

Vero
SME Insurance Index 2020

—
FOCUS ON
NATURAL DISASTERS



Informed
Customer insights drive new opportunities

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NEW ZEALAND

Introduction

Earthquakes, floods and storms are an all-too-regular feature of life in New Zealand.

Those in the insurance industry are well-aware of the effect these natural disasters can have, but many small businesses may not have a detailed awareness of the critical role that insurance can play in ensuring their resilience to a disaster.

The Christchurch earthquakes in 2010 / 11 were a tragic, devastating reminder of our vulnerability in the face of major events and prompted many of us to think about the importance of being prepared.

But ten years on, to what extent are New Zealand small business owners and decision makers aware of and prepared for future natural disaster risks? And what role can brokers play in helping businesses feel adequately covered?

In this special edition of the Vero SME Insurance Index we explore how SMEs feel about natural disasters – are they concerned, and how confident do they feel about their insurance coverage in the face of these disasters. We spoke to 900 owners and decision makers of small businesses in New Zealand, and this report explores their attitudes towards natural disasters and uncovers opportunities for brokers to demonstrate the value and expertise they bring to their clients.

We hope you find these insights helpful as you work with your clients to ensure they are covered for the risks that they face.

What do we mean by natural disasters?

The Vero SME Insurance Index is focussed on sharing the attitudes and behaviours of small businesses. In this report, when we refer to natural disasters we are utilising a broader understanding of the term which is based on a general definition of natural disasters as being “a natural event such as a storm, flood or earthquake that causes significant damage or loss of life”.

Of course, these events are treated differently in an insurance context, and the definition used in this report is not in line with insurance policies which have a narrower definition.

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The findings

The 2020 Vero SME Insurance Index: Focus on Natural Disasters special edition explores how confident SMEs feel about their natural disaster cover and the role brokers can play.

Key messages

1. Overall levels of concern and confidence
2. The link between confidence and satisfaction for broker clients
3. The link between confidence and broker consideration for direct buyers
4. Differences by industry and region

These topics will be explored in detail in this report.



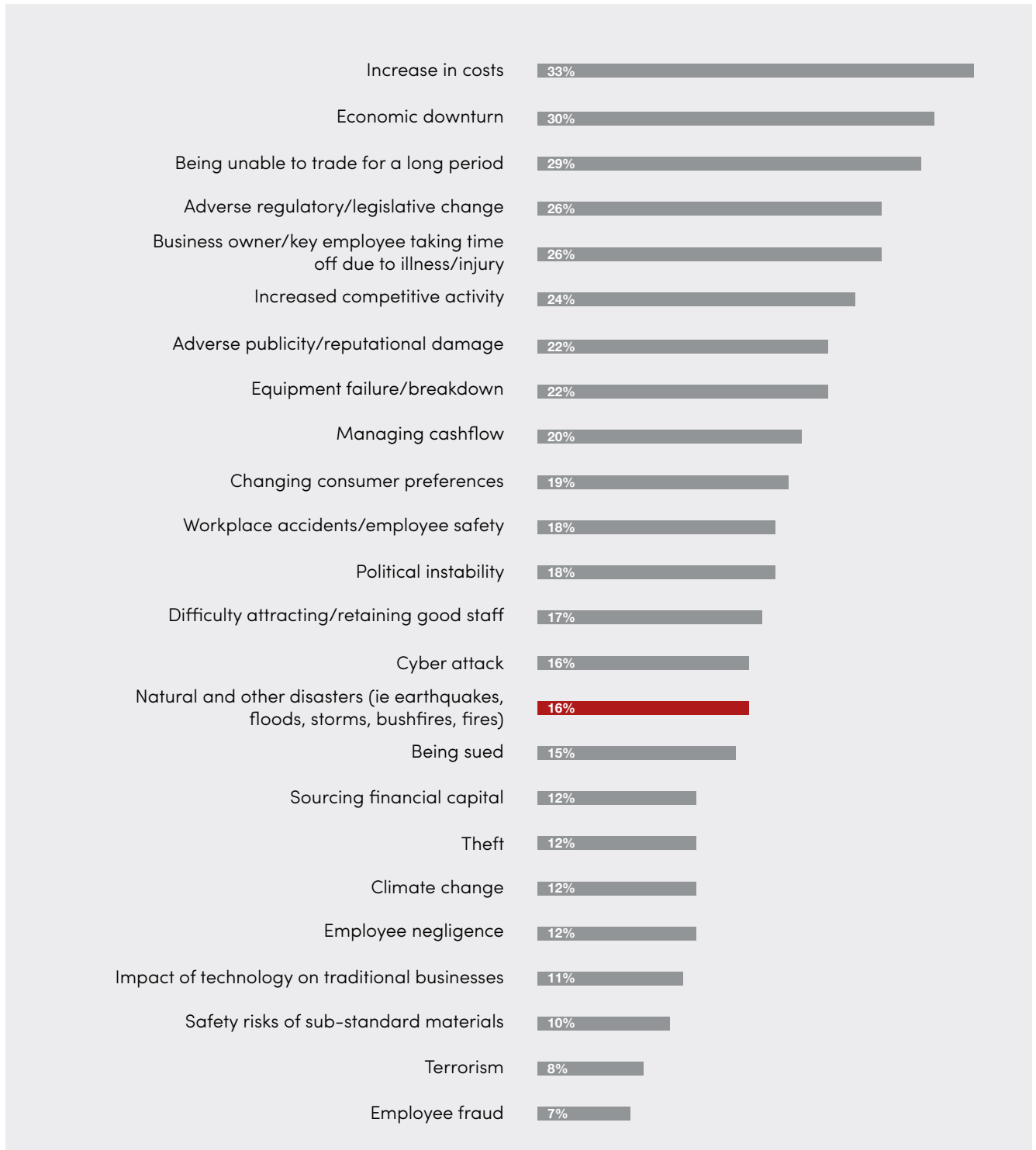
Overall levels of concern and confidence

