

Attitudes to risk

The 2022 SME
Insurance Index

Contents

Section one

Levels of cover, and the risk of underinsurance	3
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Section two

The risks that matter most to SMEs	16
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The research methodology	25
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Section one:

Levels of cover, and the risk of under- insurance

As business owners grapple with uncertainty and confidence continues to waver, brokers have the opportunity to deliver expert advice and add value as risk advisers.

In this bonus chapter of the Vero SME Insurance Index 2022, we shine a light on risk. We look at which business risks SMEs are currently concerned by, their understanding of what their insurance covers, and what they would do to overcome a negative event for which they weren't insured.

As with the main report for this year, we have also included data for large businesses to highlight how this important sector of the business community thinks about their risk.

We hope you find the insights in this report helpful as you continue to build deep, trusted relationships with your clients.

Underinsurance is an area of concern for small businesses. A fact that has only been exacerbated with the increase in general costs, supply chain disruptions, evolution of operating models, and other changing circumstances.

In addition, a number of SMEs have reduced their insurance cover to help manage costs in a challenging economic environment. This context means that underinsurance is a very real possibility in a post-COVID world. But are these risks well understood by small businesses?



Perceived coverage levels

To uncover SMEs' understanding in this area, this year we asked what their perceived cover levels are for their insurable business risks. 43% of respondents think that they are completely covered, while 51% say that they are mostly covered and 6% admit to only being partially covered (see Figure 1.1).

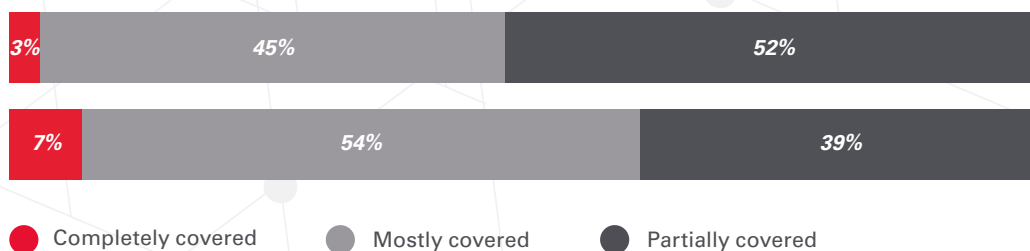
Perceived coverage levels differ based on how SMEs purchase their insurance. 52% of broker clients believe that they are completely covered for insurable business risks, compared to only 39% of direct buyers (see Figure 1.2).

This suggests that broker clients have a higher level of confidence than SMEs who buy direct.

Figure 1.1: Perceived coverage levels for insurable risk



Figure 1.2: Perceived coverage levels for insurable risks compared across main purchase channel



The risk of underinsurance

The fact that the majority of SMEs consider themselves to be either partially or mostly covered by their insurance suggests there is a degree of conscious risk acceptance within their ranks. To understand the extent to which these SMEs have thought through the consequences of this risk acceptance, we asked respondents what they would do in the case of a major negative incident for their business.

The findings uncovered a high degree of complacency, with over a third indicating they don't have a plan if the worst was to happen. 34% do not believe their business would incur losses that would cause a problem, while 30% said that they simply hadn't thought about it (see Figure 1.3).

This suggests that many SMEs may not have the necessary knowledge or advice to be able to plan for negative incidents.

This suggests that there is a very real opportunity for brokers to add value for their clients by educating them on the pitfalls of such complacency and ensuring they are better prepared for the implications of negative events through more comprehensive insurance.

Just over a quarter of SMEs who aren't completely covered are self-insured or would be able to refinance if they were to experience a negative event. Around 1-in-5, however, suggest they would have to cease operations.

When viewing this data by business size, we learn that medium size businesses are more likely to be completely covered by their insurance. If they are not completely covered, they are at least less likely to say that they don't have a plan if something were to go wrong (see figure 1.4). However, there is still a troubling 28% segment of these larger SMEs who have no plan. This is concerning given these businesses face greater complexity and have more responsibilities. Small businesses are also more likely to either self-insure or shut down their businesses upon experiencing a major negative event for which they are not insured.

