

Issue 2

Understanding  
differences  
between age  
diverse SMEs



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# Introduction

Issue 1 of the Vero SME Insurance Index suggested that a SME's age would have some bearing on their attitudes towards insurance. In Issue 2 we find out when the age difference becomes relevant and what some of those differences are.

## Overview/At a glance

- SMEs under 50 years make up a significant portion of SMEs in New Zealand<sup>1</sup>
- Similarities and differences seen between SMEs under 50 years and older generations
- SMEs under 50 years are as likely to use brokers and advisers to buy insurance as older peers
- However, SMEs under 50 years have significant differences in attitudes, expectations and mindsets

In a rapidly changing economy, new business owners and decision makers are creating and establishing the businesses that will become the future of the economy. At the same time, in many ways they are challenging the accepted norms of doing insurance business today.

Of course, what is cutting edge today is likely to become mainstream tomorrow, so it makes sense for us to look to SMEs under 50 years to understand how attitudes and behaviours towards insurance and broking may develop. In particular, what impact will the rise of digital natives<sup>2</sup> becoming business owners have on the way insurance is viewed and managed?

While we have found that there are some important similarities between the generations, looking at the differences has uncovered some valuable insights. For example, SMEs under 50 years are just as likely to

use brokers and advisers to buy their insurance as their older peers.

However, when we look deeper we find significant differences in attitudes, expectations and mindsets that help identify some of the broader changes that may impact the insurance industry as the younger generation become more established.

This glimpse into the future identifies some potential risks for brokers and advisers. But more importantly, it highlights many ways in which brokers and advisers can embrace the changes in SME behaviour towards digital in order to ensure that the broking industry remains relevant to and respected by a new generation of business owners.

We hope that you find these results useful in attracting, servicing and retaining SMEs under 50 years.

<sup>1</sup> When looking at self-employed SMEs, more than 55% are under 50 years. Small Business Factsheet 2017. Ministry of Business, Innovation and Employment.

<sup>2</sup> "Native speakers" of the digital language of computers and the internet. Digital natives have known only the digital culture, which have shaped their attitudes and preferences - Prensky, Marc, "Digital Natives, Digital Immigrants". On the Horizon, 2001.

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# The findings

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**The first issue of the 2017 Vero SME Insurance Index suggested that a SME's age would have some bearing on their attitudes towards insurance.**

**The second issue focusses on business owners and decision makers under 50 years, how their attitudes and behaviours differ from older SMEs and how brokers and advisers can ensure that they meet the needs of this important segment. In particular, we will explore:**

**2a** SMEs under 50 years have markedly different attitudes to insurance

**2b** Broker clients under 50 years are less satisfied and have different expectations

**2c** Direct buyers under 50 years are more likely to buy their insurance online

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In our final issue, to be released later this year, we will take a closer look at what makes broker clients highly satisfied and how brokers and advisers can build stronger relationships with their clients.



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# Age band of SMEs for this study

We wanted to first explore what age SMEs begin to think differently, have noticeably different attitudes and expectations. To understand this, we looked at the responses to questions at 5-year age intervals. We discovered that there were notable differences of attitudes towards insurance between SMEs under and over 50 years.

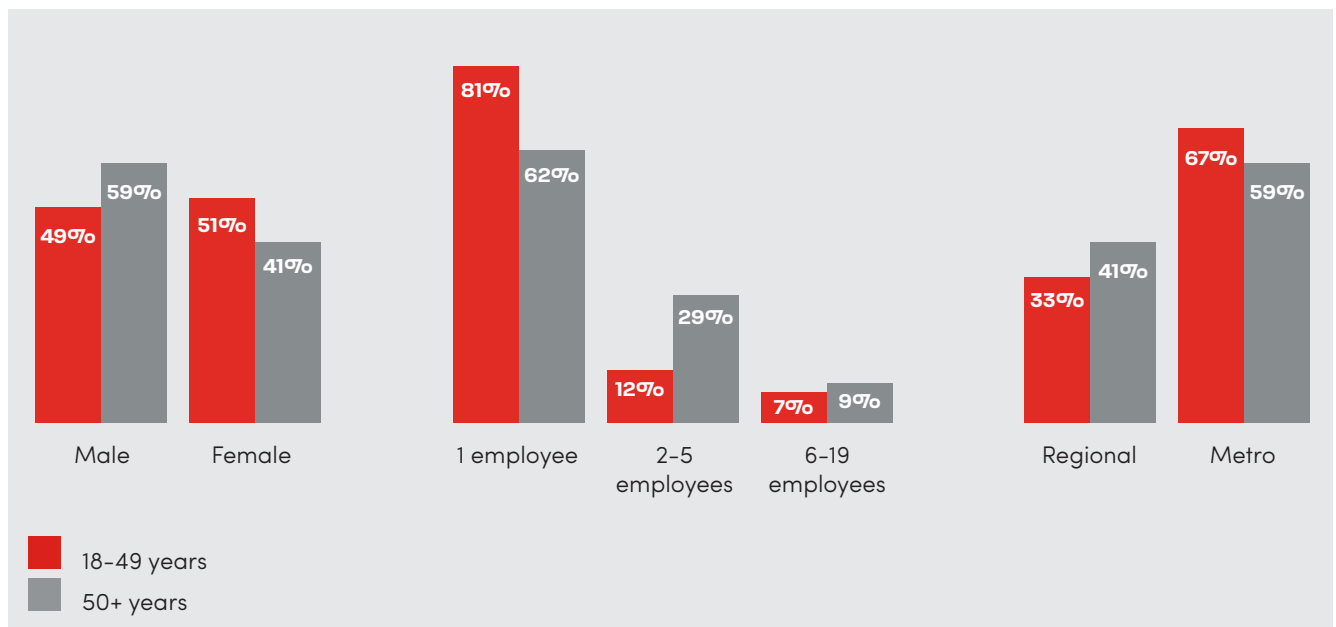
Intuitively this makes sense when we look at the experiences of a typical 40-something business owner and in particular their levels of comfort with technology. This person would have started their career in the early '90s, by which time computer use in businesses was well established and internet use was becoming more widespread. This is in contrast to their 50-something peers who may

