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# Introduction

## Welcome to the Vero New Zealand SME Insurance Index 2020

2020 has been a year like no other in recent history.

The COVID-19 pandemic has affected everyone, including our report subject, SMEs. But as restrictions ease and our economy starts to pull out from the effects of the lockdown, attention is now shifting to what the recovery looks like, how things will change and, to use a newly revived cliché, what is the “new normal”?

This year’s Vero SME Insurance Index examines the insurance needs of SMEs and the role that insurance brokers can play during a time of change. Our insights this year are drawn from two surveys, enabling us to understand how attitudes have shifted over recent months. As usual, our main survey was conducted with 900 SMEs in December 2019. Additionally, we also conducted a supplementary survey of 300 SMEs in May 2020 to uncover the impact of the COVID-19 pandemic on SMEs, their insurance behaviour and the role of brokers at this time.

This report finds that while the impact of the pandemic has been significant for SMEs, the need for brokers and advisers and the role they can play remains unchanged. Strong, valuable broker relationships are built on regular communication, deep understanding and expert, professional guidance, and this is just as relevant during difficult times, whether they be economic downturns, natural disasters or even pandemics.

Ultimately, insurance brokers are professional risk advisers who can bring specialist expertise and guidance to their SME clients, which is an invaluable role to play. This report aims to uncover insights that will help brokerages to understand their SME clients and how to ensure that the importance and relevance of brokers is widely understood and valued.

We hope that the insights uncovered are useful in helping brokers and the insurance industry navigate this dynamic environment.

“ This report finds that while the impact of the pandemic has been significant for SMEs, the need for brokers and advisers and the role they can play remains unchanged. Strong, valuable broker relationships are built on regular communication, deep understanding and expert, professional guidance, and this is just as relevant during difficult times, whether they be economic downturns, natural disasters or even pandemics. ”

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# Executive summary

- Broker usage this year is stable amongst SMEs in New Zealand, but there is still considerable scope for brokers to grow their business by attracting SMEs who currently buy direct and by encouraging existing clients to buy more of their insurance through a broker.
- While brokers tend to deliver well on essential tasks such as administration, many SMEs would like their brokers to undertake more complex, value-added tasks such as risk assessment and analysis. This is an opportunity for brokers to differentiate themselves in a way that SME's will value.
- Many New Zealand SMEs have experienced a sharp decline in revenue as a result of the COVID-19 pandemic and many are looking for help and advice from experts.
- Satisfaction is softening amongst broker clients based on year-on-year comparisons.
- Satisfaction is strongest when SMEs have collaborative relationships with their brokers, and when brokers are pro-active and engaged, particularly during times of crisis. Our research shows that there are specific tasks brokers can undertake to build customer satisfaction.
- Satisfied clients were less likely to be thinking about making changes to their insurance during the COVID-19 pandemic.
- Many SMEs rate risk assessments as an important task for their broker, but significantly fewer say that their broker does this for them.
- There is a strong positive correlation between doing risk assessments and customer satisfaction with their broker.
- Many direct buyers find it difficult to understand the risks that their business faces.
- The COVID-19 pandemic has prompted most SMEs to make changes to their businesses.
- Over 1 in 4 SMEs are considering making changes to their insurance, including changes like reducing or removing insurance cover.
- Those considering making changes would value advice on insurance at this time.
- The perception that they will pay more is the top reason direct buyers say they don't use a broker, however, trust and not knowing how to find a broker also play a role.
- While direct purchase of insurance is significant, over one third of direct buyers would consider using a broker, particularly if they can get better prices, expertise and service.
- Word of mouth is the main way that many SMEs would look for a broker.

# The findings

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The 2020 Vero SME Insurance Index focusses on how brokers and advisers can reinforce their value to SMEs:

1. **Demonstrating expertise and value to clients**
2. **Building SME satisfaction**
3. **The importance of risk management**
4. **Attracting direct buyers**

These topics will be explored in detail in this report.

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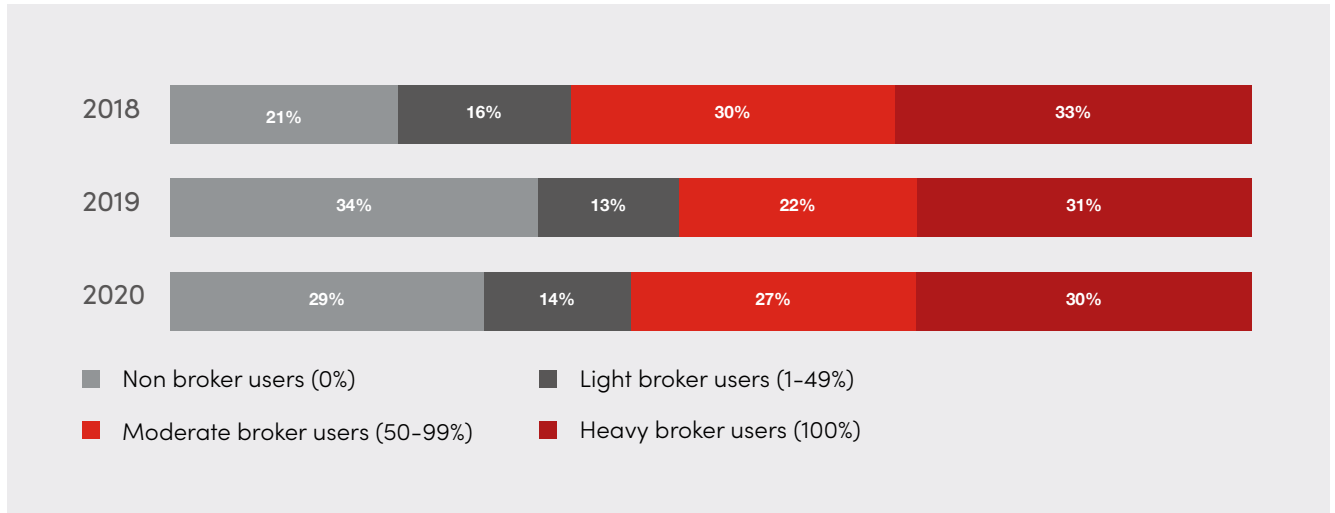
**Demonstrating  
expertise and  
value to clients**

## In challenging times, brokers and advisers have an opportunity to support their clients with expert advice and pro-active service that adds value.

Compared to recent years, SME usage of brokers is stable year on year, with just under a third of SMEs reporting that they bought all their business insurance through a broker. At the other end of the scale 29% of SMEs claim to buy all

their insurance direct (whether online, in person or over the phone). However, mixed usage remains very common, with 41% of SMEs saying that they buy their insurance through both brokers and direct (see Figure 1.1).

Figure 1.1: Percentage of insurance purchased through broker



The fact that broker usage is remaining steady is positive news, given the slow downward trend of broker usage in other markets around the world. However, this data highlights there is considerable opportunity for brokers to expand their influence. The 29% of SMEs who buy all their insurance direct have no relationship with brokers and represent a chance to tap into a new group of buyers. We will explore what brokers can do to attract more direct buyers later in this report.

Another growth opportunity for brokers comes from encouraging SMEs who use a mix of insurance purchasing channels to buy more of their insurance through their broker. As brokers already have a relationship with these businesses, no matter how small, it is possible to leverage this contact into a more sustained and substantial connection through effective relationship management.