When we asked SMEs how concerned they feel about a range of risks, natural disasters rank well down the list of concerns (see Figure 1.1). Only 16% of SMEs say that they are concerned or very concerned about natural and other disasters (i.e. earthquakes, floods, storms, bushfires, fires).

Our research shows that SMEs top three business concerns are:

1. 33% claim to be concerned about an increase in costs
2. 30% worry about an economic downturn
3. 29% are concerned about being unable to trade for a long period

Figure 1.1: Business concerns

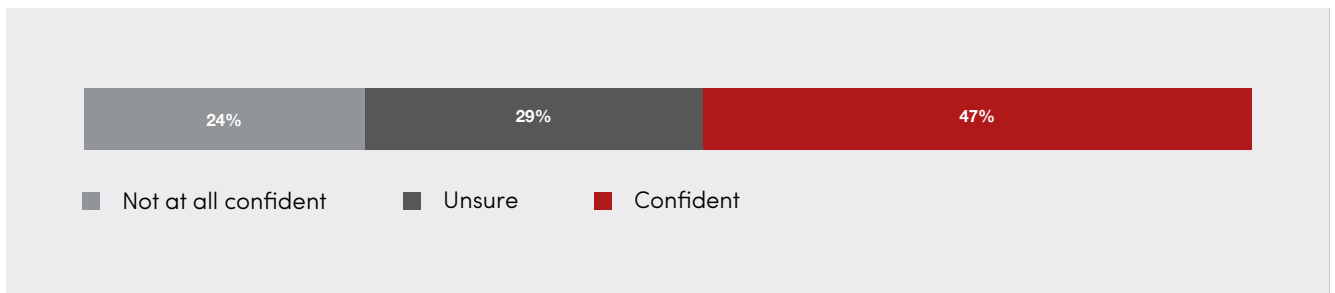


There are many things that SMEs can, and do, worry about, and this data suggests that natural disasters aren't top of mind compared to many other potential risks.

But this raises the question - do SMEs think that natural disasters aren't a risk, or do they feel less concerned about them because they have adequate insurance in place, and do they understand the potential impact of a natural disaster if it were to occur?

To explore this, we asked SMEs how confident they feel that their business is covered for natural disasters. It appears most SMEs are relatively confident, with almost half (47%) saying they're confident and just under a quarter (24%) saying they aren't confident they are covered (see Figure 1.2).