have spent a decade or more in the workplace without email or even desktop computers.

Therefore, in this study we have defined a business owner or decision maker under 50 years as one aged between 18 and 49 years. This group is more likely to be female, to work alone and to be based in a metro area. (See Figure 1.)

“We discovered that there were notable differences of attitudes towards insurance between SMEs under and over 50 years.”

Figure 1: Profile of SMEs under 50 years







# SMES OF DIFFERENT AGES HAVE CONTRASTING ATTITUDES TO INSURANCE

**SMEs under 50 years will research insurance online, are more price conscious and their expectations are set by other industries**

# SMEs under 50 years have markedly different attitudes to insurance

## More will research insurance online

Attitudinally, we see some significant differences between the age groups. SMEs under 50 years are more confident online, and more willing to be involved in the insurance process. For example, 44% of the SMEs under 50 years claim to use the internet to research the insurance process, compared to only 26% of the older group. (See Figure 2.)

## They understand price better than value

SMEs under 50 years are more cynical and more price conscious. Almost two in three feel that they don't get value for money out of their insurance, and almost three in five say price is the most important concern when it comes to making decisions about insurance. At the same time, they are slightly less confident with their current insurance.

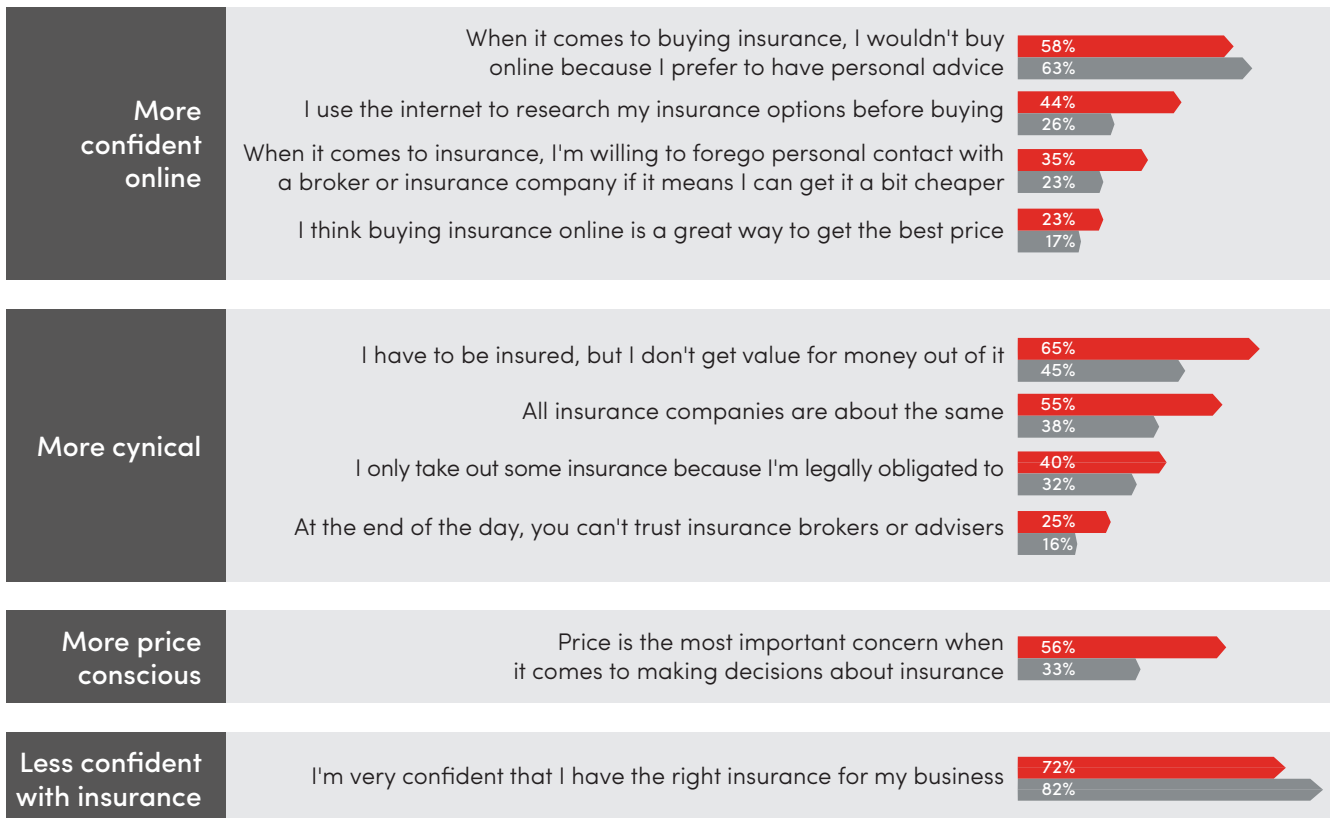
This means that the insurance industry needs to work harder to highlight and explain the value and importance of insurance in protecting SME businesses and their future income stream. It should also be reiterated that there is a trade off between price and the value of insurance cover one would receive; the cheapest cover is not always the best.