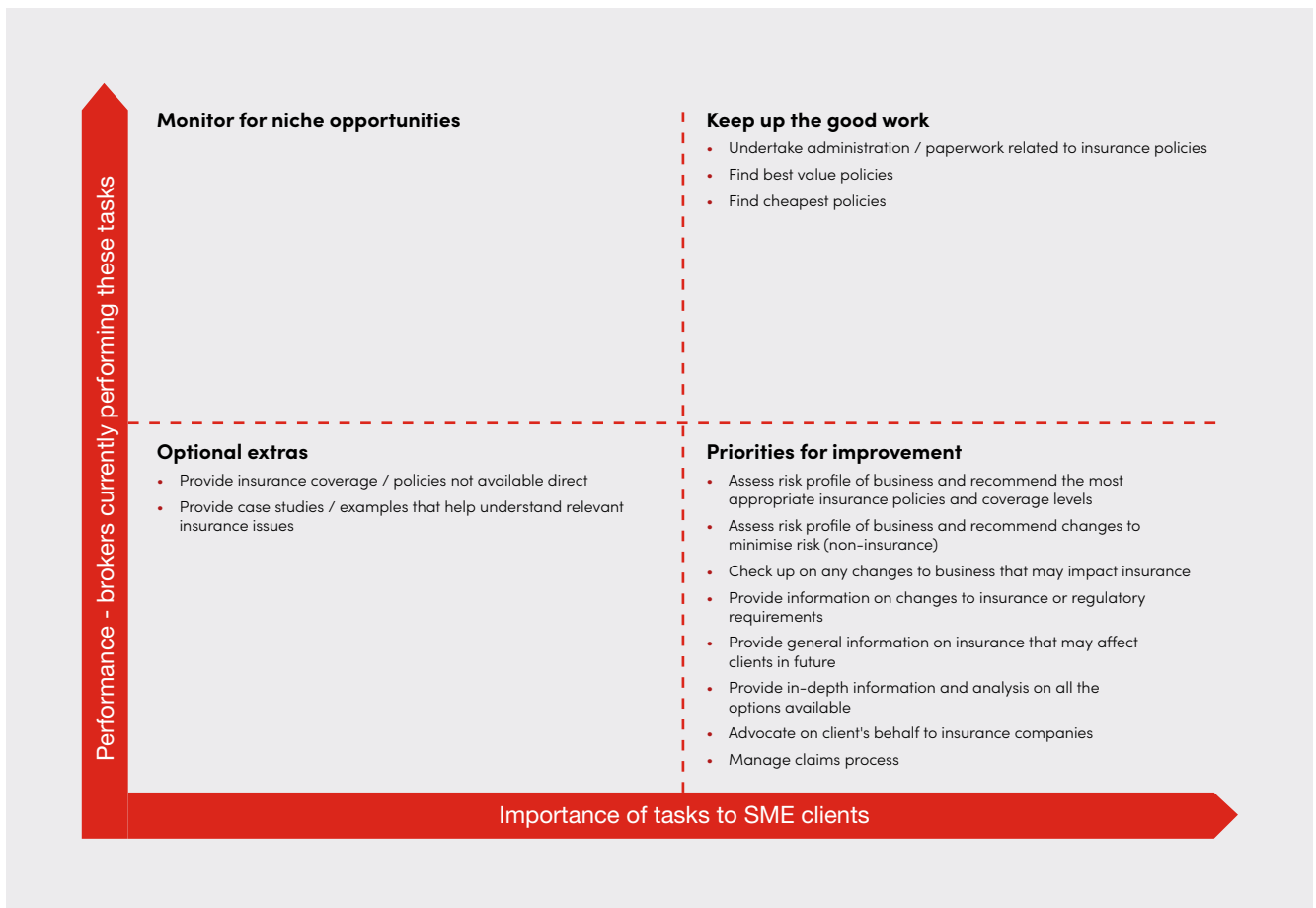
Understanding what these SMEs are looking for in a broker is key to expanding these relationships. To do this, we have explored the tasks that SMEs consider to be most important and compared this to tasks SMEs report their brokers are currently performing.

There are several fundamental tasks that are both important to SMEs and that most brokers appear to be delivering to their clients. These tasks include doing paperwork and finding the best value and cheapest policies. The fact that most SMEs are reporting their broker performs these unquestionably important tasks suggests those in the industry are generally delivering on SMEs' essential requirements.

However, a gap emerges when we look at the tasks that SMEs think are important but are reportedly not being delivered by many brokers. These gaps are generally more complex tasks that demonstrate a broker's expertise, such as undertaking risk assessments, checking up on changes and providing in-depth information and analysis (see Figure 1.2).



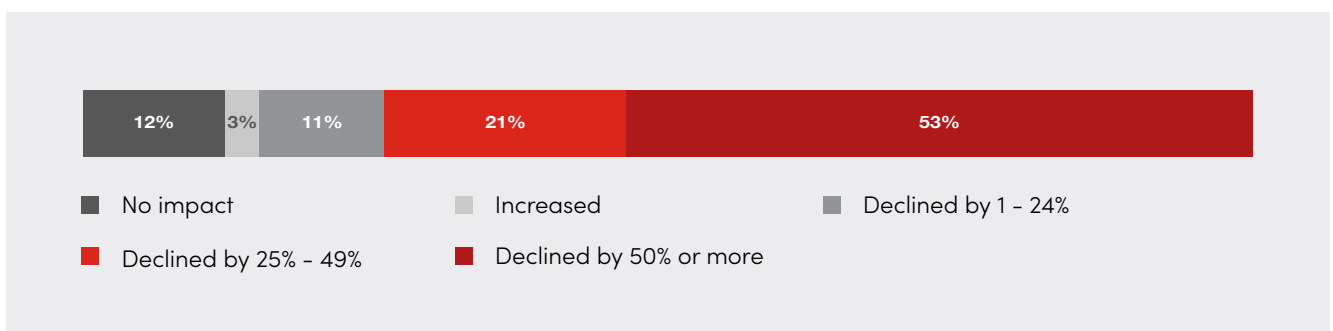
Figure 1.2: Tasks brokers undertake and importance to SMEs



Of course, the small business community, alongside the rest of the economy, has experienced a significant shock in recent months due to the lockdown conditions brought about by the COVID-19 pandemic. Our supplementary survey explored the effects of the lockdown and found that the impact on SME revenue had, unsurprisingly, been quite significant. A large majority of businesses, around 85%, reported experiencing a decline in revenue, with over half of the SMEs in our sample saying that their revenue has dropped by over 50% (see Figure 1.3). This massive hit to revenue has been felt across the nation's economy, with minimal differences across locations, size of business or

insurance purchase channels. With such widespread and significant impact, brokers need to be aware of all their clients and take the time to understand what this financial shock means for their client's business and subsequently their insurance needs. SMEs are likely to continue experiencing disruption to their businesses and it may be some time before we fully understand the financial impact. Therefore, brokers may face an uncertain environment over coming months, which means that it will be critical to stay in touch with clients to understand how they are coping and what this means for their client's insurance needs.

Figure 1.3: Impact of COVID-19 pandemic on SME revenues

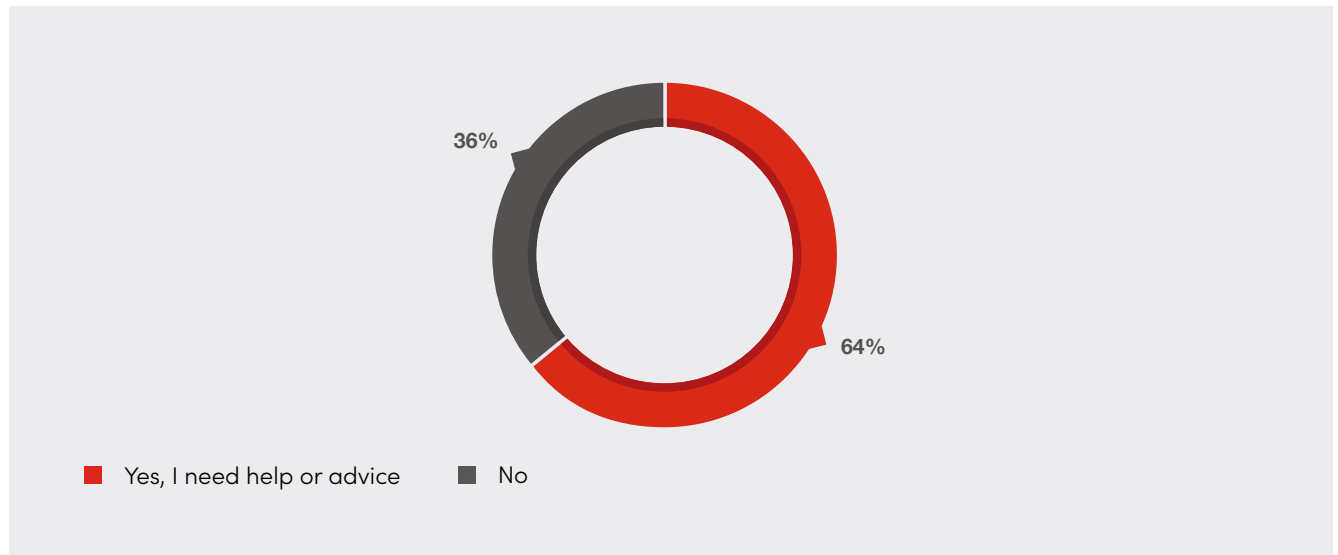




Unsurprisingly, given the extent of the revenue declines, many SMEs are looking for advice and guidance (see Figure 1.4). They are looking for a range of advice, but most commonly want to understand how their policy responds at

times like this. Around 1 in 5 would also like to know about other types of insurance that would benefit them. This gives brokers a strong reason to keep in contact with their clients during difficult times like these.

**Figure 1.4: SMEs looking for insurance advice in the current market**



### In summary

- Broker usage this year is stable amongst SMEs in New Zealand, but there is still considerable scope for brokers to grow their business by attracting SMEs who currently buy direct and by encouraging existing clients to buy more of their insurance through a broker.
- While brokers tend to deliver well on essential tasks such as administration, many SMEs would like their brokers to undertake more complex, value-added tasks such as risk assessment and analysis. This is an opportunity for brokers to differentiate themselves in a way that SMEs will value.
- Many New Zealand SMEs have experienced a sharp decline in revenue as a result of the COVID-19 pandemic and many are looking for help and advice from experts.

