SME INSURANCE INDEX 2018



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Introduction

Welcome to the 7th edition of the Vero SME Insurance Index.

One of the defining features of our era is an increase in choice. The digital age has brought with it an almost endless number of options and decisions to be made, making our lives more connected but ever more complex.

This broad trend is clearly in evidence in insurance, with a large range of events, covers, purchase channels and details facing SMEs as they try to manage risk for their businesses. We know that business insurance is complex at the best of times, so how are micro, small and medium sized businesses coping in the face of these choices?

This year we have taken a deeper look at the complexity of SMEs' insurance arrangements and the resulting opportunities. Firstly, is insurance something they just let tick away in the background, or in the fast-paced world of change, do they review it more regularly? We asked SMEs what makes them review their insurance, and the short answer is that there are a range of triggers that cause SMEs to think about their insurance, from the end of financial year to buying new equipment and everything in between. Understanding this behaviour is important, because if brokers understand what makes SMEs think about their insurance, they can ensure that they are there to support and provide advice at the appropriate time. In the past, we have simplistically categorised SMEs as either *broker users* or *direct buyers*. But does this reflect the way SMEs really buy their insurance or is the reality more complicated? By asking SMEs about the proportion of their insurance that is bought through brokers, we have been able to gain insight into the nuances of SMEs' increasingly complex insurance buying behaviour.

While SMEs appear to have an increasing propensity to purchase insurance via a mix of channels, when it comes to advice about business risk, many are turning to the simpler, less professional sources of advice such as families, friends and peers. This is a challenge for the industry, so this year we also explore the opportunity for brokerages to leverage the popularity of word-of-mouth advice to encourage referrals and build their business.

A complex environment in which clients are bombarded with choice represents both challenges and opportunities for brokerages. Through understanding how SMEs approach insurance, we will have a more meaningful perspective of the challenges facing the industry and will be better equipped to meet them.

We hope you find this year's Vero SME Insurance Index informative and useful.

Findings

This year's Vero SME Insurance Index Report focuses on the general market landscape, including these main findings:

- Industry and business changes prompt SMEs to review their insurance on a regular basis
- 2 Insurance purchase behaviour is more complex than you may think
- 3 Peer advice continues to grow in importance

These topics will be explored in detail in this report.

Throughout the course of the year we will also be sharing some additional information on various topics such as:

- Attitudes and behaviours of SMEs under 45 years of age
- Claims coverage and satisfaction
- Profiles on specific industries

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1. Industry and business changes prompt SMEs to review their insurance on a regular basis

Industry folklore suggests that insurance is a grudge purchase for many SMEs: important to get right, but something they avoid thinking about.

But how often do SMEs really think about their insurance? And more specifically, what prompts them to review their insurance policies and arrangements? This year we wanted to understand how often SMEs really think about their insurance and why. So, we asked about the things that trigger them to think about their insurance, because, by understanding this, brokers can tap into the best times to build existing relationships and create new ones. There are several typical triggers to reviewing insurance, and while brokers no doubt witness these behaviours in their clients, for the first time we have asked SMEs about their specific triggers to get a quantified view (see Figure 1).

Figure 1 - Insurance review triggers



- Standard review: Almost 60% claim to have some sort of standard review in place, whether that's a regular annual check or a review prompted by a broker, accountant or other adviser.
- **Insurance changes or Events:** These are an obvious reason for SMEs to look at their insurance arrangements, with over a third saying that a major claim or a change in insurance premiums cause them to review their insurance.
- **Business changes:** Over a quarter of SMEs claim to review their insurance arrangements when they go through a significant business change such as a large purchase, taking on new staff or upgrading IT systems.
 - This is even more important for SMEs under 45 years and small and medium sized businesses:

- 37% of business owners or decision makers under 45 years say that they review their insurance when they make significant business changes compared to only 18% for over 45 years (see Figure 3, page 9).
- 45% of small businesses and 62% of medium businesses review their insurance when they make business changes (see Figure 4, page 9).
- Therefore, it is very important for brokers to understand their clients' businesses and be aware when significant changes take place so they can assist and advise when their clients are looking at their insurance arrangements.

- Set and forget: The good news is that less than one in five SMEs claim to simply "set and forget" their insurance.
 - More specifically, 8% say that they haven't reviewed their insurance since starting their business, and another 8% aren't sure (see Figure 2).

Figure 2 - Insurance review triggers in more detail

andard review	59%
Regular review (e.g. once a year)	46%
When my broker, accountant or other advisor recommends me to	22%
surance changes or Events	37%
When there is a change in insurance premiums	32%
When I've experienced a significant insurance event (e.g. had to make a major claim)	10%
usiness changes	26%
When making a large business purchase	12%
When transitioning to a different business model or type	8%
When upgrading IT systems	8%
When there are significant changes to staffing levels	8%
et and forget	16%
I haven't reviewed my insurance since starting my business	8%
l couldn't say	8%

Figure 3 - Insurance review triggers by age



Figure 4 - Insurance review triggers by business size



In a nutshell

- 59% of SMEs review their insurance regularly or when prompted by an adviser.
- 37% review their insurance when they experience a significant insurance event, e.g. a claim or price rise.
- 26% review their insurance when they make a major change to their business, such as investing in equipment or taking on new staff. (This is more common for SMEs under 45 years and small and medium businesses.)