Figure 1.3: Plan for negative scenario if not completely covered by insurance

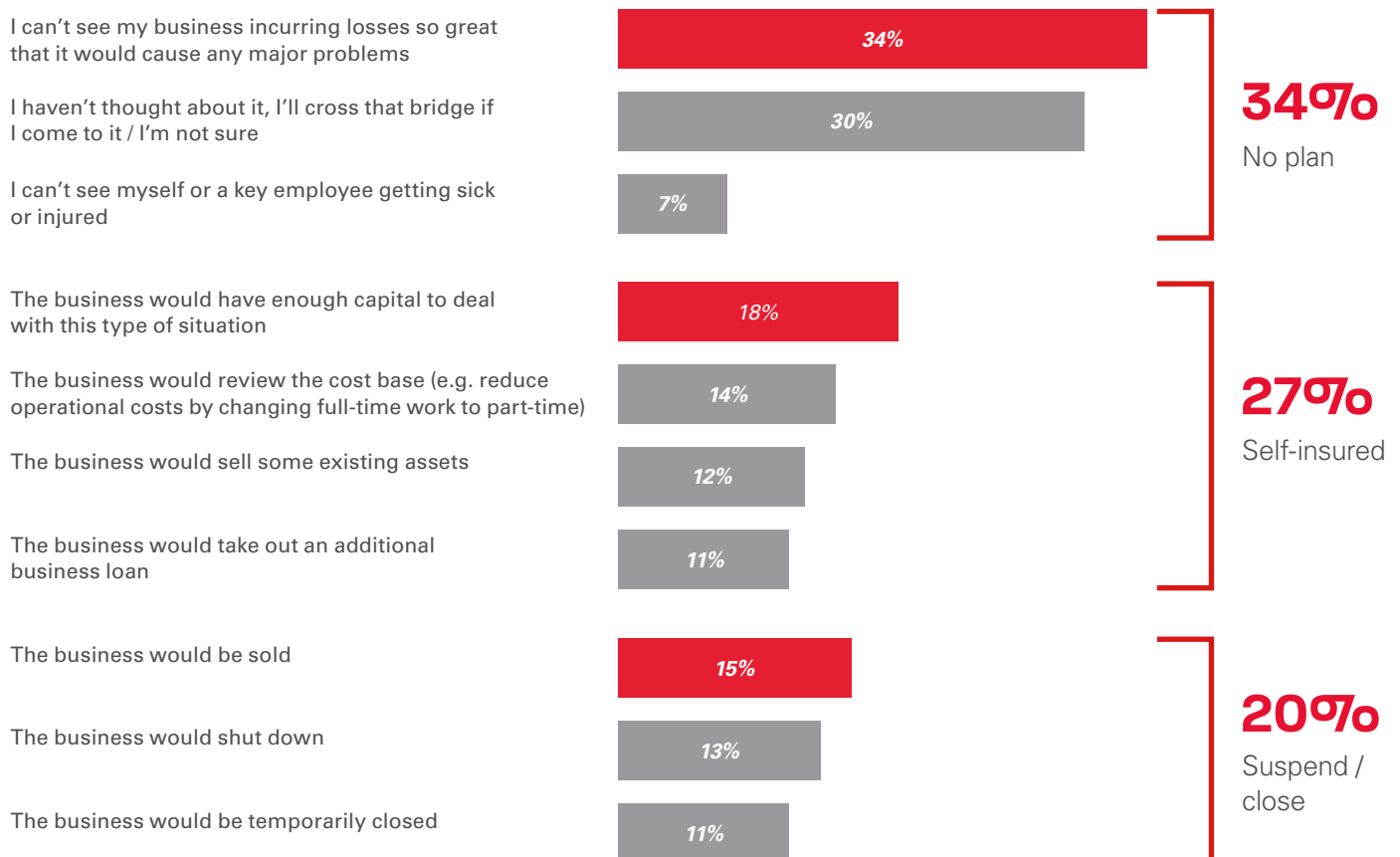
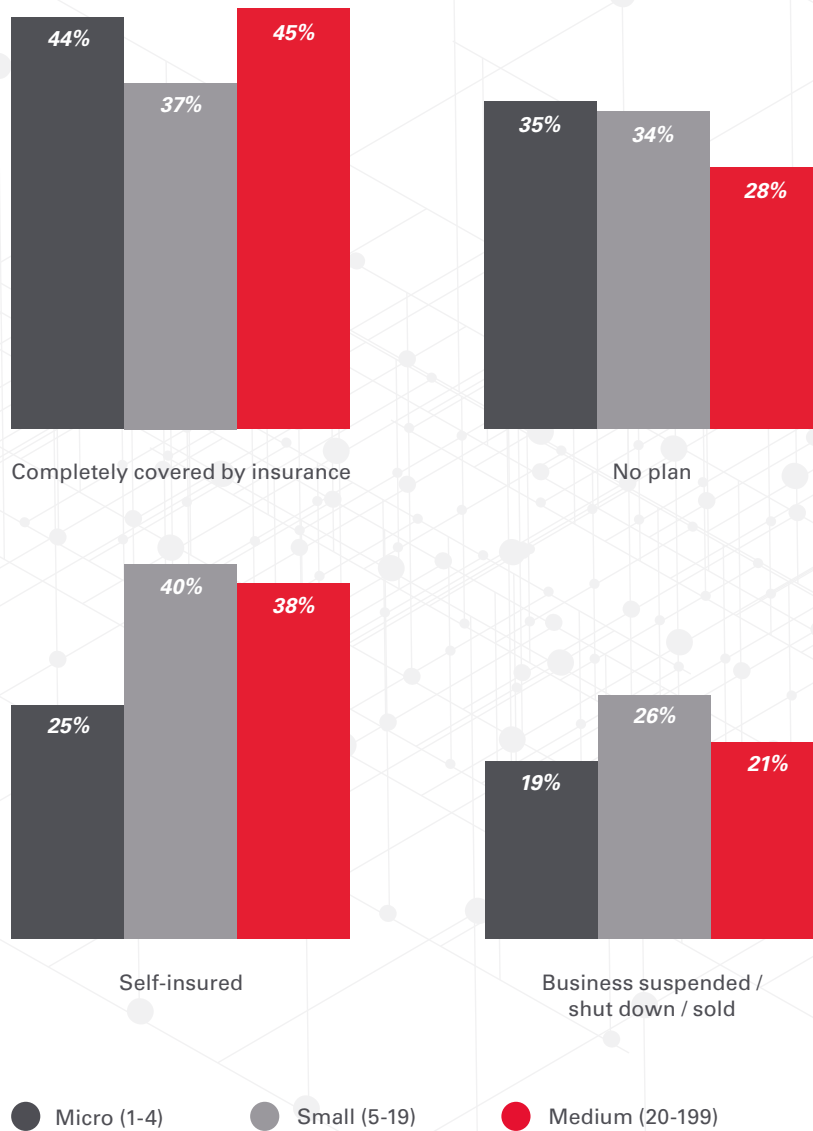


Figure 1.4: Plan for negative scenario compared across business size





Broker clients are more likely to enjoy complete cover from their insurance. If they are only mostly or partially covered, then they are more likely to have the foresight to have a plan for facing negative events (see Figure 1.5).

This difference becomes even more pronounced when looking at heavy broker users, that is, those who buy over 90% of their insurance through a broker. 60% of heavy broker users claim to be completely covered, compared to 42% of light or moderate brokers users, and only 23% have no plan for major negative incidents, compared to 33% of light to moderate broker users (see Figure 1.6).

