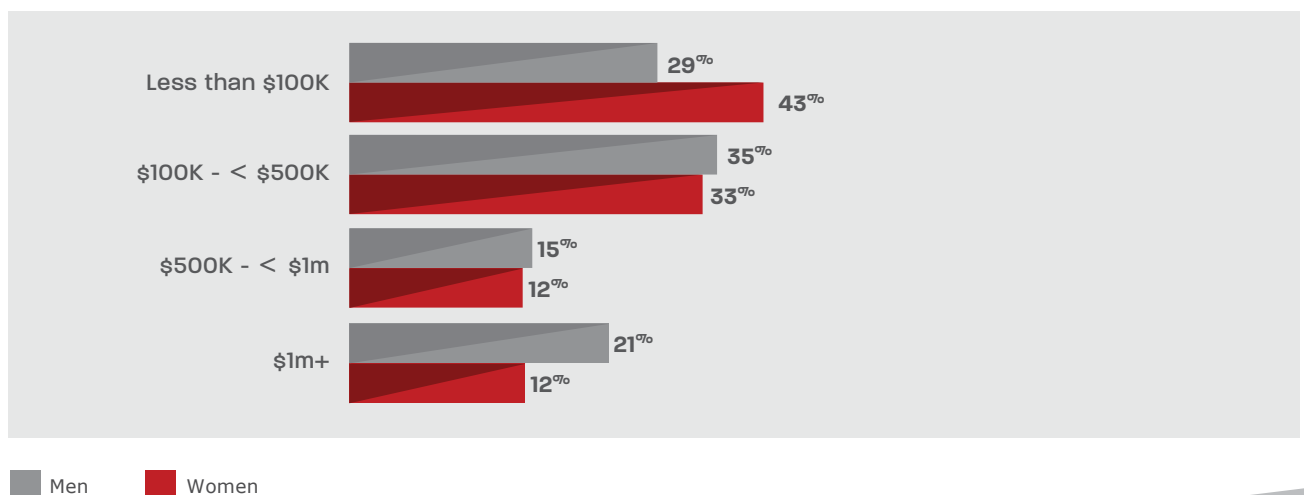


Figure 2 – Business annual turnover



1. A Profile of Australian Women in Business – Report prepared by the AUSTRALIAN BUREAU OF STATISTICS for the OFFICE FOR WOMEN, 2015



On average, female decision makers of SMEs are a little less likely than male decision makers of SMEs to use brokers, either fully or partially, to buy their insurance. 29% of females claimed to use a broker only (vs 33% for men), and a further 9% said that they use a mix of brokers and direct channels (vs 7% for men) (see Figure 3).

As with males, female business owners have a range of motivations for starting businesses. However, they are significantly more likely to value the flexibility that owning their own business offers, with just over half of all female owners of SMEs claiming this as their main motivation for going into business compared to only 42% with their male owned SME counterparts (see Figure 4).

Notably, the desire for flexibility is even more pronounced in micro businesses. And while this group are a dynamic and important sector of the small business economy, their size means that they are likely to spend less on insurance.

What about females who run larger businesses, employing at least 5 people? These more complex businesses are more likely to need the expertise of a broker, so we have analysed this group in more detail.

Figure 3 – Broker usage

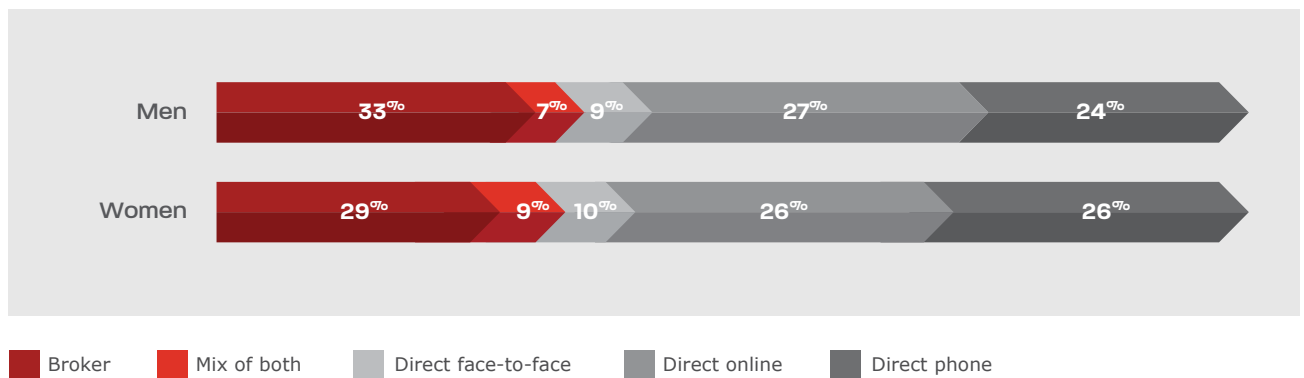
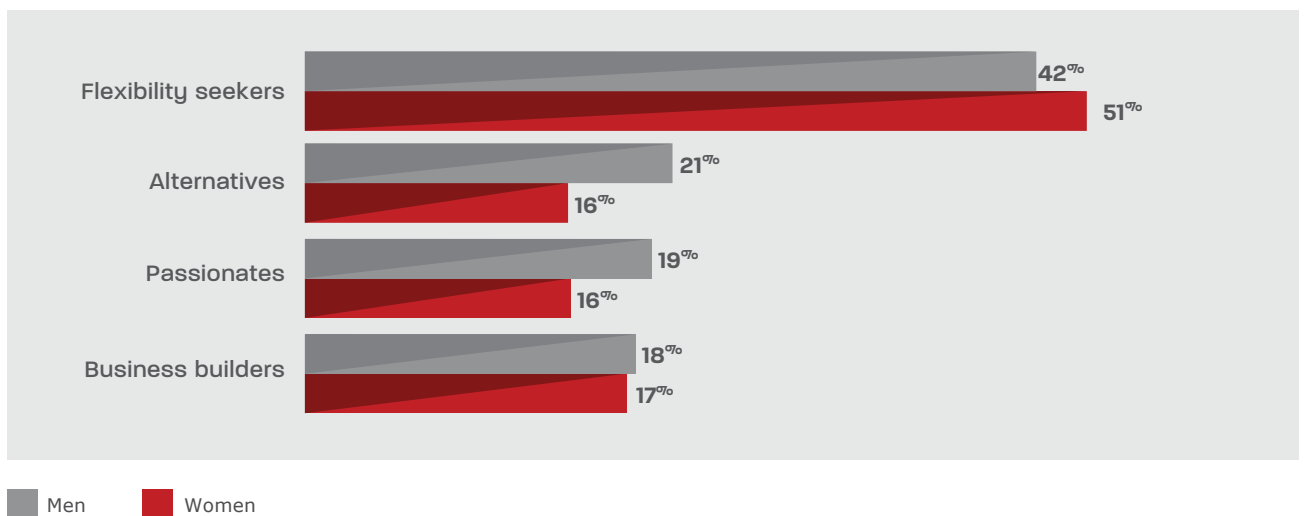