## Their expectations are set by other industries, not by competitors

Consideration must be given to what's influencing expectations of SMEs under 50 years. Their expectations are being set by a dynamic group of emerging service providers from a range of industries beyond insurance.

Companies such as Uber, Xero, Airbnb and even utilities like Powershop are setting new benchmarks in service and experience, and SMEs under 50 years will increasingly judge insurance brokers and advisers by these standards rather than the traditional norms of the insurance industry.

Figure 2: Insurance attitudes



## They value personal networks

In addition to working things out for themselves through online research, relying on personal networks is a well-documented hallmark of younger generations. This has an impact on where SMEs under 50 years may seek advice about their insurance.

Advice from professionals is still important, and in fact SMEs under 50 years are still more likely to turn to broker and insurance companies than accountants or lawyers for insurance advice. However, business owners and decision makers under 50 years are significantly more likely to also seek advice from their peers (47%) compared to the older group (35%). (See Figure 3.)

**“I'm a big believer in referrals. I think they're your biggest tool.”**

Broker and adviser customer, Hairdresser

## Figure 3: Sources of advice

Although still using professional advice, SMEs under 50 years are far more likely to go to peers for advice than accountants, financial advisers or lawyers.



## Things for brokers and advisers to consider

- Expectations of SMEs under 50 years are being set by new players outside the insurance industry such as Xero and Powershop.
  - Brokerages need to benchmark their service offering against other industries, not just their competitors.
- SMEs under 50 years have very different attitudes to insurance and insurance brokers and advisers:
  - This means that brokers and advisers will need to consider different approaches to ensure that they retain the business of their SMEs under 50 years.
- Online channels are more prevalent amongst SMEs under 50 years:
  - Brokers and advisers need to consider their online offering and consider aspects of their online presence – such as a mobile device optimised website, search engine optimisation and online communications such as live chat and transactions platforms.
- The role of advice needs to be repositioned for a generation used to learning things for themselves, with brokers and advisers needing to demonstrate a degree of expertise that cannot be easily replicated by non-professionals.



# LEVEL OF SATISFACTION AND EXPECTATIONS OF BROKERS

**SMEs under 50 years are less satisfied with their broker and have different expectations of brokers**

# SMEs under 50 years are less satisfied with their broker and have different expectations of brokers

**Their purchasing behaviour is the same as older SMEs, but satisfaction with brokers and advisers is lower.**

Whilst there is little difference in the proportion of SMEs under 50 years using brokers and advisers (see Figure 4), there are differences in levels of satisfaction with brokers and advisers.

Only 45% of SMEs under 50 years score their broker 8 or more out of 10 for satisfaction, compared to 63% of older SMEs. (See Figure 5.) In contrast, 31% of the SMEs under 50 years score their broker less than 5, compared to 22% of the older SMEs.

## Reasons why their satisfaction with brokers is low

One potential impact of lower levels of satisfaction is a higher tendency to change brokers and advisers. 39% of SMEs under 50 years claim to have changed their broker in the last 5 years, compared to 20% of older SMEs. (See Figure 6.) It's likely this group of SMEs are used to comparing other suppliers so are more likely to be constantly evaluating if they're with the right insurance broker or adviser.