Figure 1.2: Confidence that business is covered for natural disasters



These relatively high levels of confidence could in part be attributed to high degrees of insurance uptake and quality of cover amongst SMEs. How does the involvement of an insurance broker impact confidence, and what characterises those SMEs who feel less confident?

This report will explore these questions to understand what brokers can do to ensure that their clients feel confident and well-covered in the face of the ever-present risk of natural disasters.

Vero Insight

When we delve into the business insurance policies held by SMEs who insure with Vero, we can see 97% have the Natural Disaster (ND) cover, which in Vero's BusinessPlan policy is defined as 'earthquake, tsunami, volcanic activity, hydrothermal activity, geothermal activity, or subterranean fire'.

For the 3% who don't have ND cover, there will be a variety of factors at play. These could include underwriting or a decision based on whether the cover is relevant to the risk being insured i.e. a tradie not adding it to their tool cover, or a SME who lives in an area which is not an earthquake prone area as they believe they'll never need it.

In these instances, brokers have the opportunity to provide their expertise via risk assessments to SMEs to ensure they have the best cover for their needs.



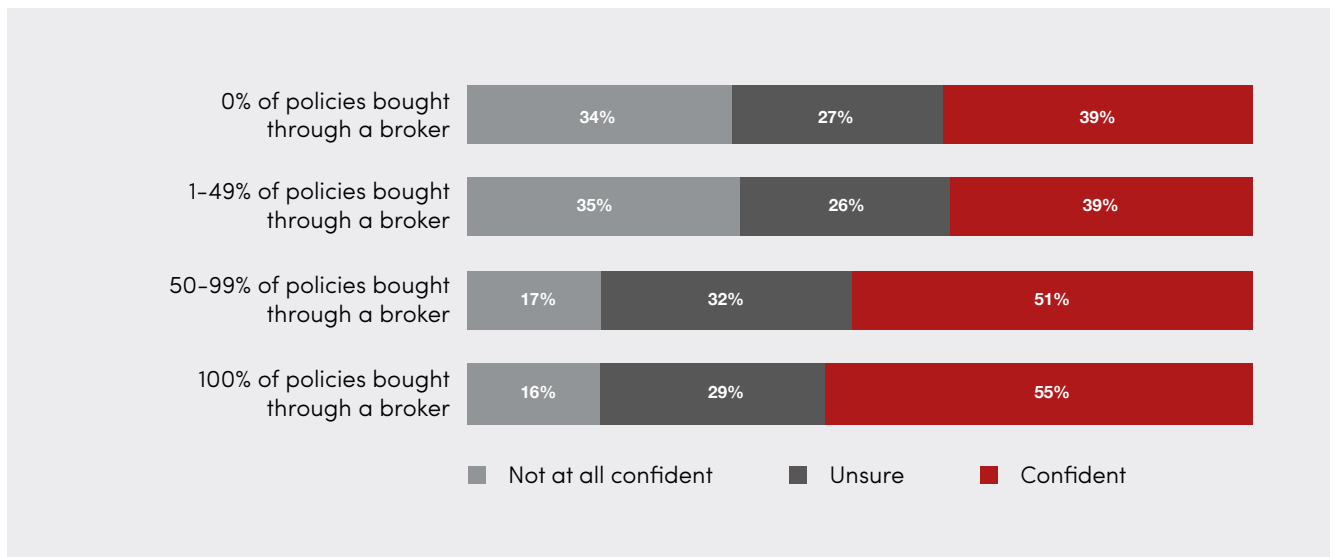
The link between confidence and satisfaction for broker clients

Broker clients are more confident about their natural disaster coverage, and this links to greater satisfaction.

SMEs who use brokers tend to be even more confident than direct buyers in their coverage for natural disasters. The more that SMEs use a broker, the higher these confidence levels are. 55% of those who buy all their insurance policies through a broker feel confident that they are well covered, compared to only 39% of those who buy

less than half of their insurance policies through a broker, or those who don't use a broker at all (see Figure 2.1). These results demonstrate that SMEs who engage with a broker are more likely to have peace of mind that they're appropriately covered for natural disasters.