Figure 4 – Business motivation





“I like to engage professionals that are expert in their area. They have the knowledge. They’re working with the insurance products all the time. That’s the biggest advantage for me.”

Broker client, IT support

3b. Female decision makers of small and medium businesses take insurance very seriously

The research findings from the SME Index 2017 suggest that there is a general tendency for female decision makers of small and medium businesses to take insurance even more seriously than their male counterparts.

While getting the right business insurance is important to most business decision makers, more females (79%) agree with this statement than males (73%) (see Figure 5).

Additionally, women are more likely than men to agree with attitudes that imply a desire to

be more involved in insurance, suggesting that they have a stronger need to feel in control of the process.

Notably, female decision makers of small and medium businesses show an increased propensity to embrace online channels. For example, 68% of women within

small and medium businesses claim to use the internet to research their insurance options, compared to 56% of men (see Figure 6). They are also more likely to think buying insurance online is a great way to get the best price, and are less likely to reject buying online because they prefer personal advice.

Figure 5 – Insurance attitudes amongst small to medium businesses

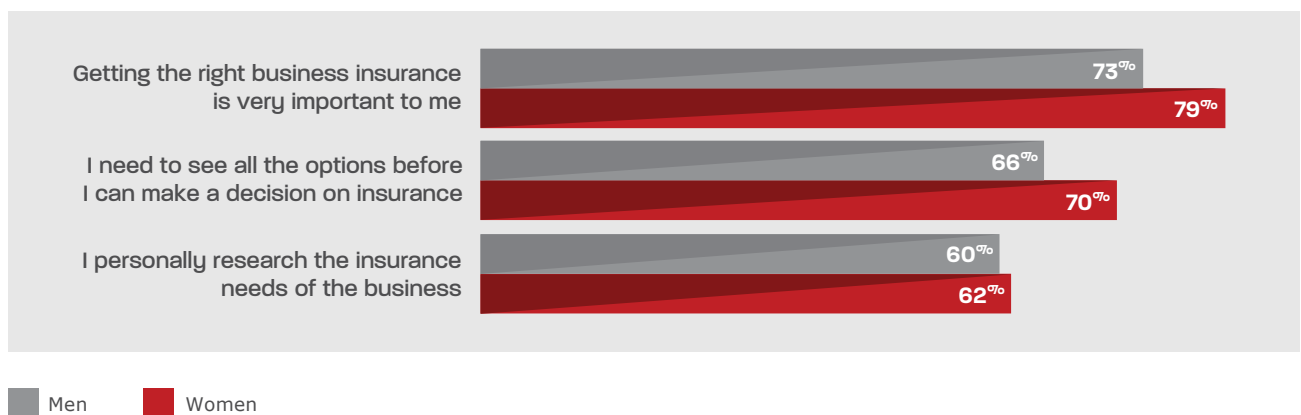
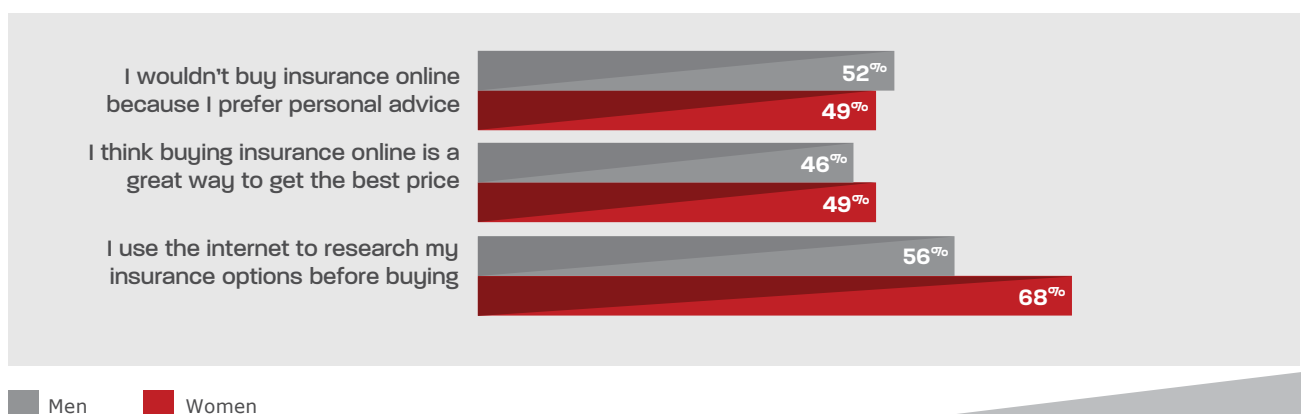


Figure 6 – Insurance attitudes amongst small to medium businesses



In Issue 2 of this year's Index, we found that there is a gap between business owners who plan for contingencies and those who have business interruption cover. This finding is even more marked for female owners of small and medium businesses, who are less likely than their male counterparts to plan for contingencies, and less likely to have business interruption cover (see Figure 7). This suggests an opportunity for brokers to talk to female clients about how well prepared they are for potential business interruptions.