There is a clear difference in the reasons broker clients report for using a broker or adviser. SMEs under 50 years are significantly more likely to say that saving time is the main reason to use a broker or adviser (see Figure 7), while older clients are more likely to also regard trust, knowledge, service, business understanding and peace of mind as important reasons to use a broker. This finding is particularly concerning as it suggests that many SMEs under 50 years are unaware of the professional expertise that brokers and advisers can deliver, meaning that they are more likely to be willing to move away from brokers and advisers as we have seen in other international markets such as Australia.

As previously mentioned, expectations of SMEs under 50 years are frequently being set outside the insurance industry and the resulting mismatch of expectations and reality likely to impact satisfaction and exacerbate this risk.

One reason that SMEs under 50 years are less likely to appreciate the expertise of their broker is that many do not appear to know what activities their broker can undertake on their behalf. For example, 27% do not know if their broker manages the claims process (compared to 16% of older clients) and 21% do not know if their broker assesses the risk profile of their business. (See Figure 8.)

There is clearly a need to educate SMEs under 50 years about what tasks a broker can do on their behalf so that they can better understand the extent of the benefits that using a broker can provide to their business, and to re-evaluate the services they are offering. Anecdotally we know that many SMEs, particularly SMEs under 50 years, find insurance overly complex, for example through its use of legalistic, technical language.

Can brokers and advisers play a role in helping bring meaning and clarity to insurance for the new generation of business owners? In particular, is there an opportunity to shift the conversation about insurance away from compliance and towards risk advice and business support. If brokers and advisers can have these types of conversations, they are more likely to have partnership style relationships. SMEs who have partnership style relationships with brokers and advisers were the most satisfied.

“If I could get a better package deal than what I've got now then I'd definitely be interested, 'cause I didn't even look at the brokers to start off with.”