### What this means for brokers

- Brokers could consider ways to demonstrate their expertise, for example by providing information on insurance that is relevant to businesses (i.e. most common claims in their industry or regulation changes), undertaking analysis and sharing the rationale for their recommendations with clients.
- Brokers could also consider offering more pro-active services such as business risk profiling and assessment of their client's businesses, to understand the types of risks being faced within their business and ideas on how to lower those risks.
- In the face of a major economic shock, brokers could also stay in contact with their clients to provide advice and guidance on how their insurance is impacted during this time. This advice is likely to be valued by customers and lead to greater satisfaction.



# Building SME satisfaction

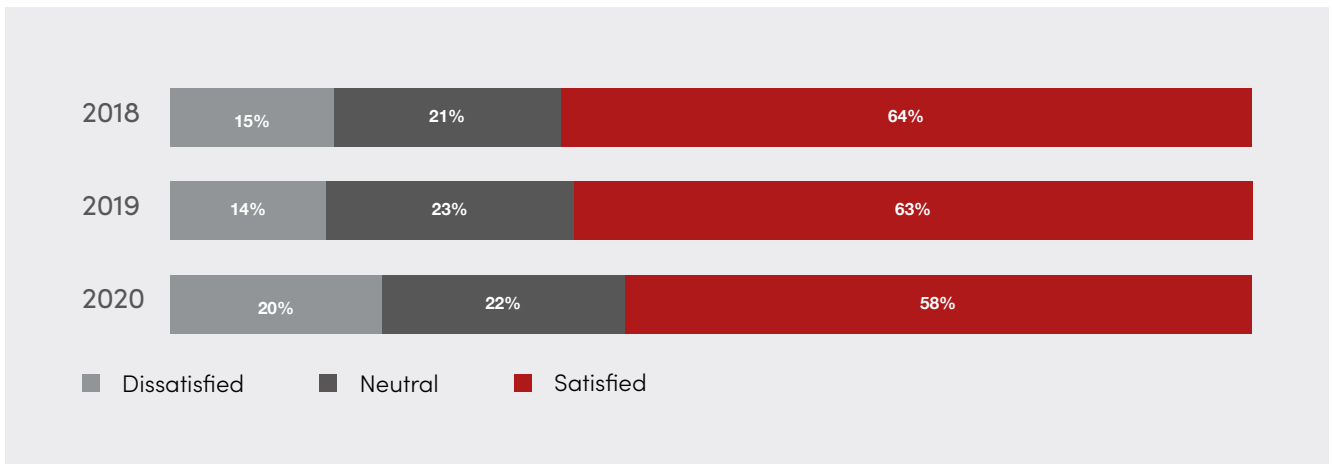
## Collaborative relationships and providing expert services are key to increasing SMEs' satisfaction with their broker or adviser.

Insurance broking is a relationship-business and therefore understanding what SMEs are looking for in broker relationships is vital.

Since the start of the Vero SME Insurance Index in New Zealand, we have asked broker clients how satisfied they are with their brokers. In general, most SMEs appear to have a very positive relationship with their broker, with around 6 in 10 claiming to be satisfied. While it is gratifying to see satisfaction at a high level, it is more concerning to

see that there has been a small but consistent decline in satisfaction over the last few years. In 2018, 64% of SMEs said that they were satisfied compared to only 58% this year. At the same time, the proportion of those who say that they are dissatisfied with their broker has grown from 15% in 2018 to 20% this year (see Figure 2.1). There could be a number of reasons for this decline in satisfaction, including a general increase in consumers' expectations, which means that SMEs are expecting more service and have higher demands of expertise from their brokers.

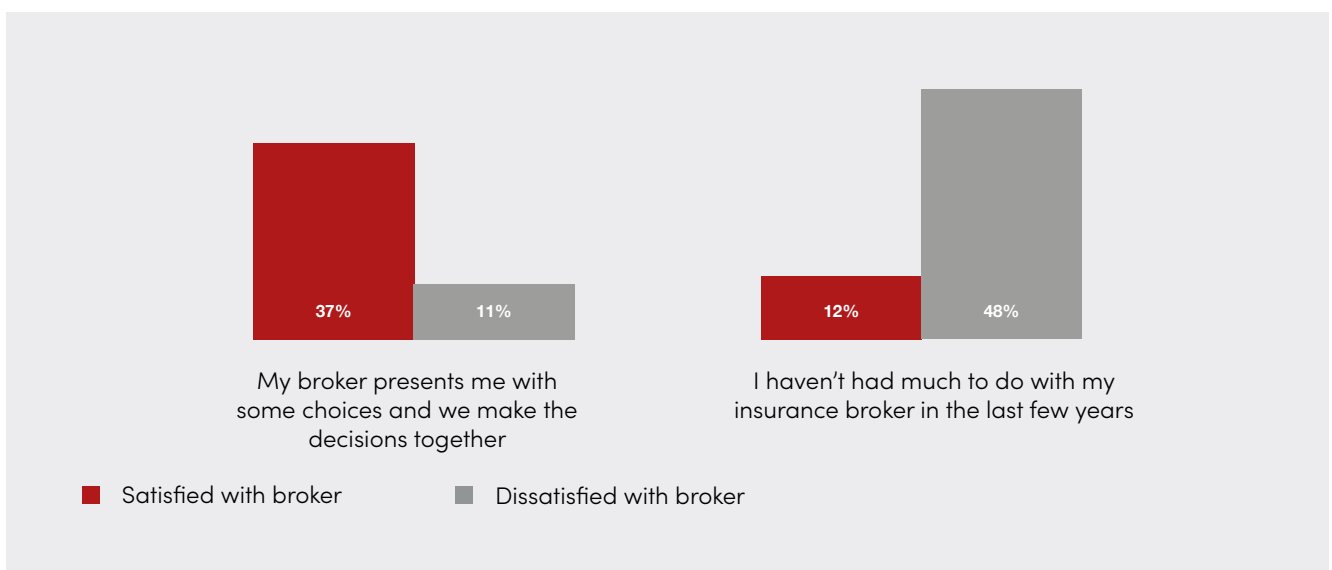
Figure 2.1: Satisfaction with broker



Increasing client satisfaction is likely to be a goal of many broking businesses, so it is useful to understand what makes effective broking relationships work. One of the most important characteristics is the level of involvement between brokers and SMEs during the insurance decision-making process. The data shows that collaborative

relationships lead to significantly higher levels of satisfaction than those in which SMEs say they haven't had much to do with their broker (see Figure 2.2). This suggests that working together with clients to make insurance decisions and staying in regular contact can have a significant impact on client satisfaction.

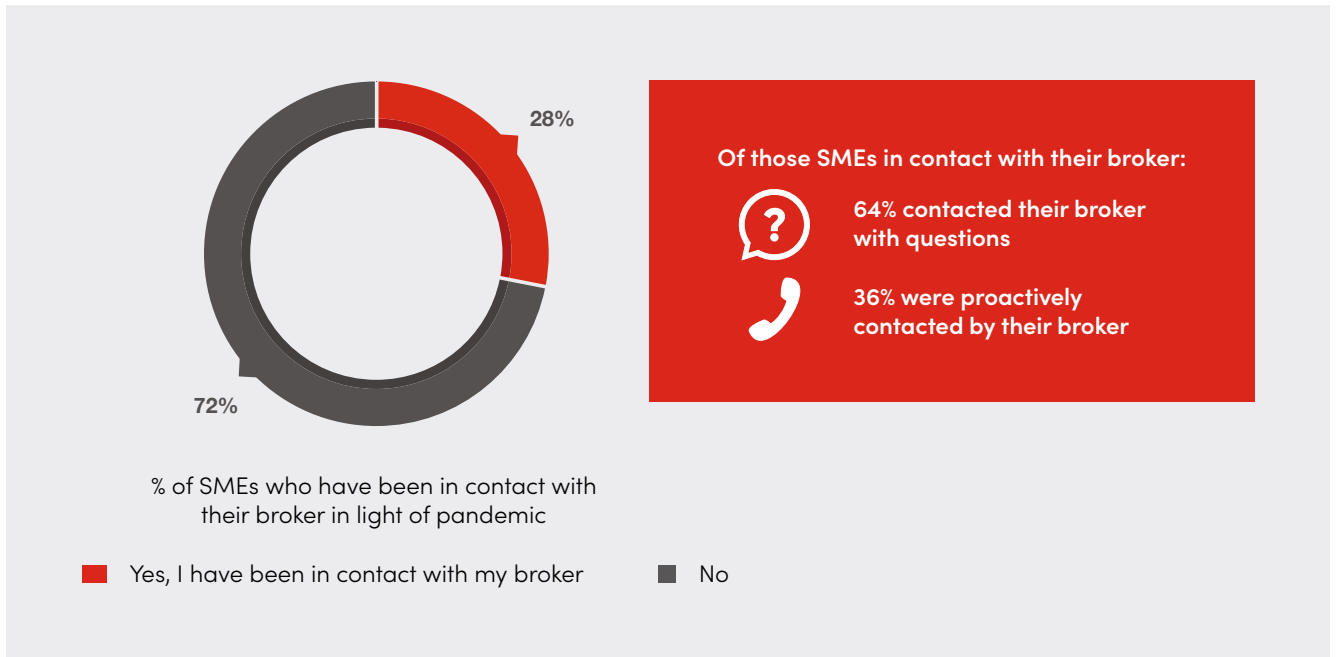
Figure 2.2: Relationship with broker by satisfaction level



Clearly, keeping in contact is an important element of satisfaction, and this is especially important during difficult times. During the COVID-19 pandemic, over 1 in 4 SMEs report that they have been in contact with their broker.