Managing staff makes running small and medium businesses more complex, and female and male decision makers of small and medium businesses are equally likely (at around 80%) to claim that they feel responsible for

their employees. However, it appears that female decision makers of small and medium businesses worry more about employee issues. For example, 24% of female decision makers of small and medium businesses rank employee safety in their top 3 business concerns, compared to only 17% of male decision makers of small and medium businesses. Similarly, 23% of female decision makers of small and medium businesses cite concerns about attracting and retaining talent in their top three concerns, compared to 17% of male decision makers of small and medium businesses (see Figure 8).

While female decision makers of SMEs are less likely overall to use brokers, females within small and medium businesses are slightly more likely to be using a mix of direct buying

and broker use than male decision makers of small and medium businesses. (see Figure 9). In general, the female decision makers of small and medium businesses surveyed nominate the same reasons for using brokers as their male counterparts, namely getting the right insurance for the right price, expert knowledge and advice as well as great service.

However, female decision makers of small and medium businesses are more likely to say that using a broker provides them with peace with mind, and that they use a broker so they have someone on their side (see Figure 10). This suggests that there is a very strong role for brokers to play in demonstrating support and reassurance for female clients.

Figure 7 - Contingency planning

I have contingency plans in place in case I was unable to work in the business (e.g. due to illness)

I currently have business interruption insurance for my business

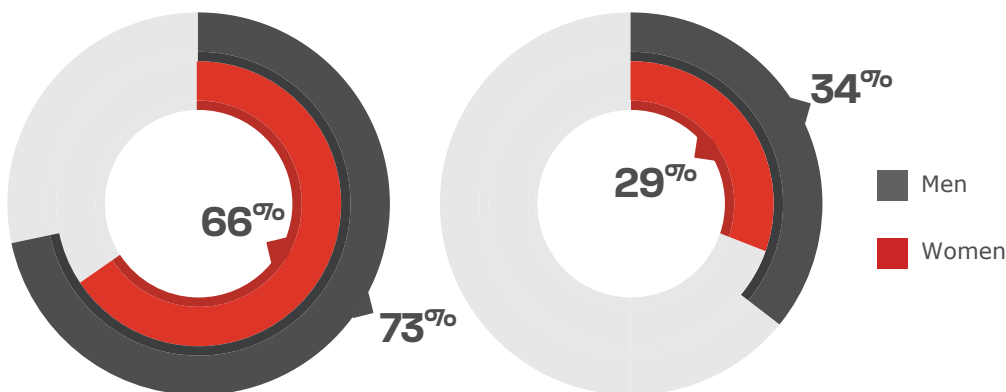


Figure 8 - Business concerns amongst small to medium businesses



Figure 9 – Broker usage amongst small to medium businesses

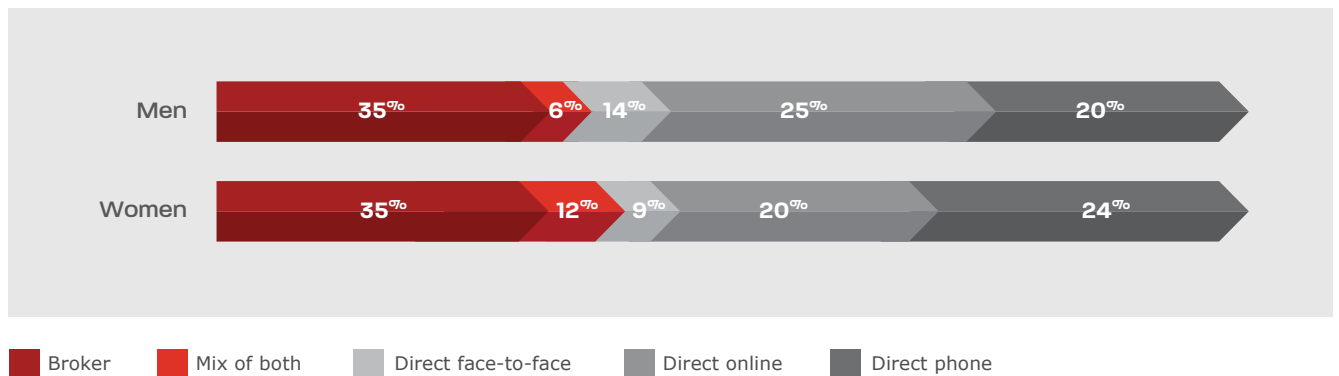
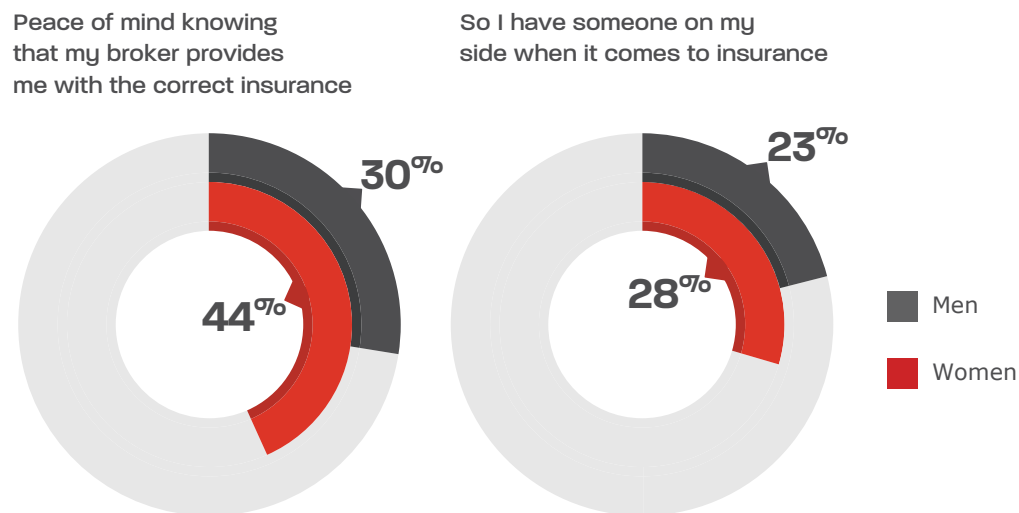