Direct buyer, Electrician

Figure 4: Broker usage

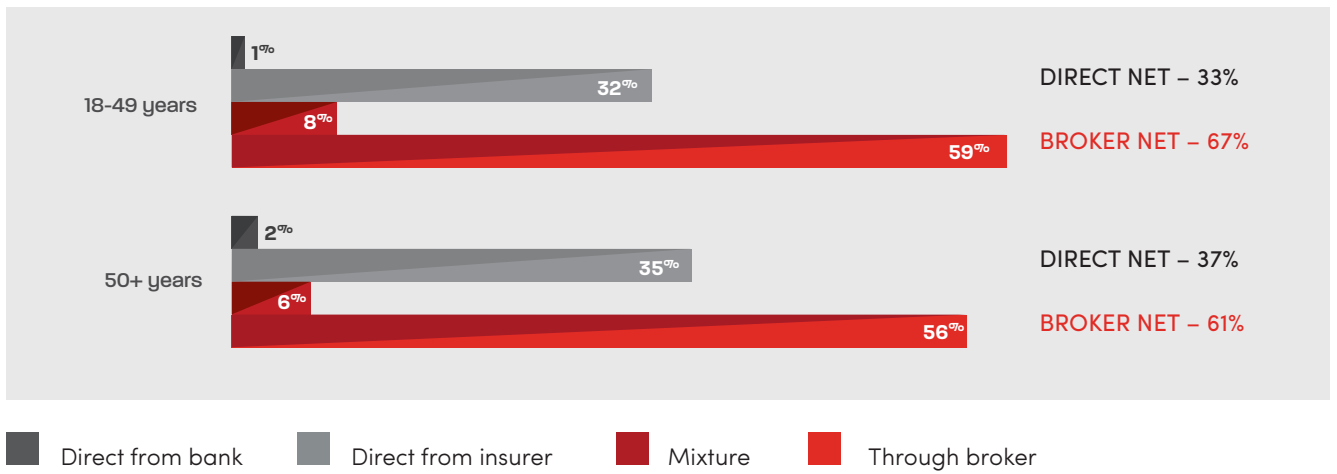


Figure 5: Satisfaction with broker

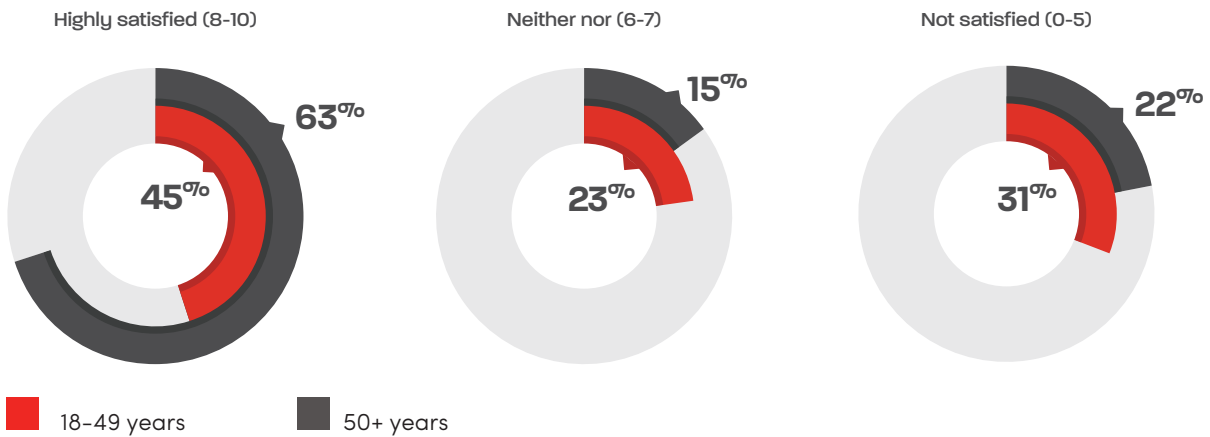


Figure 6: Last changed broker

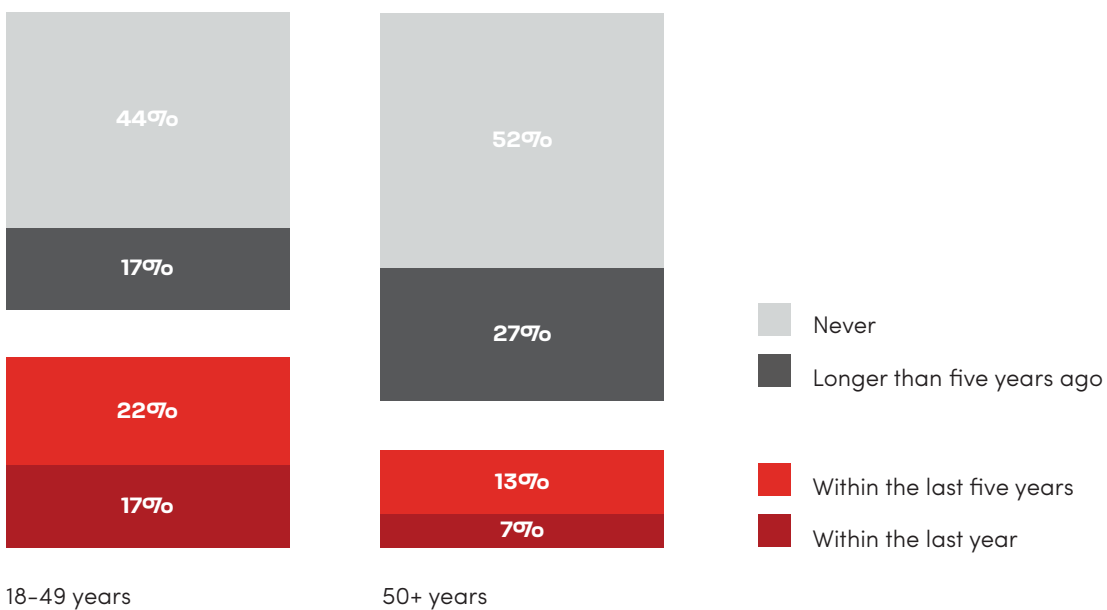
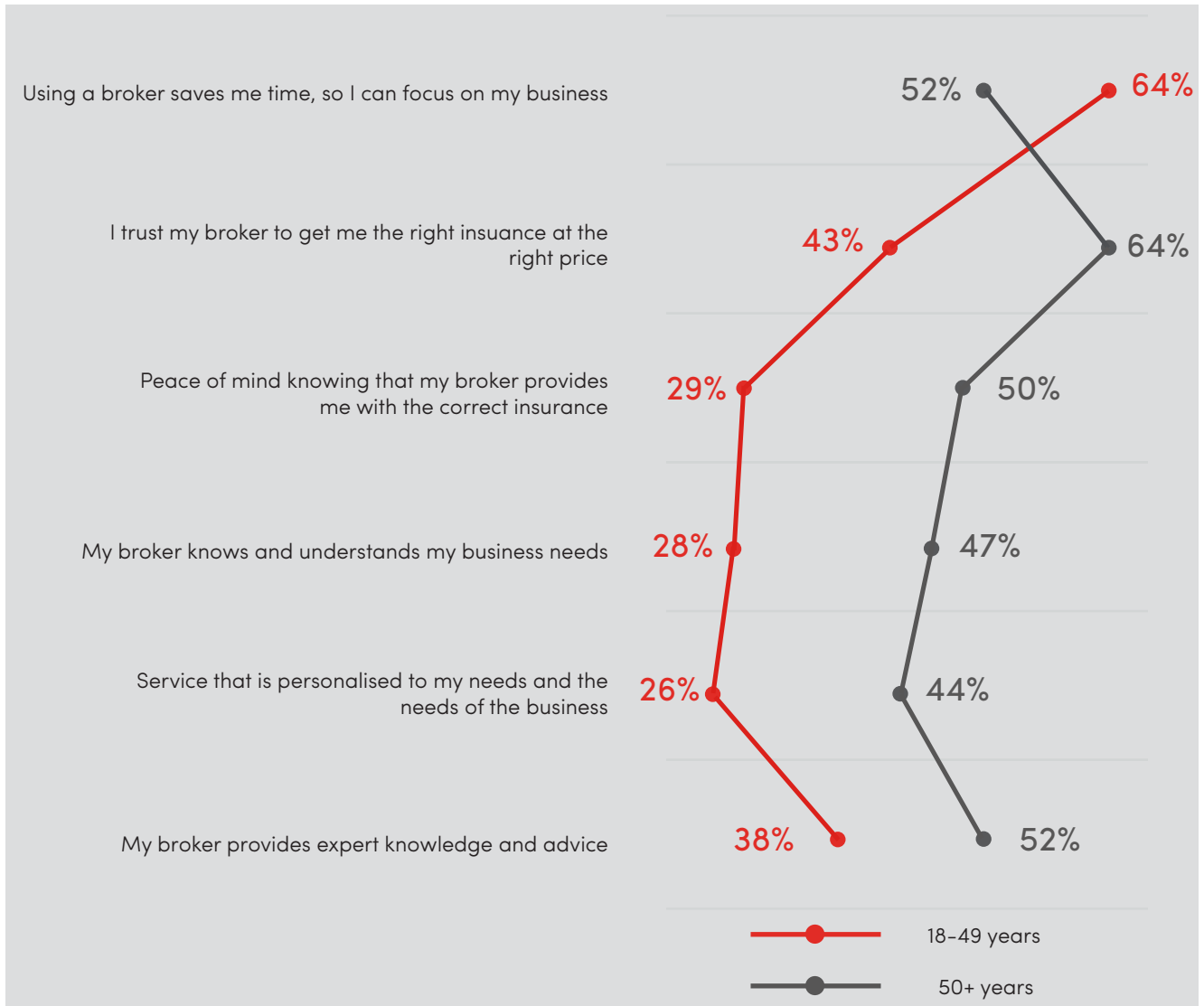