Of these, a majority (64%) reported that they initiated contact with their broker, while 36% said that they were pro-actively contacted by their broker (see Figure 2.3).

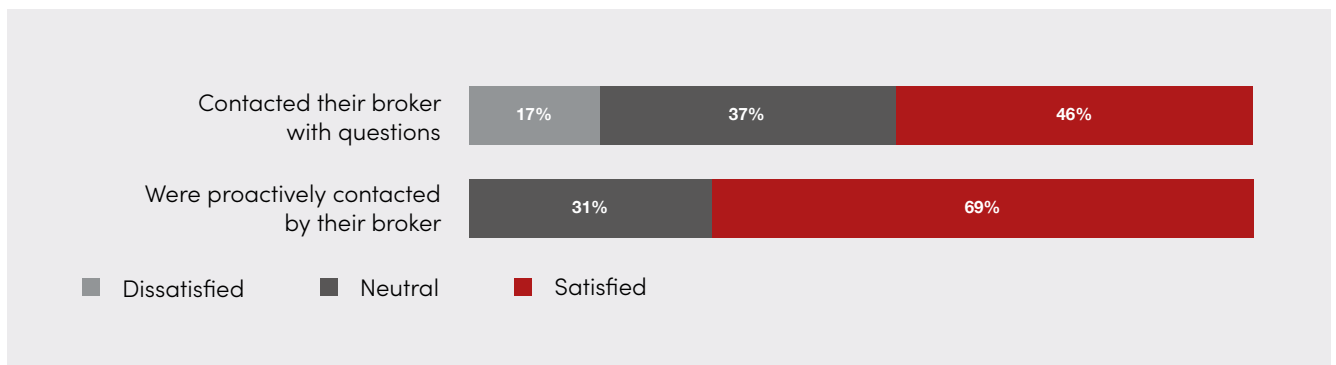
**Figure 2.3: Contact with broker due to COVID-19 pandemic**



Being pro-actively contacted by their broker during the COVID-19 pandemic appears to have a strong impact on overall SME satisfaction. Those who were pro-actively

contacted are significantly more satisfied with their broker than those who made contact on their own (see Figure 2.4).

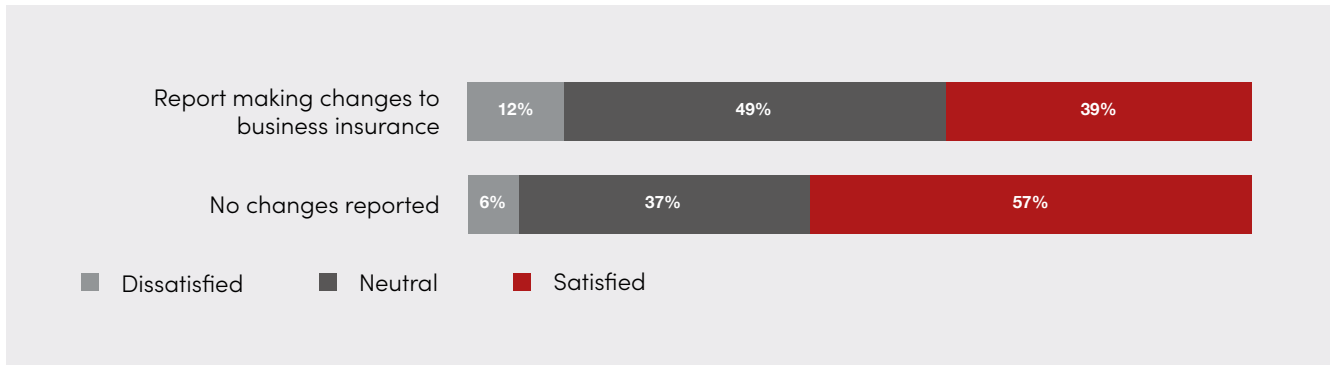
**Figure 2.4: Satisfaction with broker by contact**



Satisfaction is an important measure of strong relationships. However, during these challenging times, it also appears to be correlated with more positive insurance behaviour. We asked SMEs if they had made changes to their insurance (including changing or reducing cover) as a result of the COVID-19 pandemic and found that satisfied

clients are less likely to have made changes. Specifically, only 39% of those who have made changes during the pandemic report being satisfied with their broker, compared to 57% of those who haven't made changes (see Figure 2.5).

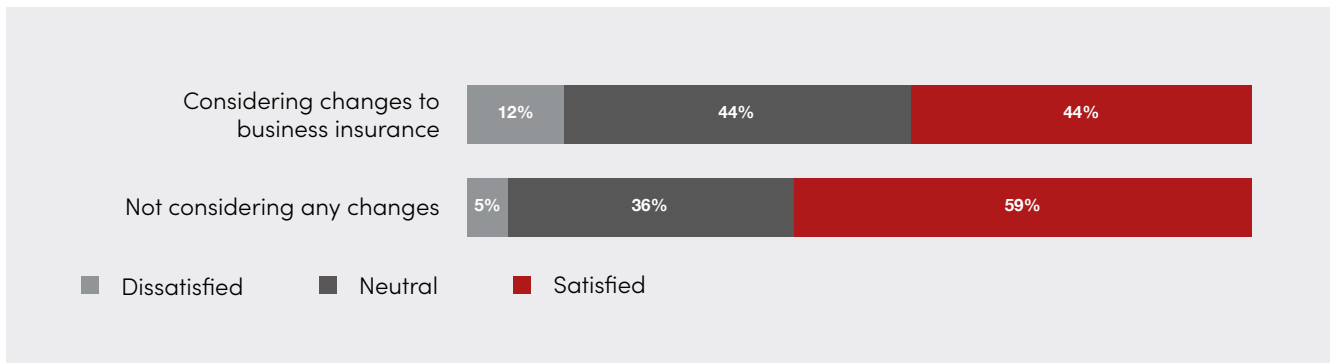
**Figure 2.5: Satisfaction with broker by business insurance changes**



This finding is similar if we look at those who are considering making changes to their insurance in the future as a result of the pandemic. Those who are satisfied with

their broker are significantly less likely to be considering changes to their business insurance compared to those who aren't satisfied (see Figure 2.6).

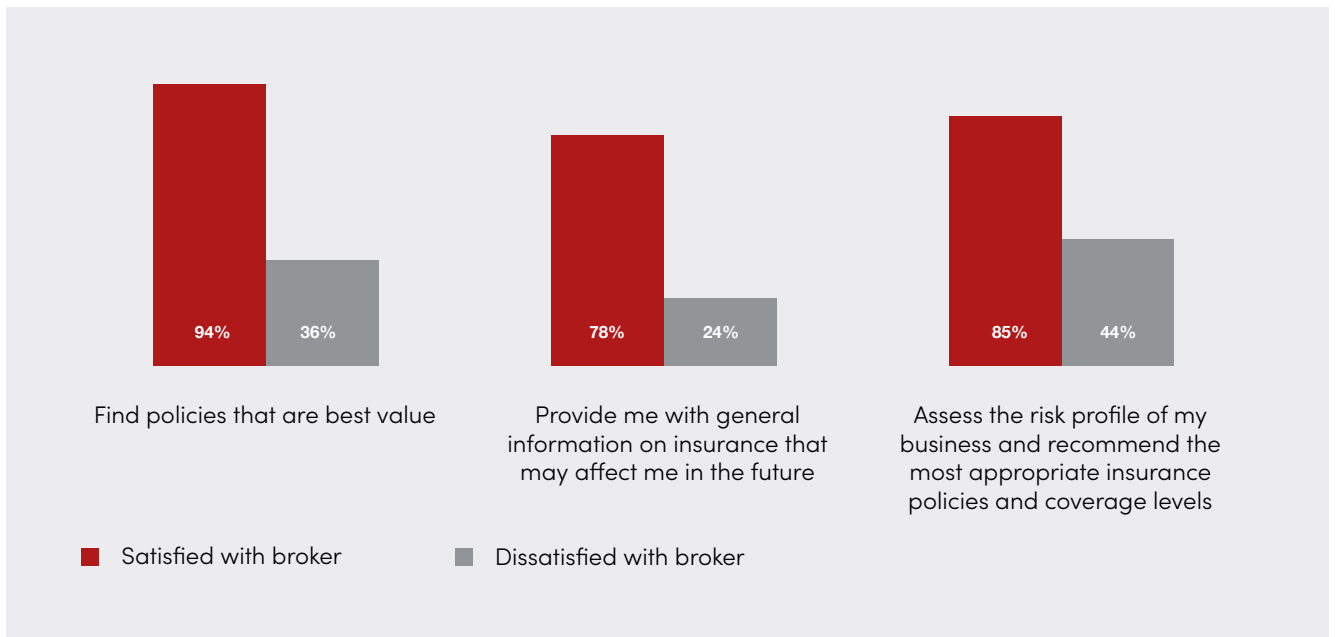
**Figure 2.6: Satisfaction with broker by consideration of business insurance changes**



While we do not know the exact reasons that satisfied SMEs are less likely to make changes to their insurance, our hypothesis is that satisfied clients are more likely to seek and trust their broker's expert advice and therefore be confident they have the cover they require. This is supported by the finding that the tasks that SMEs say their brokers perform also has a major impact on satisfaction.