Figure 10 - Reasons for currently using a broker amongst small to medium businesses



Things for brokers to consider



- In most ways, females who run small or medium sized businesses want similar things from brokers as their male counterparts, such as the need for expertise and quality relationships.
- Help female decision makers of SME's feel in control. They want to be across the detail to understand the complexities of insurance and to be familiar with the options available to them.



- Female decision makers of small and medium businesses are more likely to value brokers for the peace of mind they deliver, and this needs to be the key message they take away from any interaction they have with their broker.
- There is an opportunity to talk to them about contingency risk information and how well prepared they are for potential business interruptions.
- Help provide information on how they can help their employees with insurance needs, and provide options to ensure they are appropriately covered.



- Consider using online channels to communicate and provide information, as a proportion of female decision makers of SMEs are knowledgeable and familiar in this space.



CHAPTER FOUR

BEYOND BUSINESS INSURANCE

Over the last six years the Vero SME Insurance Index has focused on SME attitudes and behaviour around business insurance. Business insurance is the bread and butter of the broking profession and it is easy to view this important category in isolation. However, we know that business insurance is just one facet of operating a business, and that the smaller the business, the more intertwined various financial arrangements become.

Therefore, in order to gain deeper insight into the needs of small businesses and to uncover further opportunities for insurance brokers, in this final issue for 2017 we look beyond business insurance. What role could brokers play in providing broader advice? To what extent does bundling business insurance with other insurance and financial products represent an appealing opportunity? And can broader engagement beyond business insurance help attract direct buyers to brokers?


Ultimately, as this Index has consistently found over the past six years, brokers need to build strong relationships based on an in-depth understanding of their clients' needs. This means that gaining insight into clients' financial lives beyond business insurance can be a powerful way to further deepen and strengthen client relationships.

Findings

The fourth chapter of the 2017 Vero SME Insurance Index focusses on financial products and services that SMEs may use beyond business insurance, including personal insurance, life insurance and other financial products. Our main findings are:

4a Advice outside of business insurance is important to many broker clients.

4b Advice beyond business insurance can reinforce reasons for direct buyers to consider using a broker.



“ We wanted to get an insurance policy that was overarching for all of our entities.... much better and less things to worry about.”

Broker client, call centre operations

4a. Advice outside of business insurance is important to many broker clients

This year, for the first time, we asked our respondents about their broader financial arrangements and, in particular their interest in engaging with insurance brokers beyond business insurance.

We have approached this by asking SMEs two new questions in our survey:

- How important is it that their broker provides advice on personal insurance and other financial products?
- Do they want their broker to tell them about opportunities to bundle their insurances and financial products?

Receiving advice on other insurance and financial products from their broker appears to be important to many broker clients. Specifically, 61% state that it is very important to receive advice on personal insurance or other financial products (or both) compared to 39% who don't consider this important (see Figure 1).

Gratifyingly, many SMEs who want this advice are already receiving it from their broker. Over one third of our respondents stated that receiving this advice is important to them and that their broker offers this advice. However, there are a number of SMEs who are currently not receiving the advice that they desire from their broker. Around 20% of broker clients would like to be receiving broader insurance and financial advice from their broker, but aren't (see Figure 2).

Figure 1 – Importance of advice beyond business insurance

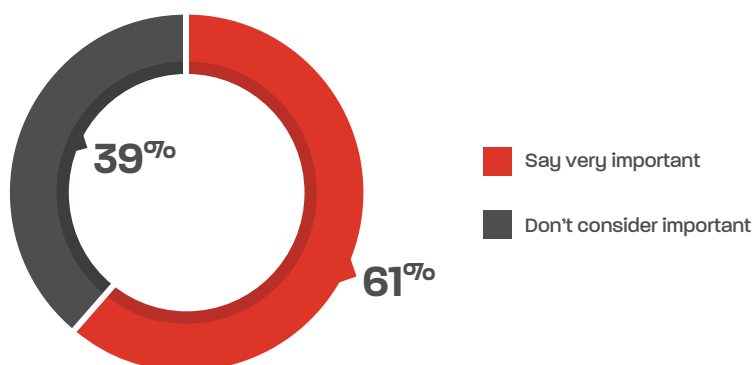
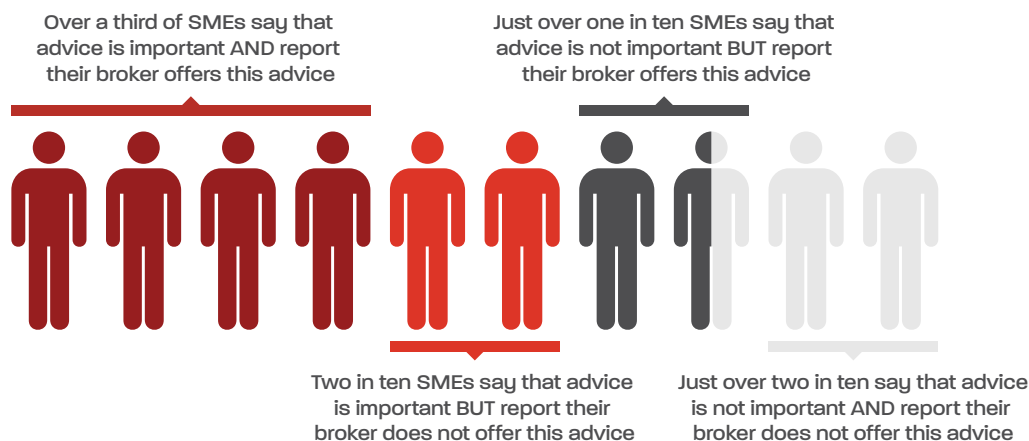


Figure 2 – Importance of advice delivery from brokers



What types of clients are more likely to be interested in receiving broader advice? In general, they tend to be larger businesses, with higher revenues and plans to grow (see Figure 3).