This association between heavy broker usage and better levels of coverage may demonstrate the value of using a broker for all insurance, rather than mixed usage in which the broker has less visibility of the SME's overall risk profile.

Figure 1.5: Plan for negative scenario compared across main purchase channel

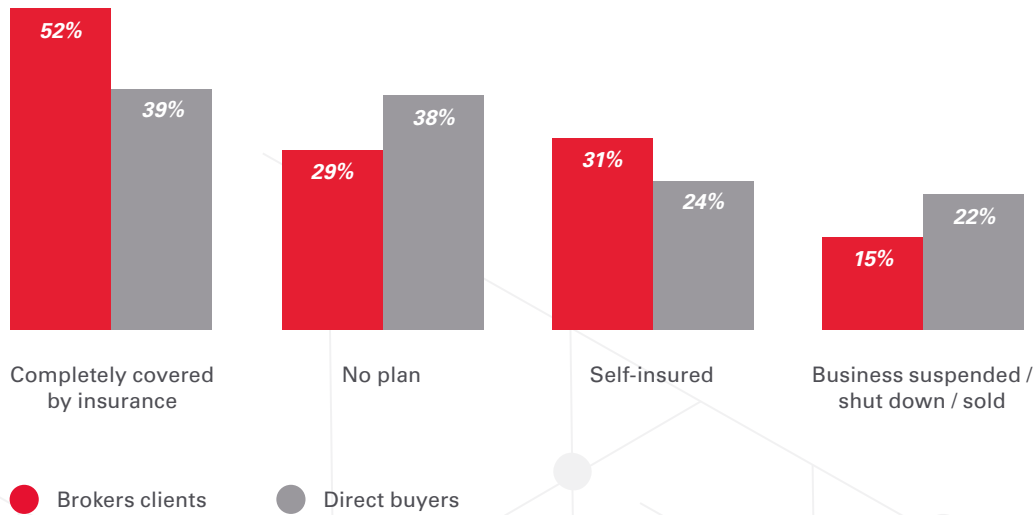
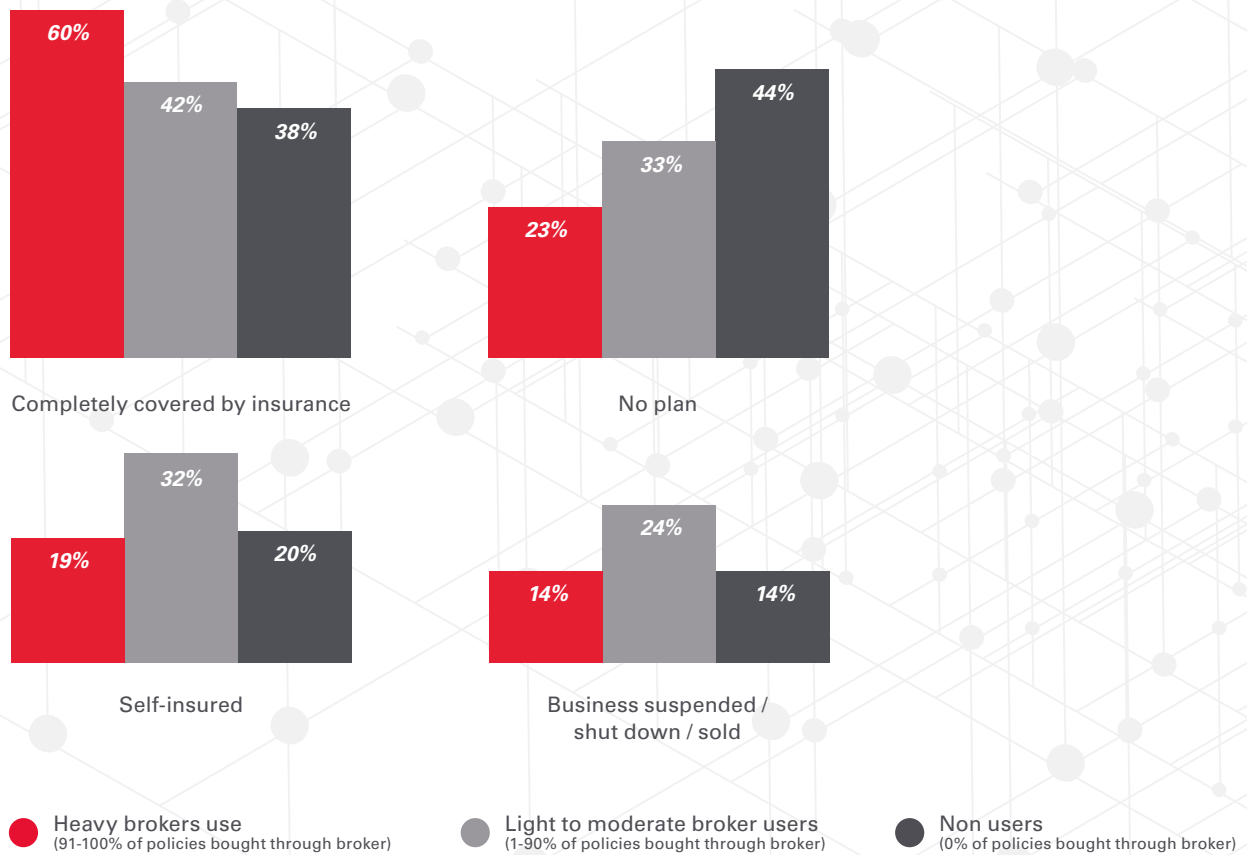