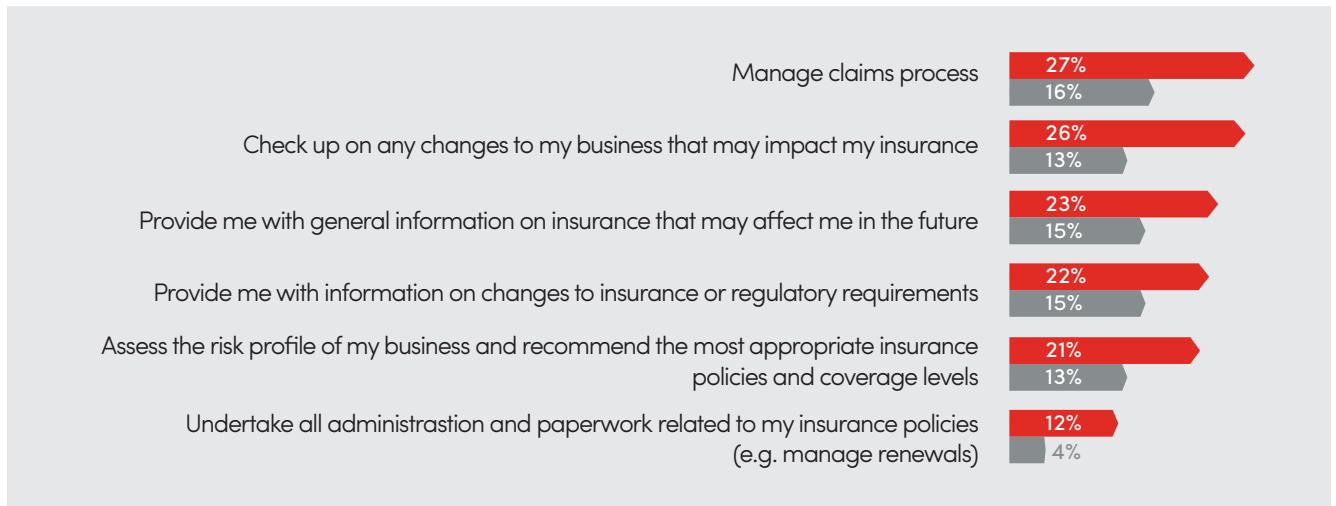
Figure 7: Reasons to use current broker





## Figure 8: Broker activities

### I don't know if my broker does this...



■ 18-49 years    ■ 50+ years

### Things for brokers and advisers to consider

- SMEs under 50 years need attention from brokers and advisers, as they are less satisfied and more likely to switch.
  - International trends would suggest that this means that they are also the most likely to move away from intermediated insurance and towards direct.
- Their understanding of the value of a broker is low, and many appear confused about what brokers and advisers are able to do on their behalf.
  - This suggests that the broking professionals need to educate business owners under 50 years on the broker value proposition.
- They are price conscious, meaning that brokers and advisers should consider having a conversation with younger clients about price and help them to understand the value of their insurance cover.