SMEs who are satisfied with their broker are far more likely to report their broker undertakes tasks such as assessing their business risk profile, providing SMEs with information and finding policies that are the best value (see Figure 2.7). This shows that SMEs are more satisfied working with brokers who clearly demonstrate expertise rather than those solely acting as an insurance sales channel.

Figure 2.7: Tasks broker performs by satisfaction level



## In summary

- Satisfaction is softening amongst broker clients based on year-on-year comparisons.
- Satisfaction is strongest when SMEs have collaborative relationships with their brokers, and when brokers are pro-active and engaged, particularly during times of crisis. Our research shows that there are specific tasks brokers can undertake to build customer satisfaction.
- Satisfied clients were less likely to be thinking about making changes to their insurance during the COVID-19 pandemic.

## What this means for brokers

- Brokers could consider ways to foster more collaborative relationships with their clients throughout the customer lifecycle.
- Staying in contact, sharing information and delivering more pro-active advice are ways that brokers can help to further build satisfaction.
- Particularly during events such as the COVID-19 pandemic, brokers can look to increase satisfaction through providing SMEs with advice and support.



A woman wearing a blue hard hat and safety glasses, smiling, in a factory setting. She is wearing a blue long-sleeved shirt and a yellow high-visibility vest. She is leaning on a concrete block.

# The importance of risk management



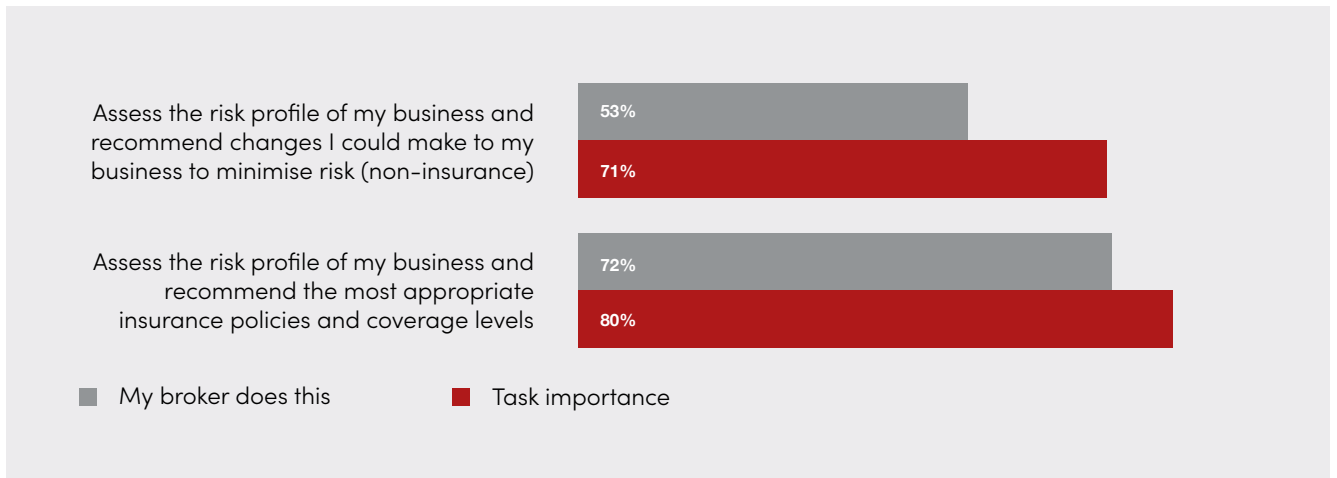
## Risk advice can be a way to demonstrate broker expertise and add value.

Insurance and risk go hand-in-hand. Many in the broking profession would consider themselves as risk advisers and providing advice and guidance around managing risk is a clear demonstration of the specialist expertise that brokers deliver their clients.

SMEs are very interested in receiving more business risk advice from their brokers. 71% would value brokers providing them with a risk assessment to ensure the

business operation is set up to minimise business risk. 80% of SMEs also think that it is important for their broker to assess their risk profile and recommend insurance coverage accordingly. While many SMEs think risk assessment is important, fewer SMEs report their brokers undertake risk assessment for their businesses (see Figure 3.1). This highlights an opportunity for brokers to play a bigger role in helping their clients to understand and minimise their risks.

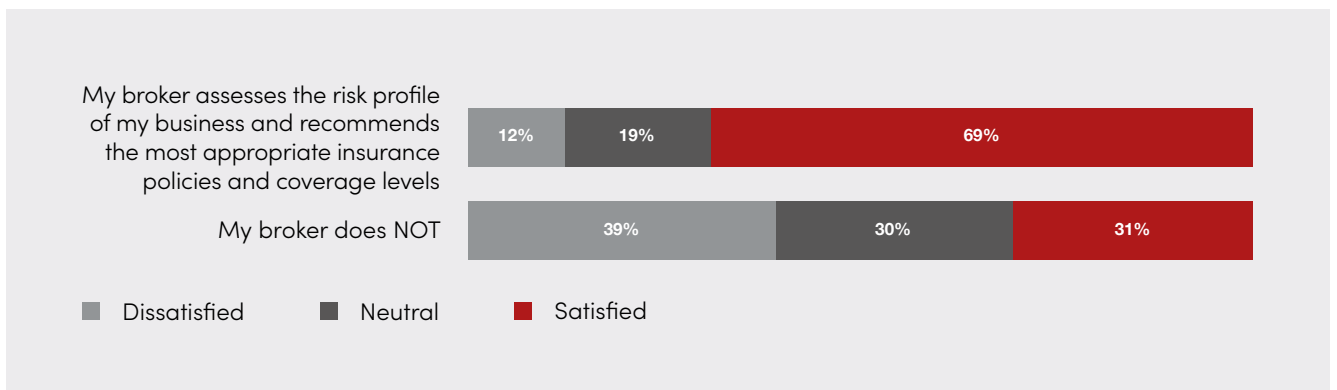
Figure 3.1: Risks analysis reported performance and importance



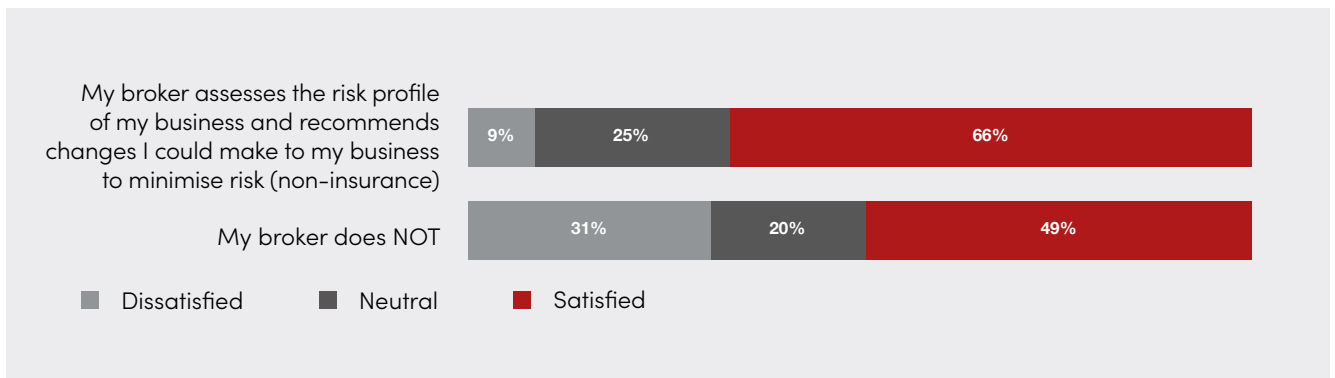
The importance of risk assessment to SMEs is underlined by the finding that SMEs who are satisfied with their broker are significantly more likely to report that their broker

undertakes risk assessment for them, either to recommend appropriate insurance coverage or operational changes (see Figures 3.2 and 3.3).