Figure 1.6: Plans for negative scenario compared across broker usage rates



Businesses with declining revenue are less likely to be completely covered

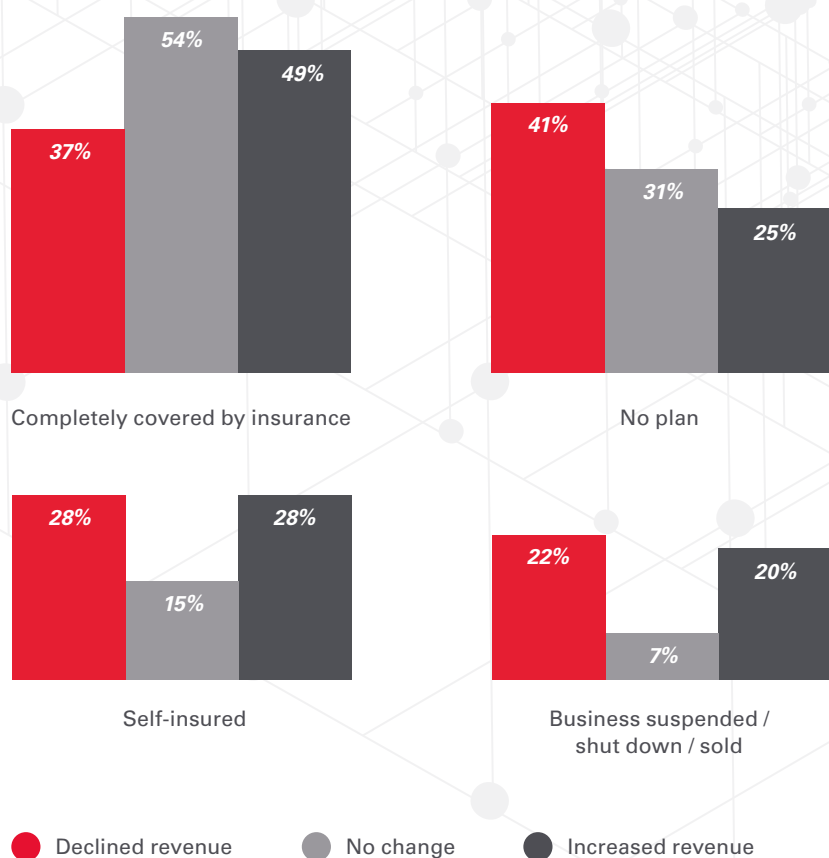
When we look at changes in business revenue, we see businesses with declining revenue are less likely to say that they are completely covered and are also less likely to have a plan if there was a major negative incident in their business (see Figure 1.7). These businesses are potentially more vulnerable due to lower revenues.

This could suggest affordability may be a factor and that some businesses may be choosing to achieve cost savings by reducing their insurance coverage.

While this is an understandable measure in the face of challenging business conditions, it's a short-sighted decision. Short-term cost saving on insurance premiums could result in an increase in risk exposures that damage a business' long term future.

This highlights the need for broader education about the risks of underinsurance and the opportunity for brokers to work with clients to help them understand the potential risks of reducing insurance coverage.

Figure 1.7: Plans for negative scenario compared across broker usage rates





“

As our staff numbers change, I'd want my broker to contact us and let us know how it affects our coverage.

**Small business,
heavy broker user**

”



We insure at a high end for catastrophic events. But we've made a strategic decision not to insure for smaller events. We effectively self-insure, if you like.

**Small business,
mixed broker user**

”



Focus on large businesses

Large businesses are more likely than SMEs to see themselves as well covered. Specifically, 54% say that they are completely covered for insurable business risks, compared to only 43% of SMEs (see Figure 1.8).

They are also more likely than SMEs to have a plan for major negative incidents. 30% claim to be self-insured or to have the ability to refinance and only 24% say that they have no plan (compared to 35% of SMEs) (see Figure 1.9). While this suggests that large businesses have a greater appreciation for the likelihood of major incidents and are more likely to have contingency plans in place, it is still concerning that almost 1 in 4 large businesses are not sure what they would do if they were to experience a major negative incident.

Figure 1.8: Perceived coverage levels for insurable risks comparing large business to SMEs

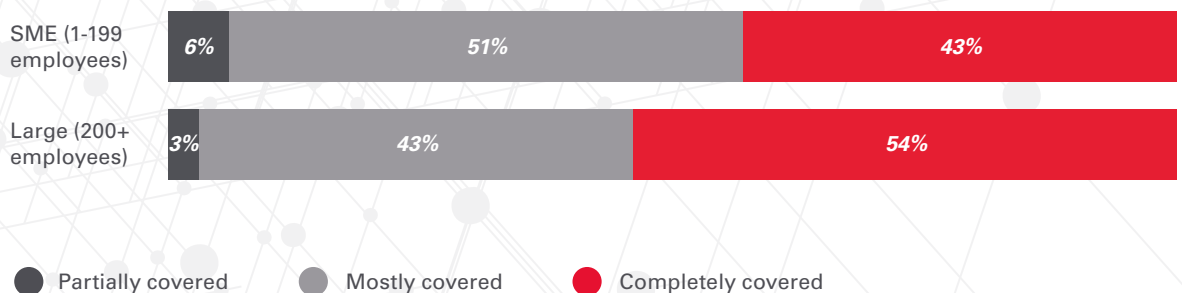
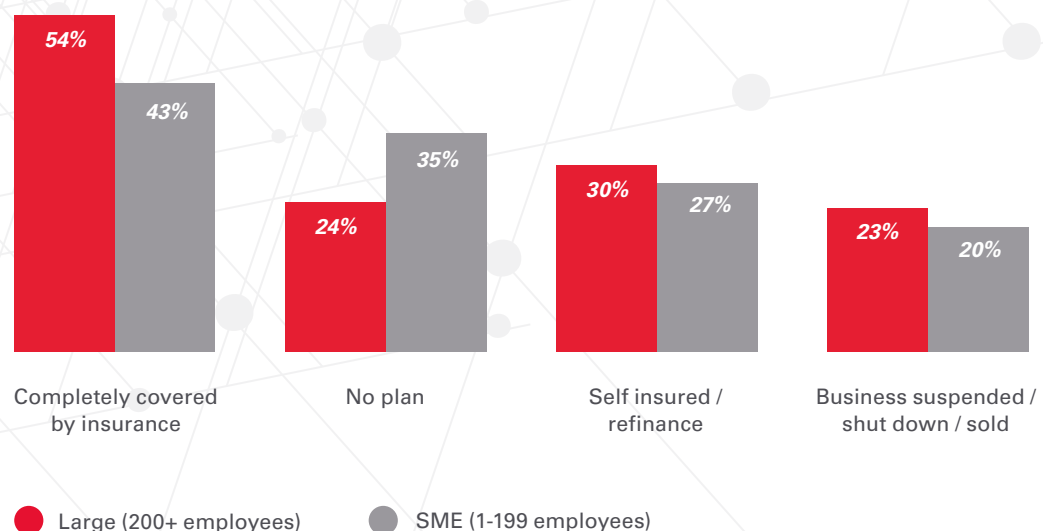