# INSURANCE PURCHASE BEHAVIOUR OF DIRECT BUYERS

**Direct buyers under 50 years are likely to buy insurance online**

# Direct buyers are more likely to buy insurance online

**The risk from digital disruption is being felt by many sectors of the economy around the world. Financial services are particularly vulnerable to disruption, with a PwC study finding that 20% of global financial services businesses are at significant risk from FinTechs.<sup>3</sup>**

Around one in three SMEs under 50 years claim to buy their insurance direct from the insurer. Of these, 34% claim to have bought this cover online, compared to 25% of older direct buyers. (See Figure 9).

As this is a self-reported survey, this result reflects what SMEs think they are doing, rather than what they may actually be doing. However, it is a clear indication that there is strong consideration of online in this space, and is consistent with international trends. For example, in Australia, 48% of younger direct buyers claim to buy their insurance online, which is an increase from 42% in 2014.

So how are traditional service 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. 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 and automate routine processes.
- Use digital channels to build awareness and drive consideration for your services.

**2. Reinforce the unique benefits you bring to customers:**

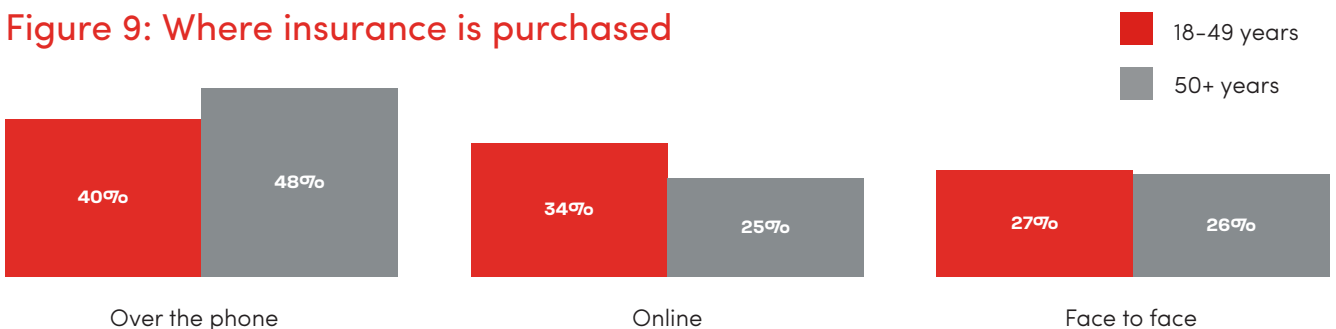
- Use the efficiencies that digital solutions bring to routine tasks to spend more time building relationships with customers.
- Build a deep understanding of your customers through regular conversations and an understanding of broader industry trends.
- Deliver personalised service.

Importantly, this is not an ‘either/or’ scenario. Ideally, brokerages will include elements of both routes in their strategic planning to help future-proof their businesses.

The top two reasons for SMEs under 50 years not to use brokers and advisers are characterised by lack of knowledge: 15% don’t know how to find the right broker, and 16% had simply never thought of using a broker. (See Figure 10.) Brokerages need to review strategies to make it easier for SMEs under 50 years to find them and feel confident. For example, given that so many SMEs under 50 years rely on advice of their peers, word of mouth recommendation is a key tool that brokerages should cultivate. Ensuring a strong online and social media presence is also critical for brokerages.

We asked direct buyers what would motivate them to consider using a broker. Unsurprisingly, given the importance SMEs under 50 years place on price, the ability to get cheaper prices and more quotes are the top two motivators. Time saving is also an important motivator, and in particular removing the “hassle” of the insurance process. (See Figure 11.)