Figure 3.2: Satisfaction with broker by risk insurance assessment (insurance)



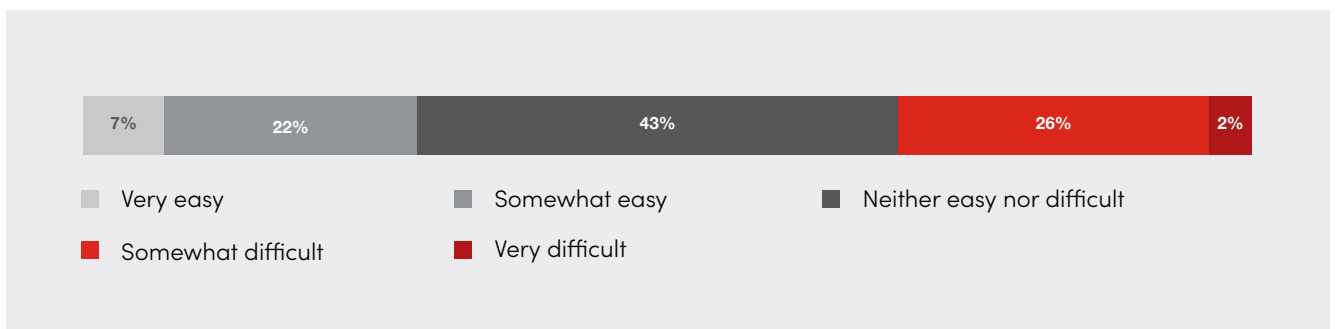
**Figure 3.3: Satisfaction with broker by risk insurance assessment (non-insurance)**



Providing risk advice is particularly important because it is a highly complex area. This is especially the case for direct buyers, who do not have access to the professional support of a broker. Over 1 in 4 direct buyers say that understanding

the risks facing their business is difficult, which presents an opportunity for brokers to emphasise their expertise in risk assessment when talking to prospective clients (see Figure 3.4).

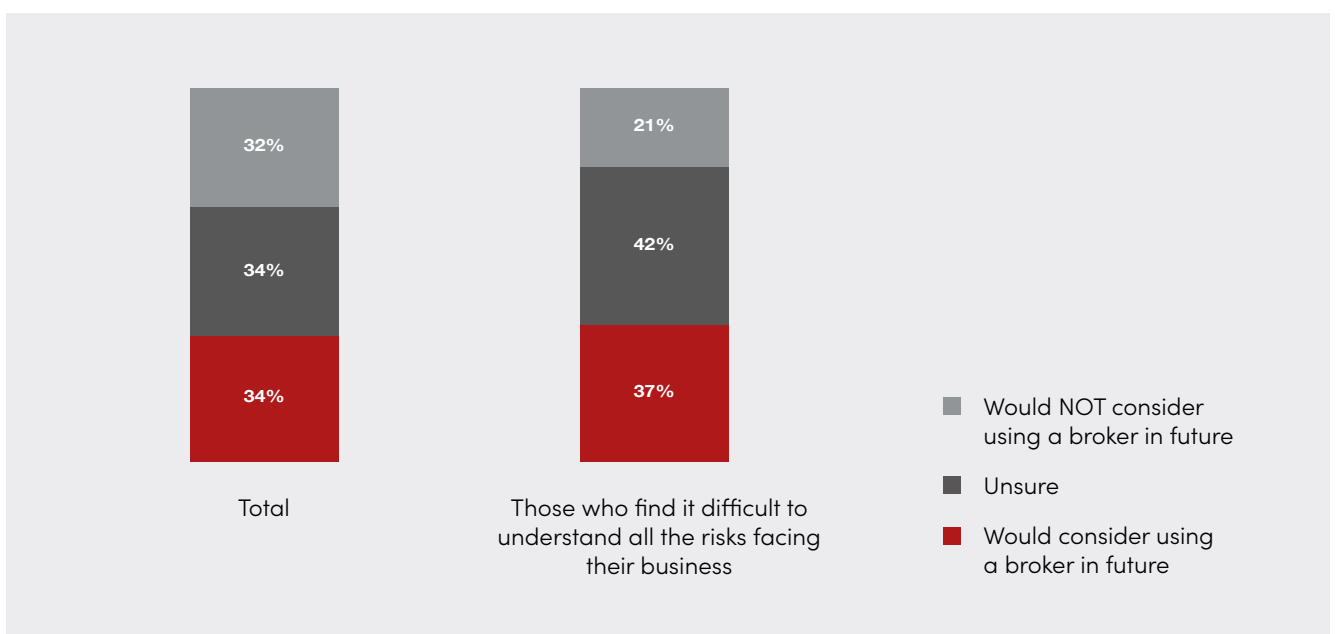
**Figure 3.4: Direct buyers' understanding of risks facing their business**



Finding it difficult to understand business risk is associated with a higher likelihood to consider using a broker. 37% of those who find it difficult to understand their business risks say they are considering using a broker, compared to

34% of all direct buyers (see Figure 3.5). This suggests that communicating the expert role that brokers can play in assessing and advising on risk could be an effective way to attract more direct buyers.

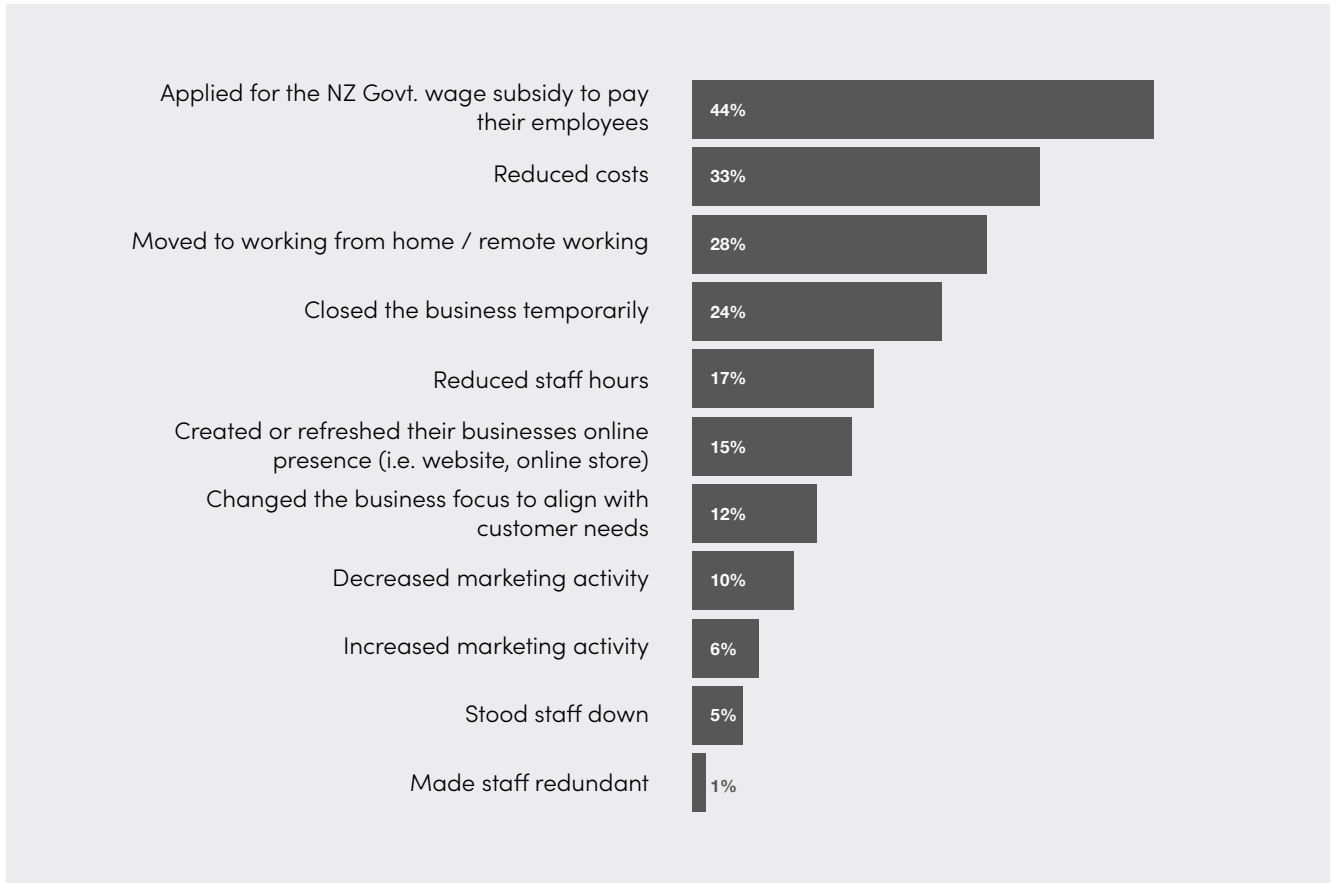
**Figure 3.5: Broker consideration (amongst direct buyers)**



Risk has taken on a new dimension in current times, with many businesses facing a variety of significant risks due to the COVID-19 pandemic. Many are making changes to their business at this time, with only 21% reporting that they haven't made any changes to their business as a result of the pandemic. While applying for the government's wage subsidy is the most common change, other common

changes include reducing costs (33%), moving to remote working (28%) and temporarily closing the business (24%) (see Figure 3.6). Making changes like these to business operations can impact the business' risk profile and therefore it is important for brokers to have conversations about how these types of changes impact their client's insurance.