Figure 1.9: Plan for negative scenario comparing large business to SMEs



What does this mean for brokers?

Insight

Over half of SMEs say they aren't completely covered for all business risks, and of those, a concerning high number have no plan for what they would do if they experienced a major negative event.

Action

There is an opportunity for brokers to work with clients to help them understand the risks of underinsurance and the value of Business Continuity Planning. Given that some businesses may be reducing insurance cover to make cost savings, brokers could have conversations with clients to weigh up the benefits of insurance and the risks of not being fully covered. Brokers could also help these clients explore less risky ways of reducing their insurance spend.

Insight

Heavy broker users are far more likely to be completely covered, and less likely not to have a plan for a serious incident.

Action

This suggests that when brokers deliver all or most of their client's insurance that they can better understand the entirety of their clients' risk and therefore clients are likely to be better covered. Brokers could consider explaining to clients that a more holistic relationship helps to ensure that they will receive more appropriate cover and reduce their risk of being under-insured.

Insight

While large businesses are more likely to have contingency plans in place, almost 1 in 4 haven't thought about what would happen if they experience a major negative event.

Action

Brokers with large business clients could consider checking in with these clients to ensure that they have appropriate plans in place in case of a negative event. By developing deeply trusted relationships and acting as a risk adviser, brokers can play an important role in ensuring that large clients have clear risk plans.



“

**I don't know if I'm
completely covered.
There's probably
a myriad of things
I'm not aware of.**

**Small business,
mixed broker user**

”



Section two:

The risks that matter most to SMEs

SMEs face a wide range of risks, and the right insurance coverage can play an important role in helping to protect their business, alongside other risk mitigation strategies.

To understand SMEs’ attitudes towards these risks, we asked them how important it is that their business insurance covers different scenarios.

SMEs want to insure against a wide range of risks

At the top of the list are relatively widespread scenarios: being sued, workplace accidents, fire or flooding, theft and natural disasters. However, a significant number of SMEs are concerned about more specialized risks. For example, 31% say it is important to be covered for loss or damage to goods in transit and 29% want to be covered for cyber-attack (see Figure 2.1).

This suggests that even small businesses are looking for a diverse range of insurance covers and more straightforward covers such as business packages may not always suffice.

This means there is an opportunity for brokers to play an important role in helping SMEs tailor the right set of insurance covers for their needs.

Figure 2.1: Risks perceived as very important to cover with business insurance

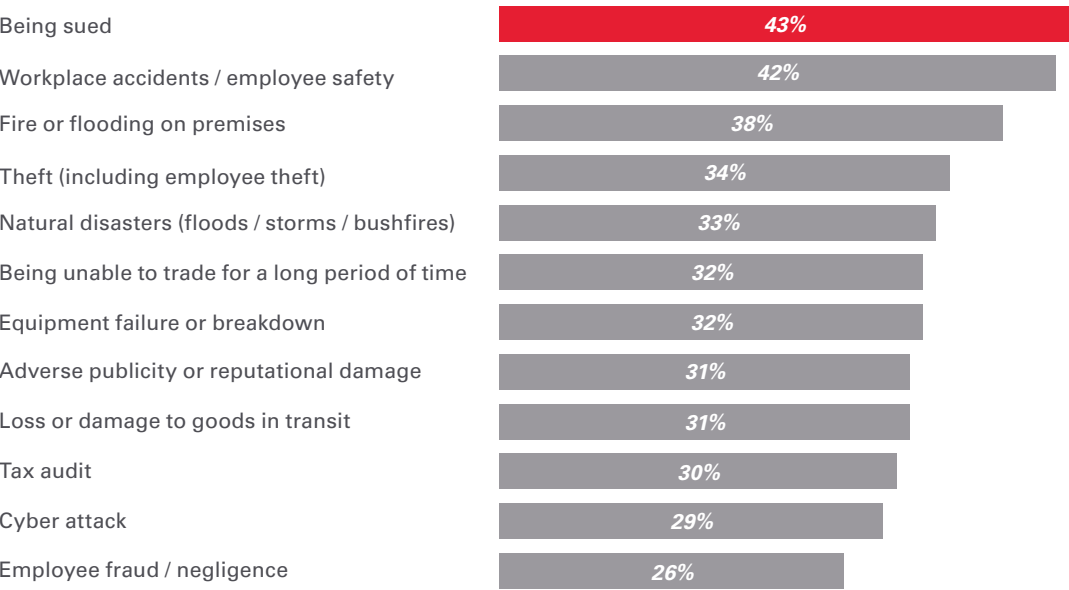
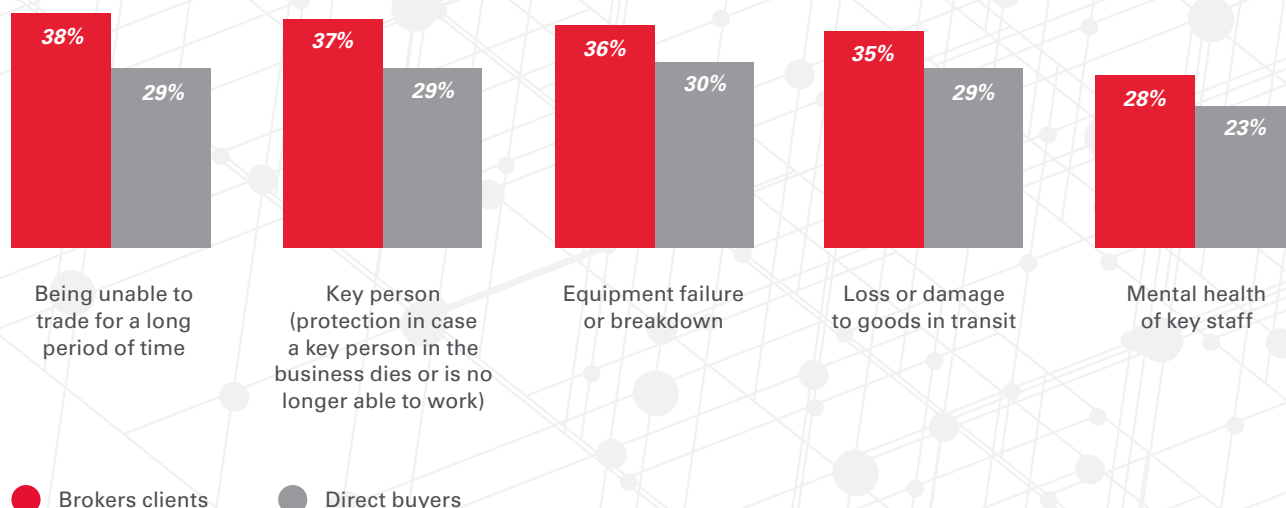