Things for brokers to consider



Set up regular reviews based on your clients' typical planning cycle to make it easy for them to review their insurance regularly.

Understand when clients are making big changes in their business and ensure that you can provide the necessary advice at times when they are likely to be reviewing their insurance arrangements (especially if they are younger or small or medium sized businesses).



Provide support during insurance changes, for example claims or significant premium increases.

We've changed direction once or twice and at those times we'd review it with our broker.

Broker client, broadcast equipment wholesaling

All our main insurance is with a broker but for motor vehicle we go direct. It just seems easier.

Broker client, furniture manufacturer

2. Insurance purchase behaviour is more complex than you may think

Over the last six editions of the Vero SME Insurance Index, we have measured how many SMEs used a broker for their last insurance purchase. This year, 37% of SMEs claimed to use a broker, a small (and not statistically significant) increase on 34% last year, indicating that broker use is broadly stable this year (see Figure 5).

However, this measure suggests that broker use is binary – you either use a broker or you don't. But is this really the case, and does this reflect reality for most SMEs? To find out, this year we asked a series of new questions aimed at uncovering a more nuanced picture of actual insurance purchase behaviour:

- Of all the insurance policies you have bought or renewed for your business in the last 12 months, approximately what percentage have been bought through a broker?
- Are you using a broker less than you used to? And if so, why?
- Have you stopped using a broker? And if so, why?

Almost a third of SMEs claim that they are using a broker less than they used to (Figure 6). This finding is consistent with the significant declines we have seen in broker usage since the Index first launched. Notably, SMEs who are dissatisfied with their broker are significantly more likely to have reduced their usage of brokers, which suggests that by focusing on improving client satisfaction, brokerages can dissuade clients from exploring other purchase channels.

Figure 5 - Broker usage trend



What reasons do SMEs give for using brokers less? (see Figure 7, page 14)

- **Ease and convenience, 56%:** Many SMEs claim that it is easy enough to organise their insurance themselves.
- **Price, 45%:** Some SMEs think they can get insurance cheaper themselves, sometimes due to a perception that brokers charge too much in commission.
- **Under-serviced, 39%:** Some SMEs claim to have received poor service or advice, and simply can't see the benefit that their broker delivers.

Figure 6 - Using a broker less

• **Online preference, 34%:** Around a third of SMEs claim to prefer online in general, and for some this is because they perceive that they get a faster response online than from a broker.

These reasons for using brokers less provide a number of opportunities for brokerages to consider, including making the process more streamlined and easy for clients, developing or enhancing online platforms and ensuring that SMEs understand the benefits of using a broker.

Figure 7 - Main reasons for using a broker less



Using a broker for some, but not all, business insurance appears to be widespread in Australia. When we look at the proportion of insurance that SMEs claim to be buying through a broker, less than a third of SMEs say that they do not use a broker at all (non-users), compared to 27% who claim to use a broker for at least 90% of all their business insurance needs (broker users). The largest group, at 42%, is SMEs who say they use brokers for some (between 1% and 89%) of their insurance (mixed users) (see Figure 8, page 15). This tendency toward mixed usage from this year's findings is even more pronounced for small and medium businesses. In fact, 58% of all small businesses and 71% of all medium businesses say they buy between 1% and 89% of their insurance through brokers (see Figure 9, page 15). This suggests that brokerages may not be losing clients, but rather are getting a smaller share of their clients' total insurance spend because SMEs are using a mix of channels to purchase their insurance.

A similar pattern can be seen with age. Less than a third of SMEs over 45 years of age use a mix of channels, compared to 60% of those aged 18-44 years (see Figure 10, page 15). This is in part due to the fact that older business owners and decision makers are over-represented in smaller businesses. Mixed usage would appear to be becoming the norm amongst younger business owners and decision makers. Brokerages need to understand this change in purchase behaviour to prepare and tap into the new opportunities for the future.

How do broker users, mixed users and non-users differ?

Non-users: More likely to	Mixed users: More likely to	Broker users: More likely to…
• Be in micro businesses with lower	• Be in small or medium businesses	• Be over 45 years
turnover	Be in growing businesses	• Be satisfied with their broker
Be over 45 years	• Be under 45 years	• Feel confident about their insurance
• Feel like they can easily do it	• Have higher education levels	
 Review their insurance less often	• Have insurance looked after by a manager rather than the owner	

Our findings this year suggest that the biggest challenge for brokerages is not losing clients altogether, but rather that SMEs are turning to a range of different channels to meet their insurance needs and relying less exclusively on brokers. Therefore, the most successful brokerages of the future will be those that are able to understand the complexities of SMEs' purchasing behaviour, to gain a greater share of their clients' insurance portfolios.