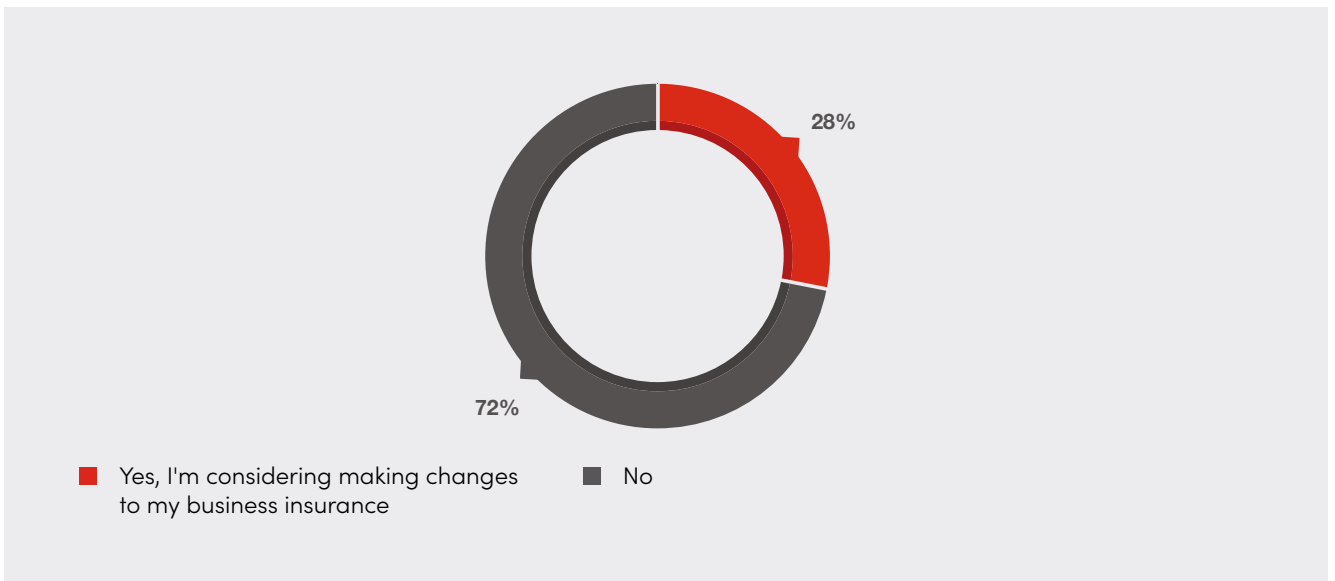
**Figure 3.6: Business changes made as a result of the COVID-19 pandemic**



Reducing costs is a common response in difficult economic times, and as insurance can be a significant cost for many SMEs, making changes to business insurance is sometimes viewed as an option. The data indicates that 87% of SMEs haven't made any changes to their business insurance yet, but over 1 in 4 SMEs are considering making changes in the future as a result of the pandemic (see Figure 3.7).

Younger and metro-based SMEs, particularly direct buyers, are even more likely to be contemplating changing their insurance. This makes expert, professional advice even more important right now to ensure SMEs don't make the wrong decisions when it comes to their business insurance cover.

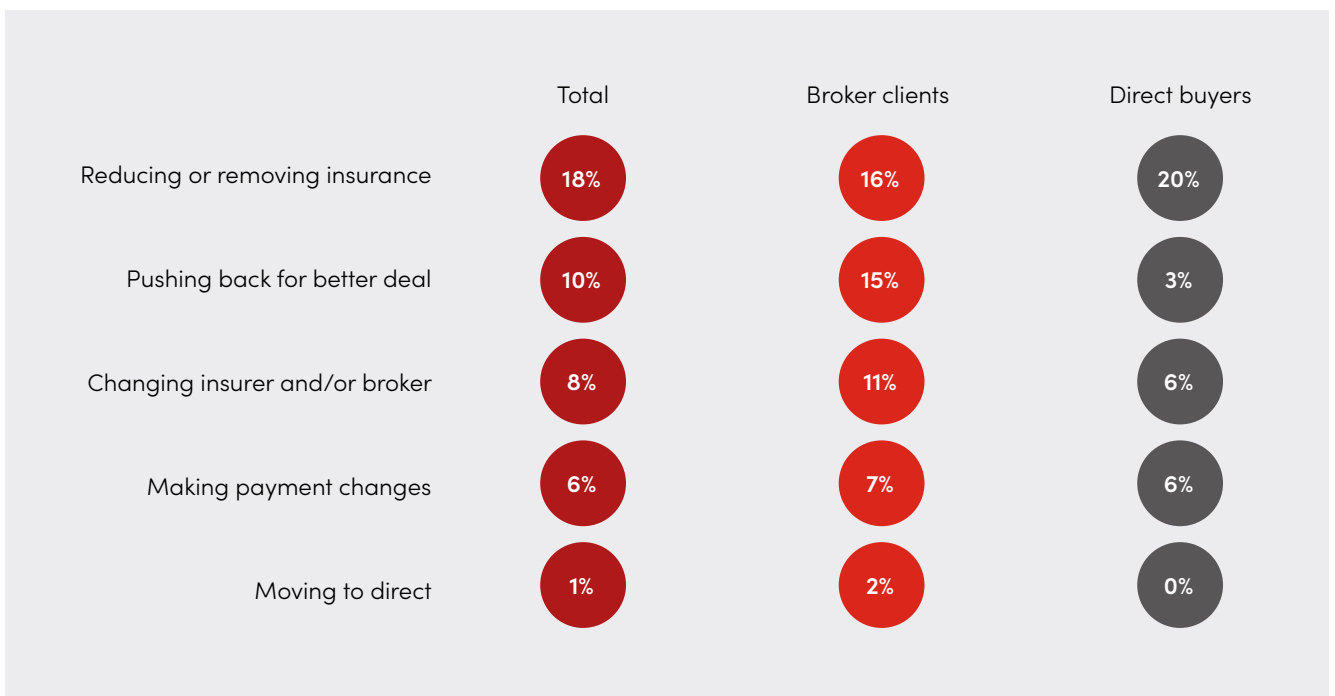
Figure 3.7: Considering business insurance changes



What types of changes are they considering? Our data showed us that the most common change SMEs claim to be considering is reducing or cancelling insurance, at 18%. This figure increases to 20% for direct buyers but is also worryingly high for broker clients at 16%. This suggests that

there is a strong need for ongoing advice and education so that SMEs can make informed decisions about reducing their cover. Other changes considered include pushing back for a better deal, changing insurer and/or broker and making payment changes (see Figure 3.8).

Figure 3.8: Business insurance changes considered

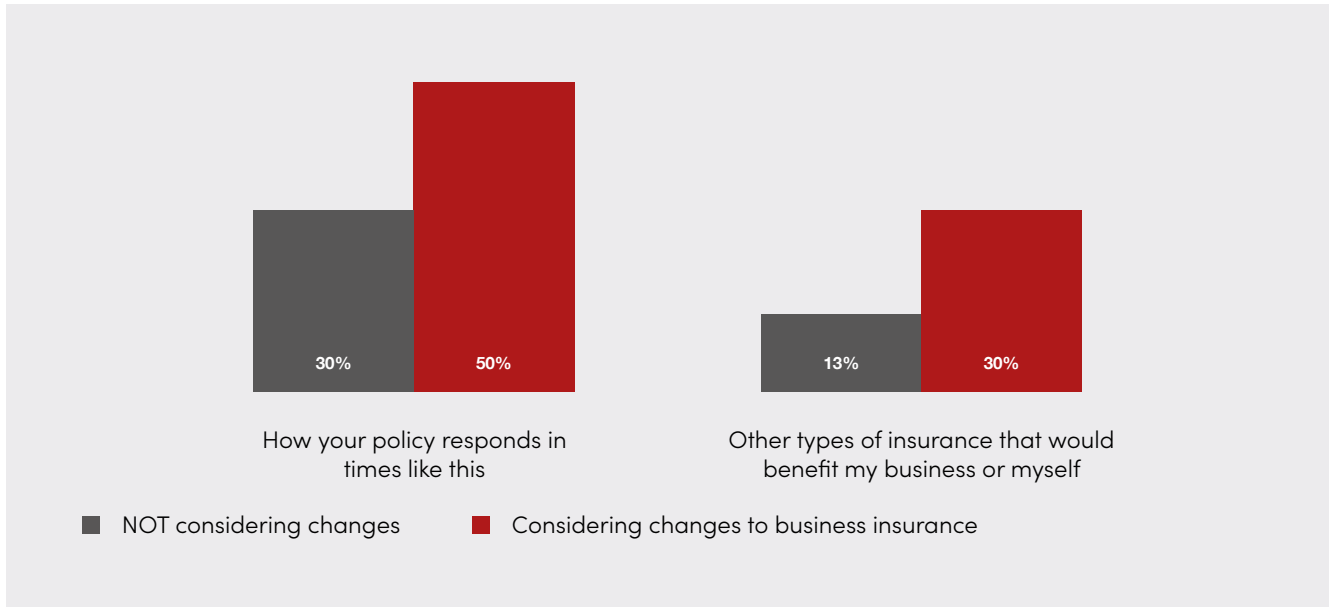


The good news is that those who are considering making changes to their insurance are open to advice. Specifically, 50% of those who are considering change would like advice on how their policy responds during times like this, compared to 30% of those who aren't considering changes, and 30% who would like advice on other types of insurance that

would benefit their business, compared to only 13% who aren't considering changes (see Figure 3.9).