There is clearly a spectrum of requirements in the community and therefore brokers need to consider talking to their clients about whether they are interested in receiving broader advice. Not all value it, but the ability to provide advice provides further evidence of a broker's expertise and also demonstrates an interest in gaining a deeper understanding of their clients.

Bundling is also of interest, with almost two in five broker clients saying they'd like to hear about opportunities to bundle their business insurance with other insurance and / or financial products (see Figure 4).

Those broker clients who are interested in bundling are more likely to be younger. They are also more likely to be female, or in newer businesses or with growth plans for their business (see Figure 5).

So what types of products are clients most interested in bundling with their business insurance? Insurance dominates, suggesting that most broker clients wish to stick close to their broker's core areas of expertise. 70% claim that they'd be interested in bundling with other specialised business insurances relevant to specific business activities, and 68% are interested in bundling with personal insurance (see Figure 6).

Of those interested in bundling with personal covers, 52% are specifically interested in bundling with general personal covers (such as general property, private motor vehicle and health insurance) while 41% are interested in bundling with personal life covers (life insurance, income protection, trauma and TPD) (see Figure 7).

Just under half of broker clients are interested in bundling their business insurance with other financial products such as credit cards and loans, while over a quarter say that they would be interested in bundling all of the above (see Figure 6). Brokers should consider presenting these options in order to deepen their relationships with clients.

Figure 3 - Those who consider advice on personal insurance and/or other financial products important

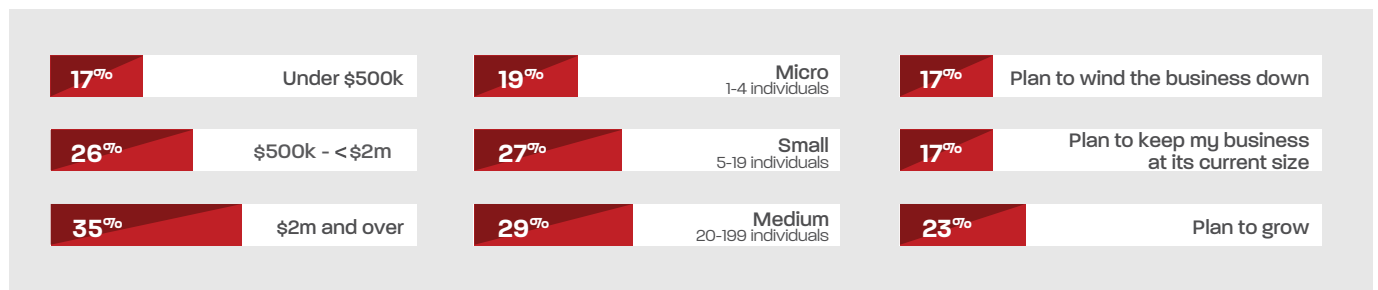


Figure 4 - Interest in bundling opportunities (broker clients)

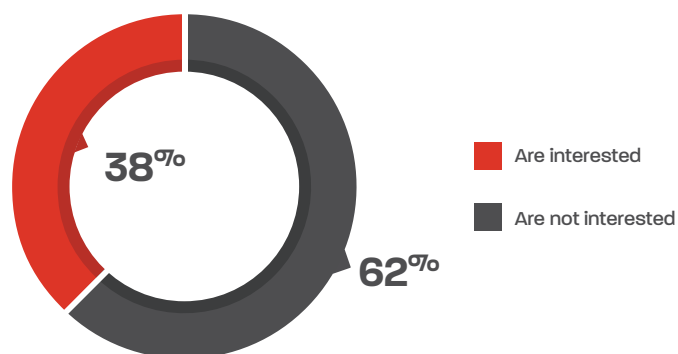


Figure 5 – Interest in bundling opportunities

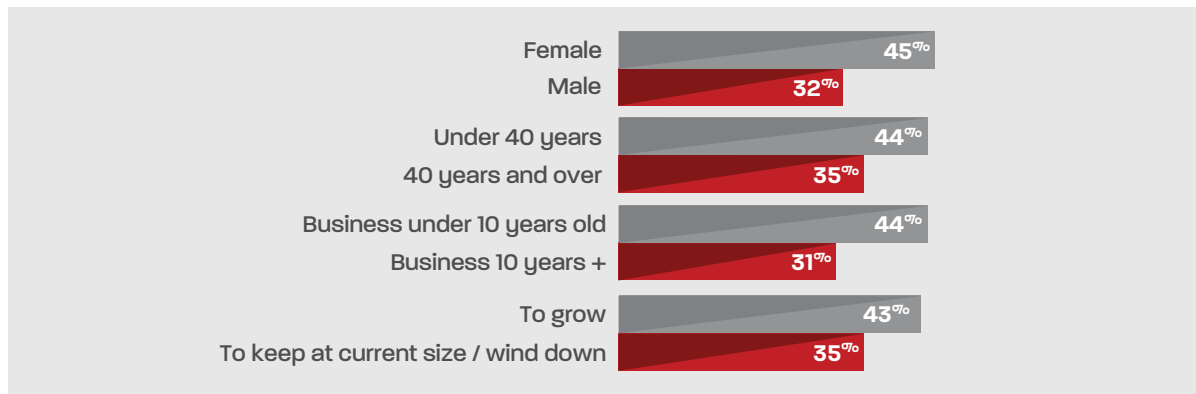


Figure 6 – Interested in bundling with...