Figure 8 - Percentage of policies bought through broker

Figure 9 - Percentage of policies bought through broker by business size



Figure 10 - Percentage of policies bought through broker by age



In a nutshell

- 32% of SMEs claim to be using a broker less than they used to, particularly small and medium businesses.
- There are many reasons to use a broker less, with ease and convenience the most common.
- Using a mix of insurance channels is becoming the norm, especially for small and medium businesses and younger business owners and decision makers.

Things for brokers to consider





Be aware of your clients' total insurance portfolio, particularly for small and medium businesses and younger business owners who are more likely to use a mix of channels, and think about how best to meet their entire insurance needs. **Demonstrate expertise** and provide reassurance and evidence that clients have the right cover in place, so they have less incentive to try other channels.



Make it as easy as possible.

Streamline processes, and consider easy online platforms for administrative tasks, to ensure that brokers are considered to be an easy and convenient option for buying insurance.

Focus on client satisfaction.

Satisfied clients are less likely to use a mix of channels.

I guess my feeling about the brokers is it feels a bit old fashioned but it kinda works.... But somebody's gonna disrupt it at some point.

Broker client, software developer

I rely a lot on the advice of my peers. There's always a lot to be learned from other people, word of mouth is very powerful.

Direct buyer, make-up artist

3. Peer advice continues to grow in importance

Over the last several years, we have seen an increase in the number of business owners and decision makers turning to non-professional sources of advice when they are thinking about risks to their business. Peers, colleagues and even friends and family members provide a valued supply of advice and guidance, with 58% turning to these groups this year, up from 52% last year (see Figure 12).

On the one hand, this finding is a concern for the industry as a whole, as it indicates that informed, expert advice is waning and many SMEs are putting their trust in advice-givers with no professional knowledge. This then means an increased risk of underinsurance or inappropriate insurance for too many businesses, and therefore it is critical that the industry continues to communicate the value of the expert insurance advice that brokers deliver.

However, there is also an opportunity in this finding: given that many SMEs turn to their peers when thinking about business risk, how can brokerages encourage their existing clients to refer them to their friends, family and colleagues? Word of mouth is a very powerful source of new business for brokerages and yet how many brokerages actively encourage referrals? In previous editions of the SME Index we have learnt that 39% of potential broker clients would turn to word of mouth recommendations when looking for a broker. This year we have discovered that almost eight in ten broker clients would be willing to recommend their broker if asked, but less than two in ten have actually been asked by their broker to provide a referral (see Figure 13, page 22). This is consistent with international studies which found that 72% of businesses hadn't referred their professional service provider because they hadn't been asked*.

As brokerages develop plans for their business, there is a clear opportunity to develop active referral strategies so that brokerages can take advantage of this strong preference for word of mouth and the willingness of satisfied SMEs to refer their broker.

*Source: Hinge Marketing



Figure 12 - Sources of advice

Figure 13 - Referral

Has your broker ever asked you to recommend their services to others?





In a nutshell

• Less than two in ten broker clients have been asked to provide a referral for their broker, and yet almost eight in ten would be happy to do so.

Things for brokers to consider



Develop referral strategies to ensure that your brokerage is making the most of the recommendations from your most satisfied clients.



Ask your clients to recommend you. Gaining a referral can sometimes be as simple as asking your clients.



Look out for Vero's upcoming workshops and toolkits on Building Effective Referral Strategies.

The craft brewing community is very collegiate. When we first set up I called a fellow brewer and asked him what they do for insurance. He said "we use this broker, here's his name".

Broker client, craft brewer

I am an online person. I'm the classic small business owner that has to do all of the admin online at night.

Direct buyer, bakery and cafe

In case you were wondering...

What role does online play?

There is no question that online channels will continue to play an important and evolving role in insurance, as in virtually every other field of business. This year, for the first time, we asked SMEs how comfortable they feel doing a range of insurance tasks online.

There were two key findings:

Online comfort levels are high across the board

- The vast majority of SMEs claim to be at least somewhat comfortable dealing with their insurance online.
- Only 12% claimed to be not at all comfortable with the most complex activity identifying the most appropriate insurance for business.

Comfort levels are highest with administrative tasks

SMEs are least comfortable with making amendments to current policies and identifying the most appropriate insurance.

The opportunity for brokerages is to use online to automate the more routine tasks as much as possible, to free brokers up to spend time on using their expertise to advise clients (see Figure 11).

Figure 11 - Online comfort levels





Research methodology

This report is based on research involving over 1,600 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 1619 business owners and insurance decision makers was conducted, covering a range of business types, locations and sizes. The survey was conducted during September 2017 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 8 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 January 2018.

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

Demographics of respondents

Age group



70

70

Level of education



Gender



Sample sizes and weighting approach

The quantitative phase of the report was based on 1,619 online surveys conducted with SMEs 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	709	89%
5-19	523	9%
20-199	387	2%
Total	1619	100%

State/Territory	Sample size	ABS population proportion
NSW/ACT	551	31%
VIC/TAS	481	28%
QLD/NT	312	22%
WA	145	10%
SA	130	9%
Total	1619	100%

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