**Figure 9: Where insurance is purchased**



<sup>3</sup> PwC Global FinTech Survey 2016

Figure 10: Reasons for not using a broker

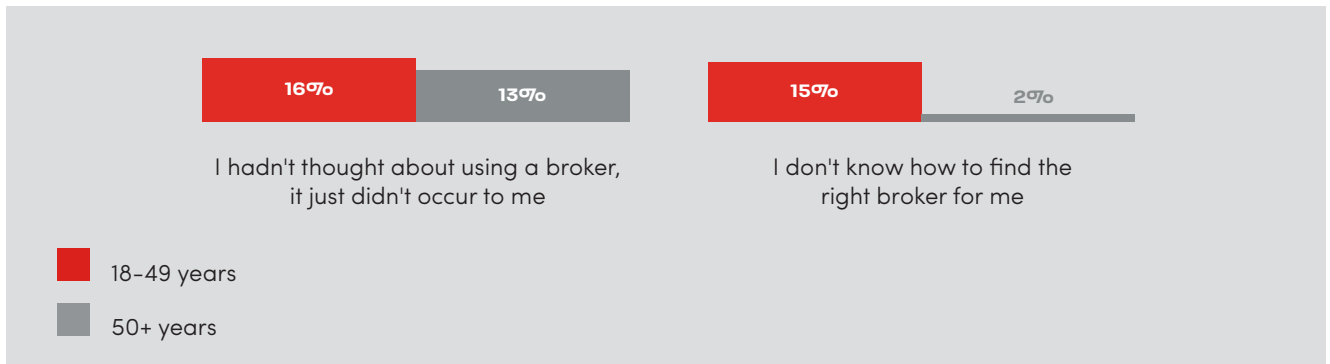
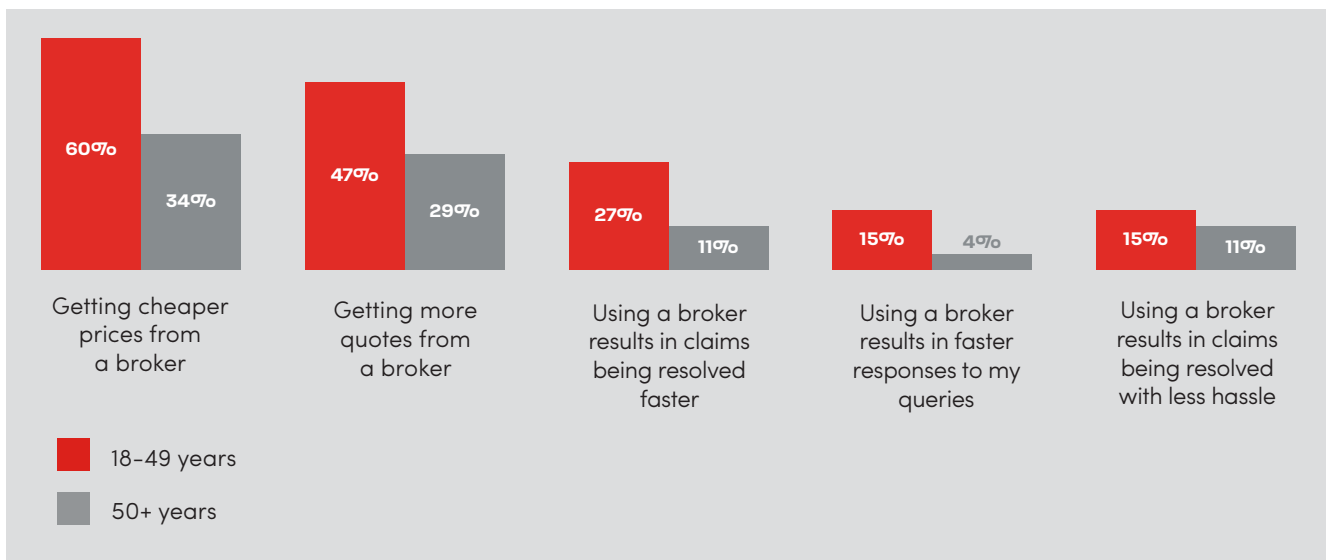


Figure 11: Reasons for trying a broker



### Things for brokers and advisers to consider

- SMEs under 50 years who buy direct often do so because they don't know enough about brokers and advisers.
  - Brokerages need to ensure they are accessible online and have a clear positioning.
- SMEs under 50 years are showing an early inclination to use online channels to buy their insurance and international trends suggest that the insurance industry is vulnerable to digital disruption. Therefore, it is critical to develop digital strategies to future proof broker businesses.
- SMEs under 50 years see the cost and time saving benefits as important reasons to consider using a broker.
  - Brokers and advisers need to communicate the time saving benefits they can deliver, as well as demonstrating true value for money of insurance cover (as opposed to merely being cheap).



# The research

**This report is based on research involving more than 1,000 business owners and decision makers of small to medium sized businesses around New Zealand. The research was independently\* conducted in two stages:**

## Stage One – Quantitative Survey

A nationwide online survey of 999 business owners and insurance decision makers was conducted, covering a range of business types, locations and sizes. The survey was conducted during November 2016 and the data was weighted by region and organisational size to current Statistics New Zealand 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 region and business size ensured that representative samples were obtained.

Businesses were divided into two groups, following Statistics New Zealand standards:

Businesses which employ 0 (self-employed)-5 employees.

Businesses which employ 6-19 employees.

## Stage Two – In-Depth Qualitative

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.

## What you'll see next

Later we'll explore further findings centered around the following:

- Reasons for broker dissatisfaction

Keep an eye out for these findings at [vero.co.nz/sme-index](http://vero.co.nz/sme-index)

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

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