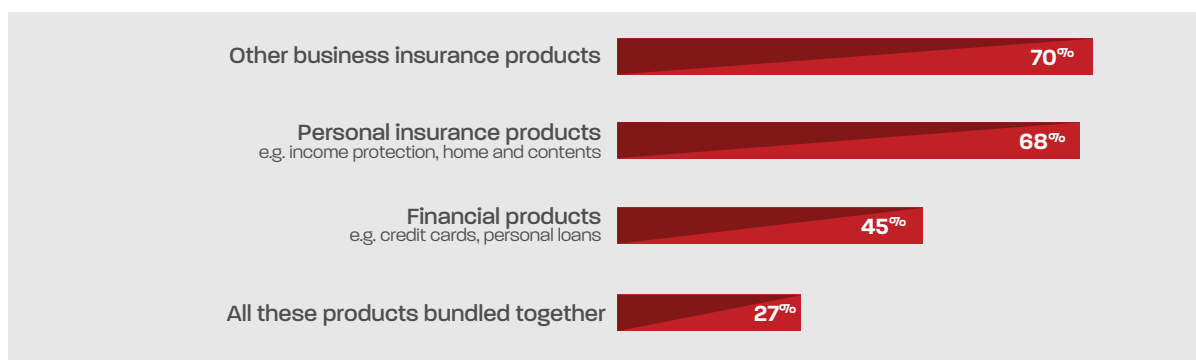
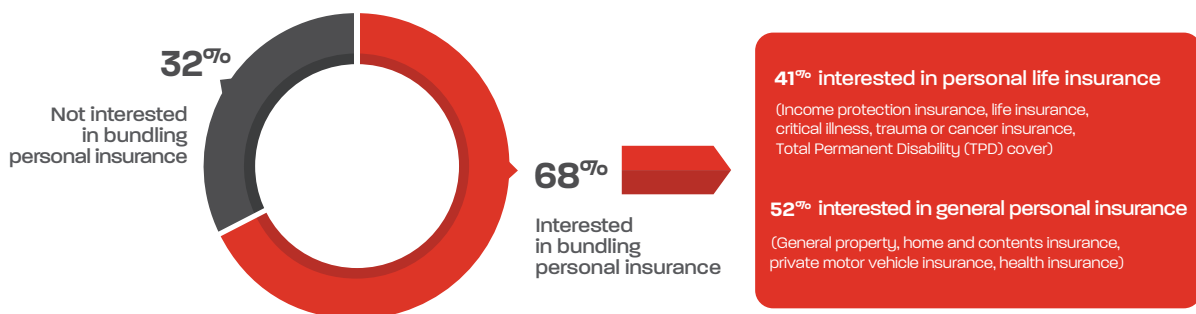


Figure 7 – What personal insurance do broker clients wish to bundle?



Things for brokers to consider



Many broker clients want to engage with their broker beyond business insurance, whether through bundling or advice, especially larger businesses with growth plans.



It's recommended that brokers consider having a conversation with their clients to understand their needs, and start the conversation with insurance, both business and personal, before looking at broader financial needs in order to deepen their relationships with clients.



Brokerages should review the opportunity for partnering with life experts or including this as part of their offer, assuming that they are able to deliver this type of advice.

“If there was an advantage to having it packaged in with the company then I would definitely consider it but so far we haven’t done that yet.”

Direct buyer, events management



4b. Advice beyond business insurance can reinforce reasons for direct buyers to consider using a broker

While extending relationships beyond business insurance has considerable potential for those SMEs who are already working with brokers, does it provide a reason for those who currently buy their insurance direct to consider using a broker?

On the surface, providing advice on personal insurance and other financial products would appear to only be a minor factor, with around one in ten citing the opportunity for broader advice, providing they are able to deliver this type of advice (either on personal insurance or other financial products), as a reason to consider using a broker (see Figure 8).

However, there is a strong correlation between those who are interested in advice and those that have an increased likelihood to consider using a broker. Looking at the 10% who say that receiving advice beyond business insurance would be a reason to use a broker, this group is significantly more likely to be considering using a broker, with 49% either definitely or maybe considering,

compared to only 32% of those not interested in advice (see Figure 9).

In addition, while providing broader advice is not necessarily a reason on its own to use a broker, it does provide evidence of other, more commonly cited reasons to use a broker such as investigating cheaper prices, insurance expertise and overall insurance guidance (see Figure 8).