Figure 2.2: Risks perceived as very important to cover with business insurance compared across main purchase channel



Broker clients value cover for a wider range of risks

When we compare broker clients and direct insurance buyers, the data shows that broker clients are more likely to place importance on being covered for more specialised areas of risk. 38% of broker clients say that it is important for them to be covered for being unable to trade for a long period of time, compared to only 29% of direct buyers.

Similarly, 37% of broker clients think that key person cover is important, compared to only 29% of direct buyers (see Figure 2.2).

This demonstrates that brokers can help SMEs have a more sophisticated understanding of the risks they face.

Those who use a broker are more likely to be aware of the specific risks they face, while those without a broker are less likely to place value on being covered for important but less well-known risks – possibly a case of “they don’t know, what they don’t know”. This suggests that brokers have an opportunity to educate SMEs about the full extent of risks that they face.

Business size impacts risk perceptions

Looking at businesses by size, we see that this impacts how they perceive the importance of risk factors. Small or Medium Businesses (those who employ 5+ people) place particular importance on covers that protect their employees compared to micro businesses. For example, 54% of small businesses and 56% of medium businesses say that it is important for them to be covered for workplace accidents compared to only 41% of micro businesses (see Figure 2.3).

It is worthwhile for brokers to have a conversation with clients who employ staff and encourage them to purchase appropriate cover for people related incidents wherever possible.

In particular, working from home is a new, relevant area to explore, with 42% of small businesses and 46% of medium businesses saying that it is important to be covered for remote workers or employees working from home, compared to only 23% of micro businesses.

There are also clear differences in risk perception relating to the distribution and supply chain. 41% of small business and 46% of medium businesses think it is important to have insurance cover for loss or damage to goods in transit, compared to just 29% of micro businesses, and similar trends can be seen for cover for delivery / supply chain interruptions and stock deterioration (see Figure 2.4).

This has become particularly relevant given the industry reports of increase in inventory held by many businesses in the face of uncertain supply chains and the decreased reliance on Just in Time management. This increased inventory also increases risk of spoilage. Brokers could consider having a conversation with their larger SME clients about appropriate cover for stock and about whether their current insurance covers are appropriate for increased stock levels and storage.



Figure 2.3: Employee risks perceived as very important to cover with business insurance compared across business size