Providing advice on insurance to SMEs is a great opportunity for brokers to ensure their clients have the most appropriate insurance for their circumstances, while demonstrating their value as expert risk professionals.

Figure 3.9: Advice wanted by those considering insurance changes



## In summary

- Many SMEs rate risk assessments as an important task for their broker, but significantly fewer say that their broker does this for them.
- There is a strong positive correlation between doing risk assessments and customer satisfaction with their broker.
- Many direct buyers find it difficult to understand the risks that their business faces.
- The COVID-19 pandemic has prompted most SMEs to make changes to their businesses.
- Over 1 in 4 SMEs are considering making changes to their insurance, including changes like reducing or removing insurance cover.
- Those considering making changes would value advice on insurance at this time.

## What this means for brokers

- Providing risk analysis and assessment to clients is a way for brokers to add value to SMEs.
- Specifically, brokers could consider offering risk assessments as a way of attracting direct buyers.
- The COVID-19 pandemic has led to many SMEs considering insurance changes and in some instances decreasing their cover. Brokers can demonstrate their value and expertise by offering relevant advice to SMEs who may be thinking about making insurance changes.

A man with dark hair and a beard, wearing a blue and white plaid shirt, is looking down at a tablet computer he is holding with both hands. He has a slight smile on his face. The background is a workshop or garage with a wooden workbench and some tools hanging on a rack. A large red rectangular box is overlaid on the lower left side of the image, containing the text 'Attracting direct buyers' in white.

# Attracting direct buyers



## Many direct buyers are considering using a broker and are looking for expertise and risk advice.

For many years, using a broker to buy insurance was the default option for most SMEs in New Zealand. However, buying business insurance direct has become increasingly accessible in recent years and, as shown in the first chapter of this report, almost one third of New Zealand SMEs buy all their insurance direct and do not use a broker at all. So, what can brokers do to attract more direct buyers?

To explore this, we have looked at the reasons SMEs state for not using a broker. Unsurprisingly price plays a role, with almost 1 in 5 saying that they think it would be more expensive to go through a broker. Trust is also a factor,

with similar numbers worrying that a broker is more likely to recommend a policy that offers a higher commission. Both factors suggest that there is a need for brokers to demonstrate the value they deliver to clients, beyond simply price, and to build trust with clients.

Importantly, 14% of direct buyers say they don't know how to find the right broker for them. This suggests that there is considerable scope to increase SMEs' understanding of the broker value proposition and to make it easier for SMEs to find brokers (see Figure 4.1).

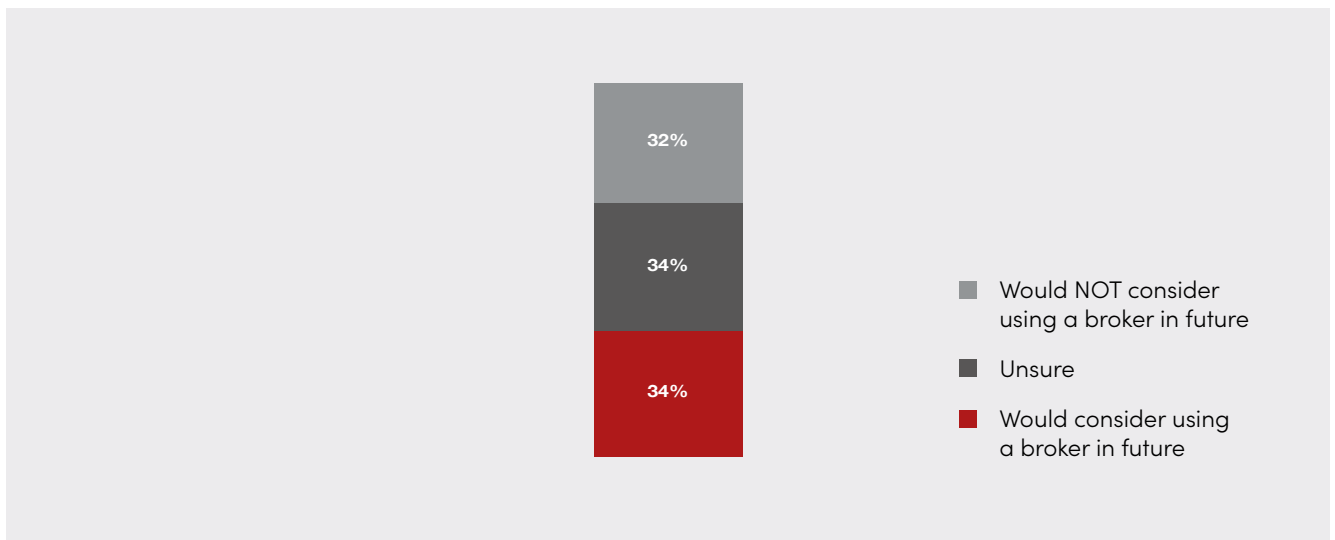
Figure 4.1: Reasons for NOT using a broker



The good news is that, while direct usage is significant, many SMEs are open to the idea of using a broker. Only 32% of direct buyers say that they wouldn't consider using a broker, while 34% would consider using a broker in future (see Figure 4.2). Within SMEs, there are certain groups who are even more likely to consider using brokers, specifically females, those under 50 years of age and those with a

university education. It's also worth noting that the majority of considerers are sole business operators or have between 1 – 5 employees (96%) with 68% located on the North Island and 32% on the South Island. Importantly, this group are more likely to say that they don't use a broker because they don't know how to find the right one for them.

Figure 4.2: Broker consideration (amongst direct buyers)



There are many reasons that these considerers would try using a broker. First and foremost is price, with over half saying that they would try using a broker if they thought they could get a better price. While many say that cheaper prices would be a reason to use a broker, expertise,

guidance and service are also strong reasons to use a broker for around a quarter of those considering using a broker. This suggests that demonstrating the expertise that brokers deliver could help to persuade many direct buyers to shift to broker use (see Figure 4.3).

Figure 4.3: Top 5 reasons to consider a broker



Given that finding the right broker is a challenge for many direct buyers, understanding how they would search is important for brokers to consider. Word of mouth is the most common way that direct buyers would look for a

broker, with 42% saying that they would ask a colleague, friend or family member, and 38% saying they would ask a business advisor such as an accountant or lawyer (see Figure 4.4).

### Figure 4.4: Most common methods to find a broker



1. Ask a colleague / friend / family member for a recommendation (42%)
2. Ask another business advisor e.g. accountant, lawyer for a recommendation (38%)
3. Through my association / industry body (33%)
4. Online search (e.g. Google) (33%)

This has very clear implications for brokerages. It means that developing a strong referral program, to encourage satisfied clients and business partners (like accountants, lawyers and other financial services professionals) to recommend brokers to prospective clients, should be an important element of broker marketing strategies.

### In summary

- The perception that they will pay more is the top reason direct buyers say they don't use a broker, however, trust and not knowing how to find a broker also play a role.
- While direct purchase of insurance is significant, over one third of direct buyers would consider using a broker, particularly if they can get better prices, expertise and service.
- Word of mouth is the main way that many SMEs would look for a broker.

### What this means for brokers

- Consider ways to communicate value over price, and to demonstrate the value of expert insurance advice.
- Brokerages should consider referral strategies to help encourage satisfied clients and business partners (like accountants, lawyers and other financial advisers) to recommend their services.

# The research

**This report is based on research involving 1200 business owners and decision makers from around New Zealand. The research was independently\* conducted using two online quantitative surveys.**

900 business owners and insurance decision makers were interviewed, covering a range of business types, locations and sizes. The survey was conducted during December 2019 and the data was weighted by business size to current Statistics New Zealand data. The survey covered:

- general business challenges
- attitudes towards insurance
- insurance purchase process
- attitudes towards insurance brokers
- demographics

A supplementary research survey followed including 300 business owners and insurance decision makers, covering a range of business types, locations and sizes. The survey was conducted during May 2020 and the data was weighted by business size to current Statistics New Zealand data. The survey covered:

- COVID-19 business impacts and changes
- business insurance changes made or considered
- the role of brokers during this time
- 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:

#### **Micro**

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

#### **Small**

Businesses which employ 6-19 employees

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

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