Figure 8 – Reasons to try a broker

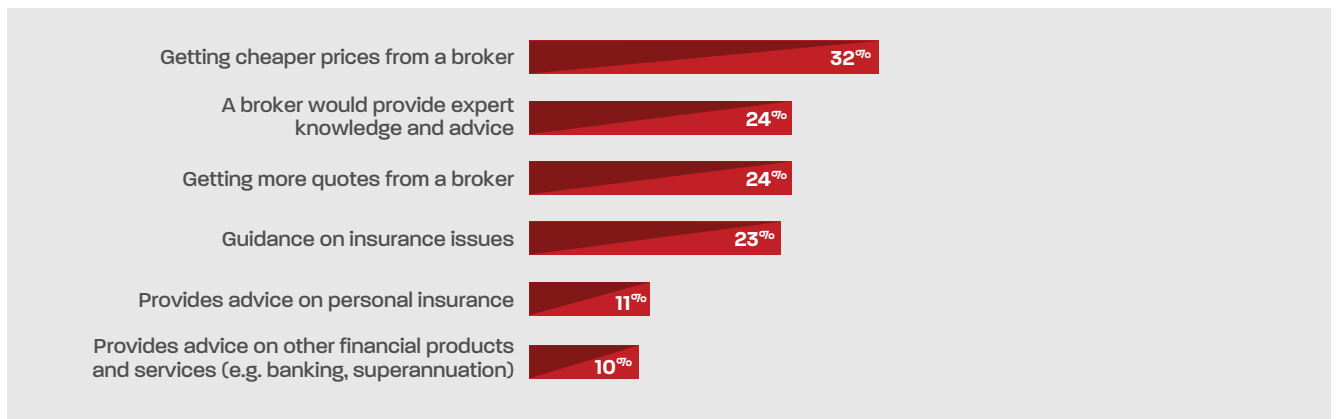
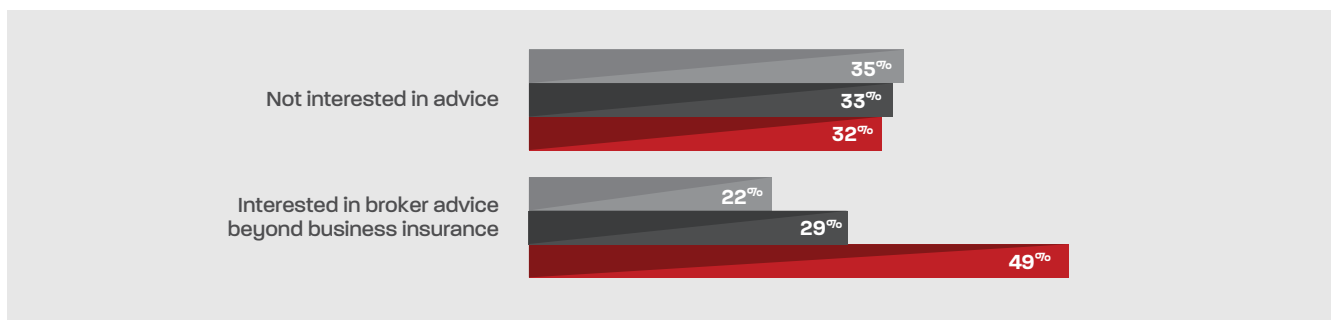


Figure 9 – Consideration for using a broker



Not considering a broker Might / might not Considering a broker

The opportunity to bundle business insurance is equally appealing to direct buyers as it is to broker clients, with around two in five claiming to be interested in bundling their business insurance with other insurance and / or financial products (see Figure 10).

As with broker clients, direct buyers are most interested in insurance-related bundles rather than financial services, although almost one in three would like to hear about everything (see Figure 11).

Of those direct buyers interested in bundling with personal covers, 50% are specifically interested in bundling with general personal covers (such as general property, private motor vehicle and health insurance) while 48% are interested in bundling with their personal life covers (life insurance, income protection, trauma and Total Permanent Disability (TPD) (see Figure 12).

Figure 10 - Interest in bundling (direct buyers)

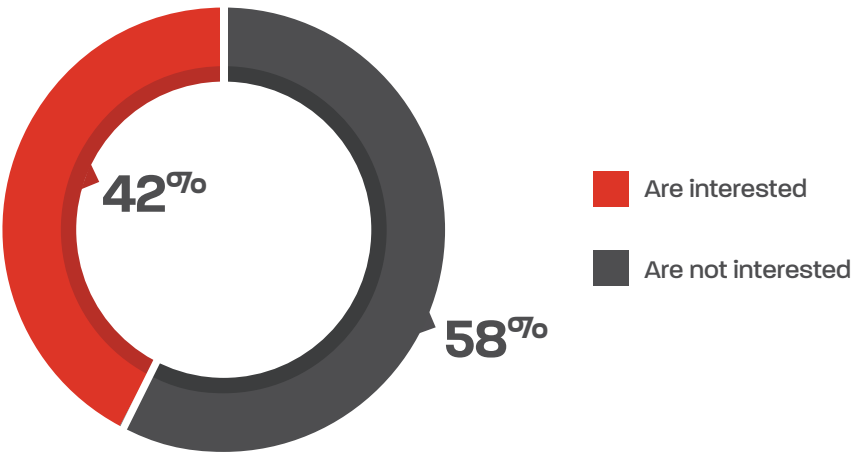


Figure 11 - Interested in bundling with...

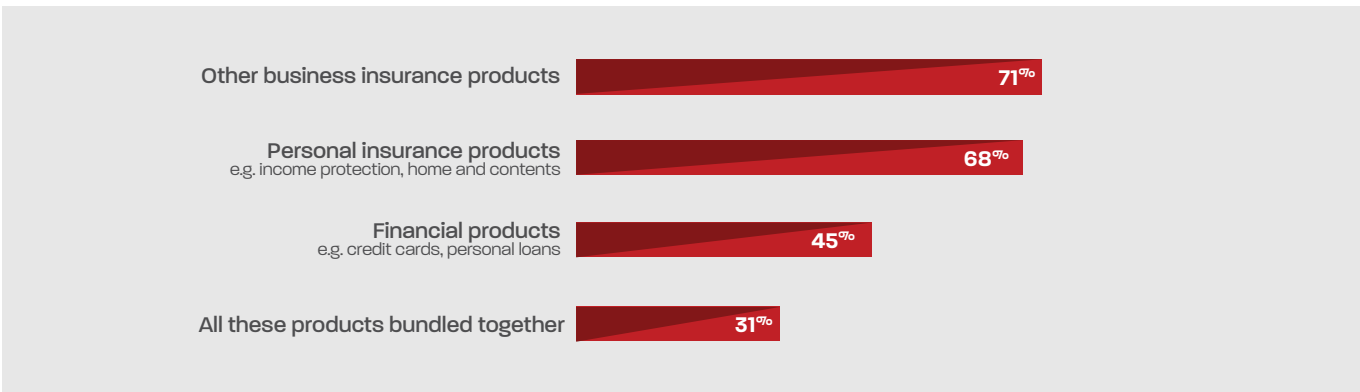
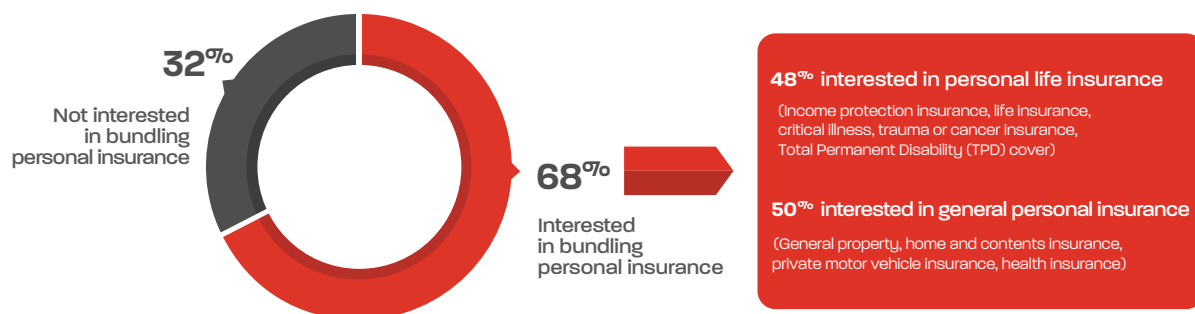