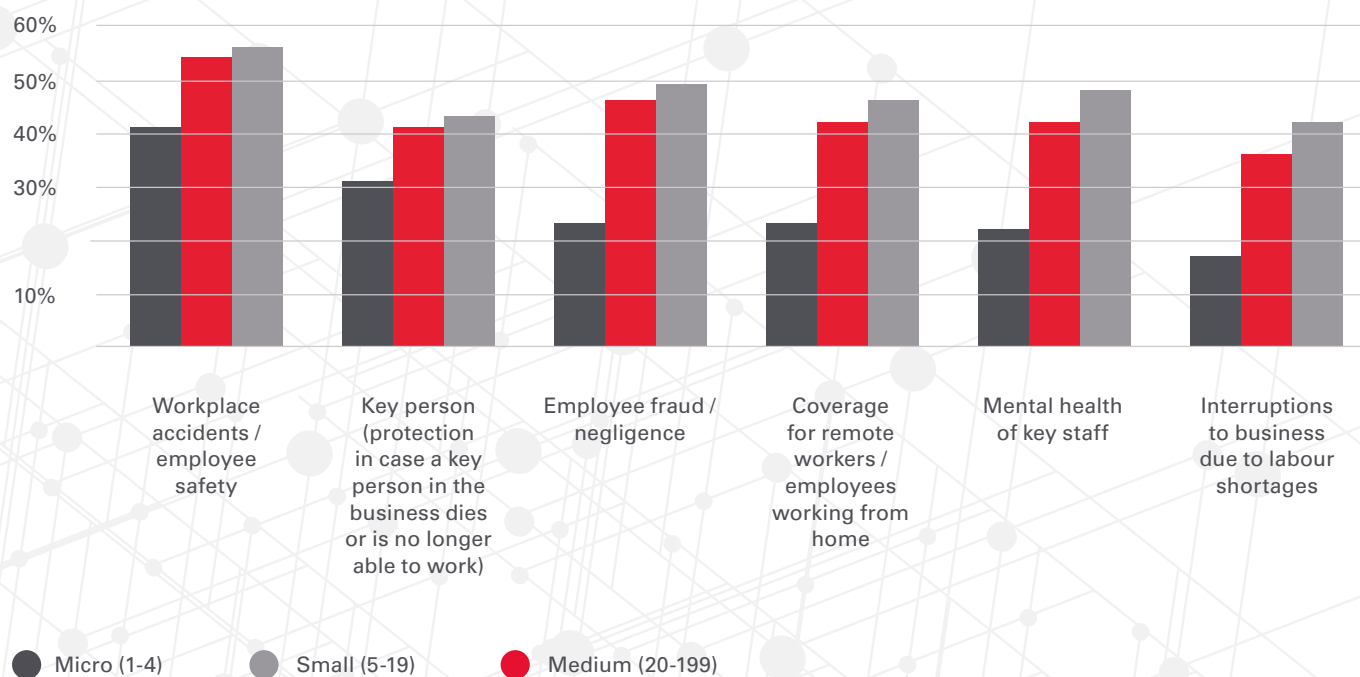


Figure 2.4: Distribution risks perceived as very important to cover with business insurance compared across business size

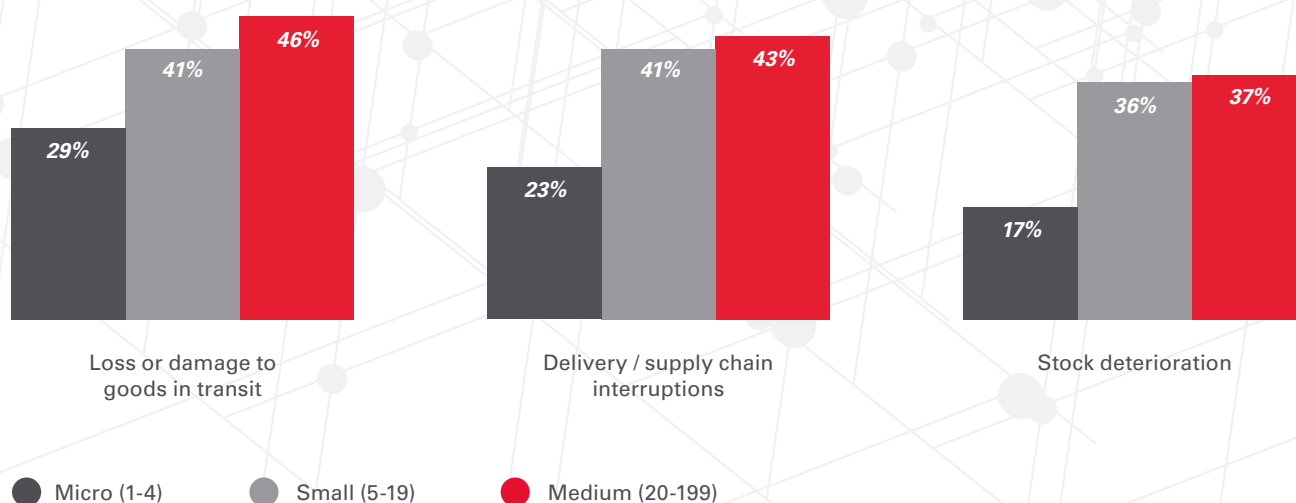




Figure 2.5: Gaps in risks perceived as very important to cover with business insurance vs. reported covers held



Marine / goods in transit

47%

Of those who are concerned about loss or damage to goods in transit do not have Marine / goods in transit cover.



Cyber insurance

37%

Of those who are concerned about cyber attack do not have Cyber cover.



Business interruption

41%

Of those who are concerned about being unable to trade do not have Business interruption cover.



Machinery / equipment breakdown

32%

Of those who are concerned about equipment failure / breakdown do not have Machinery / equipment breakdown cover.

The gap between concerns and insurance coverage

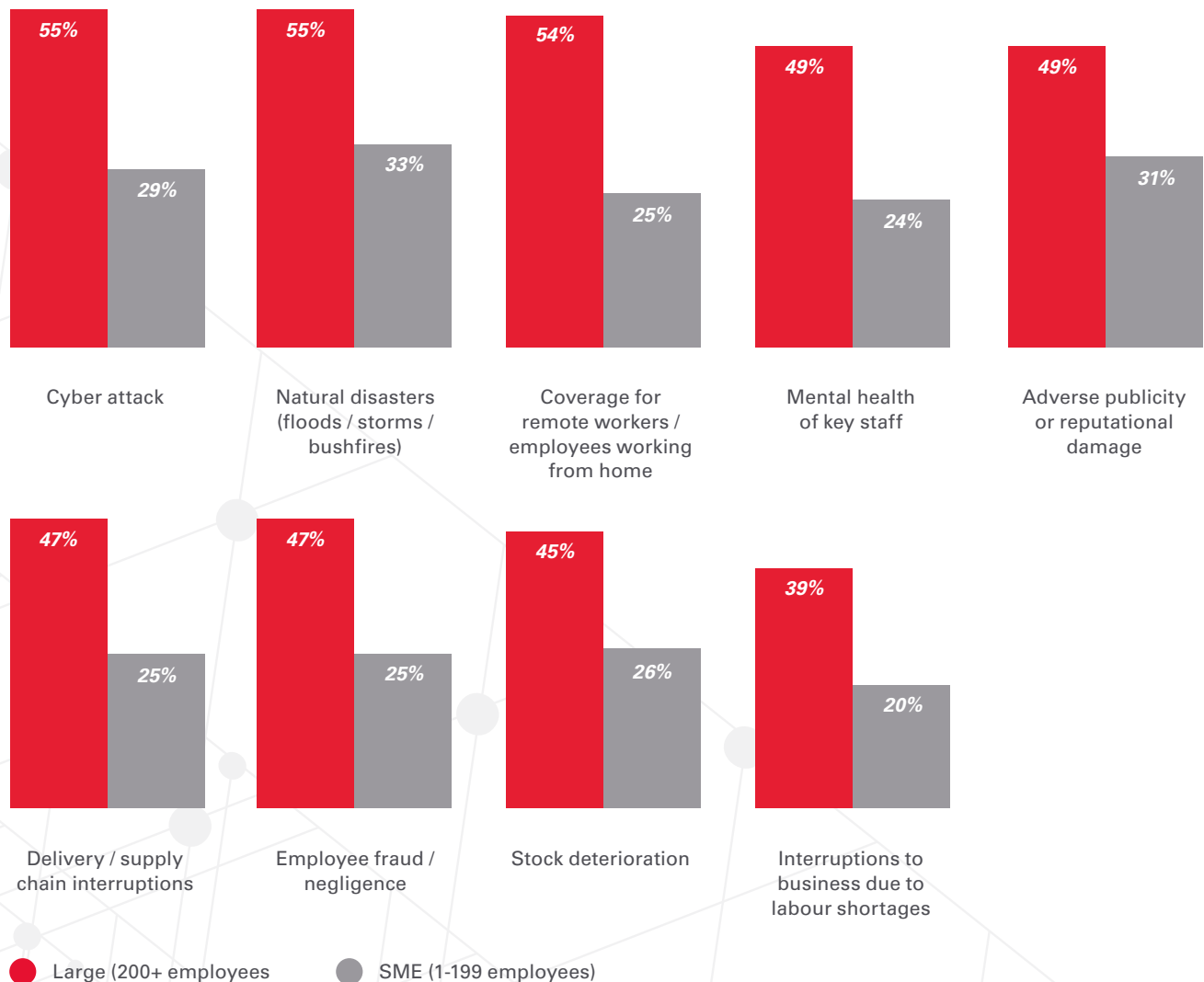
There is a gap between the areas that are of most concern and the number of SMEs who actually take advantage of insurance to cover them.

For example, of those who say that they are concerned about loss or damage of goods in transit, 47% claim not to have marine cover (including Inland Transit & Cargo).

Similar trends are clear for cyber, (with 37% of those who are worried about cyber-attacks not having any cyber cover), business interruption (with 41% of those who are concerned not having this cover) and machinery / equipment breakdown (with 32% of those who are concerned not having this cover) (see Figure 2.5).

All of these gaps represent an opportunity for brokers to educate SMEs about the potential to provide for these risks as part of a broader risk mitigation strategy.

Figure 2.6: Reasons not to use a broker for their last or most important policy



Focus on large businesses

Large businesses are more likely than SMEs to say that it is important that their business insurance covers them for a wide range of risks. For example, 54% of large businesses say it is important to have coverage for remote workers, compared to only 25% of SMEs, 55% place importance on coverage for cyber-attacks, compared to only 29% of SMEs and 55% are concerned about natural disaster cover, compared to 33% of SMEs. (See Figure 2.6).

It is important that brokers discuss a wide range of risks with their large business clients and help them feel that their insurance cover is relevant for the risks that they are most concerned about.

What does this mean for brokers?

Insight

SMEs are concerned about a large range of risks. Brokers have an advantage in being able to offer a wider range of specialised risk products and advice.

Action

Brokers have an opportunity to educate SMEs about specific risks, help them understand the breadth of covers available and the dangers in not being sufficiently insured, and promote this to prospective clients.

Insight

Broker clients and small and medium businesses (those with over 5 employees) are particularly concerned about risks around employees and the distribution of goods.

Action

Brokers could consider having specific discussions with clients with employees to educate them on the range of covers available to help protect their employees and to ensure that relevant risks are discussed and mitigated where possible. Similarly, brokers who have clients who are reliant on shipping could consider having conversations about the covers that are available to protect their exposure to supply chain risks.

Insight

There are significant gaps between the number of SMEs who are concerned about issues such as goods in transit, cyber-attack, inability to trade and machinery breakdown, and those who have the relevant cover.

Action

There is a significant opportunity for brokers to educate clients about these cover types, to help them understand what is available and how it could benefit their business. More generally, brokers could consider ensuring that their clients have general awareness of the risks that they face and initiate discussions about whether their cover is sufficient. Part of this conversation could include highlighting the risks to clients' businesses if they choose not to take up a certain cover.

Insight

Natural disaster is one of the most significant concerns for large businesses.

Action

As we experience an increased frequency and severity of natural disasters, having sufficient insurance will be essential for businesses to ensure resilience. The increased exposure may well impact the ongoing affordability of insurance solutions for many. Brokers will need to work with clients to find appropriate solutions.

A middle-aged man with grey hair and a beard, wearing a dark blue suit jacket over a white shirt, stands in a server room. He is holding a tablet in his left hand and a pair of glasses in his right hand. The background shows rows of server racks with yellow and red components. The image is overlaid with a white geometric pattern of lines and dots on the left side.

“

**We use a broker
who's an expert in
our industry, so I'd
like to think we're
completely covered.**

**Small business,
heavy broker user**

”

The 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 1,500 SME and 100 large business owners and insurance decision makers was conducted, covering a range of business types and locations. The survey was conducted during October 2021 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
- 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 four 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

Large Businesses which employ 200 or more individuals

Throughout this report we have included findings from a survey of 100 insurance decision makers in large businesses. The data from this group were kept separately and compared in isolation to SMEs to avoid any inaccuracies when reporting trends and comparing data over time. Whilst this sample size is statistically representative given the small number of large businesses in the Australian market, the margin for error is considerably wider than for our SME sample of 1,500. Therefore, comparisons between the two samples need to be treated with care.

Stage Two – In-Depth Qualitative Interviews

A series of interviews was conducted with 6 SME and 4 Large Business 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 2022.

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

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