Figure 12 – What personal insurance do direct buyers wish to bundle?



Things for brokers to consider



When looking to attract new clients, brokers should consider having a conversation beyond business insurance to showcase a wider, more diverse and attractive skill set for SMEs.



While business insurance is still the broker's main point of attraction, having a broader understanding can demonstrate the broker's expertise and desire to save client's time and money.



In particular, many direct buyers are interested in opportunities to bundle their business insurance with other insurance and financial products, and brokerages should consider how to make this part of their overall offer.

WHAT HAVE WE LEARNT IN 2017?

Broker usage has been gradually declining over the last four years, amongst all demographics and all business sizes, including medium sized businesses.

While this is a challenge for the broking profession, it also represents opportunities for brokerages to refine their offer to meet the needs of a dynamic audience.

In order to help brokers make the most of these changing times we have explored SME attitudes and behaviour from a number of angles and identified opportunities (where available, appropriate and possible) for brokers to build sustainable relationships with their clients:

Broker opportunities for 2017



Develop digital strategies: Leverage digital efficiencies to meet customer needs and free up time to focus on relationships.



Reinforce role as risk adviser: Communicate the expertise that brokers bring, and position brokers as risk advisers, not just a sales channel.




Deeply understand customers, including:

Business builders are an attractive target but require value added service and expertise.

Female owners of small / medium businesses need to feel in control and are looking for support and peace of mind.



Beyond business insurance: Engage with clients beyond business insurance, through personal insurance and even financial services.

A man in a blue shirt and yellow safety vest is looking at a clipboard held by a woman in a red shirt and blue blazer. They are in a warehouse setting with shelves in the background. The image is partially covered by a red diagonal overlay.

“If a broker can offer a little bit more personal understanding, then I think that would be an advantage for us, over just doing it ourselves.”

Direct buyer, events management

Research methodology

This report is based on research involving over 1,500 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 1,541 business owners and insurance decision makers was conducted, covering a range of business types, locations and sizes. The survey was conducted during October 2016 and the data was weighted by state and organisational size to current Australian Bureau of Statistics (ABS) data. The survey 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 that they were responsible for making insurance decisions for 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 20-199 individuals.

Stage Two – In-Depth Qualitative Interviews

A series of interviews was 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 February 2017.

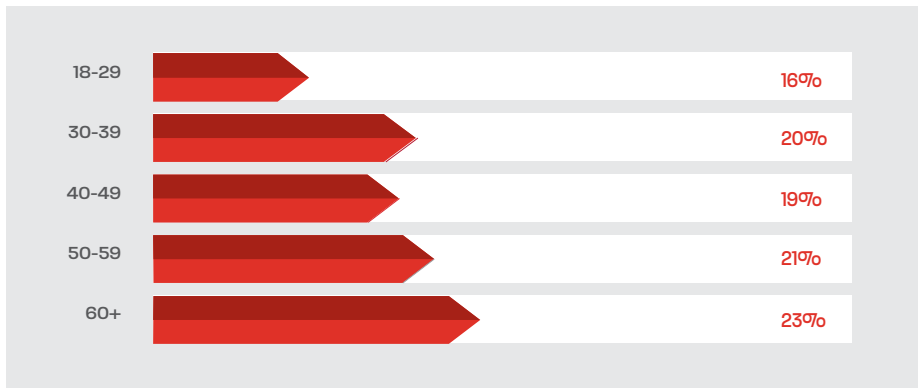
* This research was conducted by BrandMatters.
See www.brandmatters.com.au



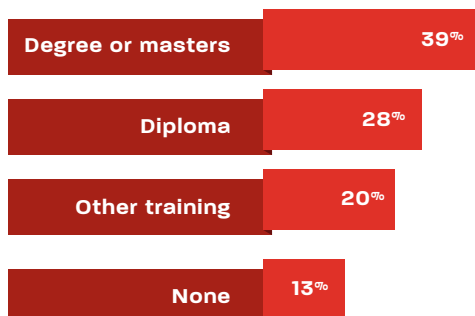


Demographics of respondents

Age group



Level of education



Gender



Sample sizes and weighting approach

The quantitative phase of the report was based on 1,541 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	706	82%
5-19	499	14%
20-199	336	4%
Total	1541	100%

State/Territory	Sample size	ABS population proportion
NSW/ACT	543	34%
VIC/TAS	429	27%
QLD/NT	307	22%
WA	129	8%
SA	133	9%
Total	1541	100%

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