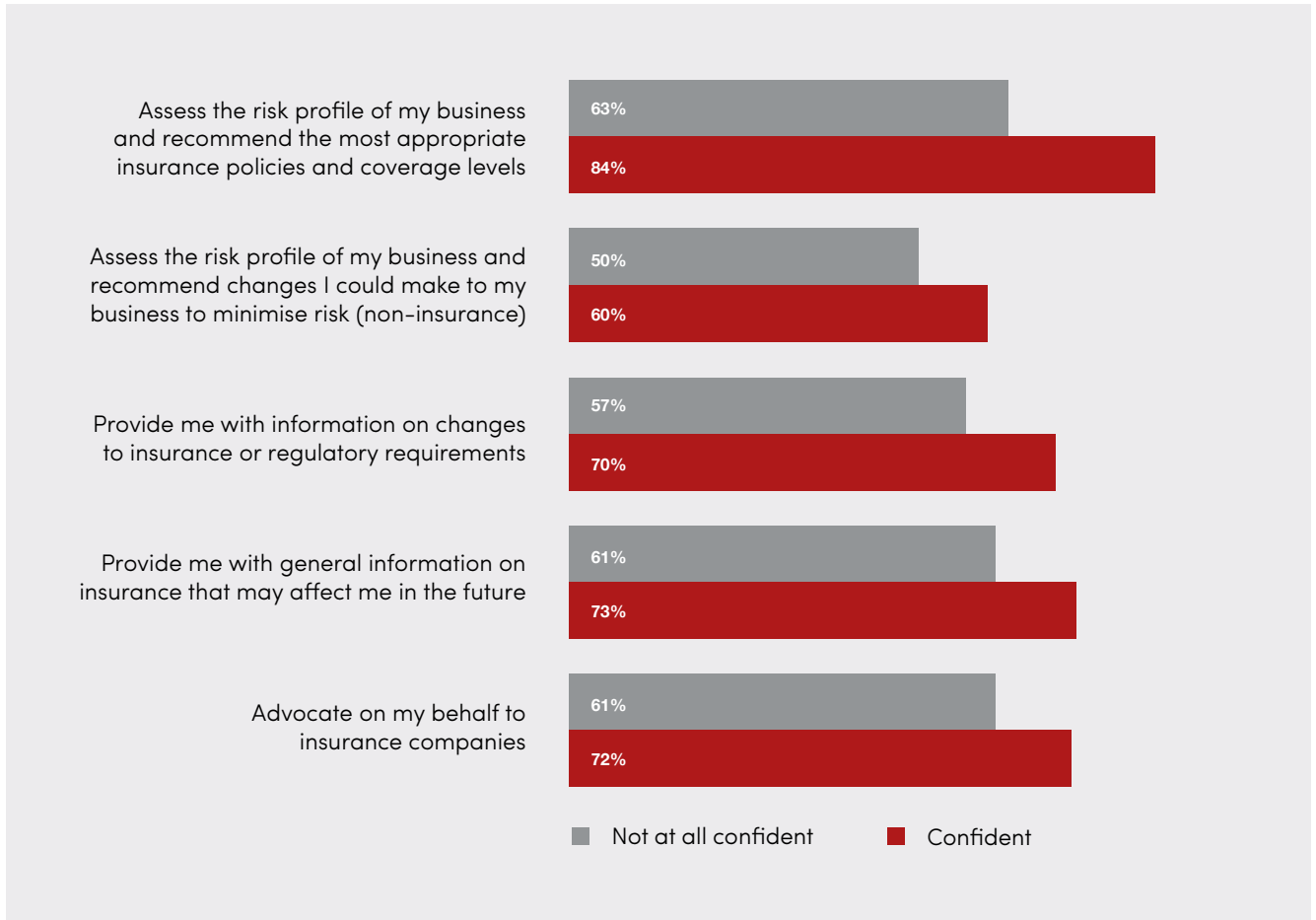
Figure 2.1: Confidence that business is covered for natural disasters by broker usage



There is also a link between broker clients who feel confident about their natural disaster cover and the types of tasks that their broker undertakes on their behalf. These confident SMEs are far more likely to say that their

broker does value-added tasks like assessing their risk profile, providing them with information on insurance and advocating on their behalf (see Figure 2.2).

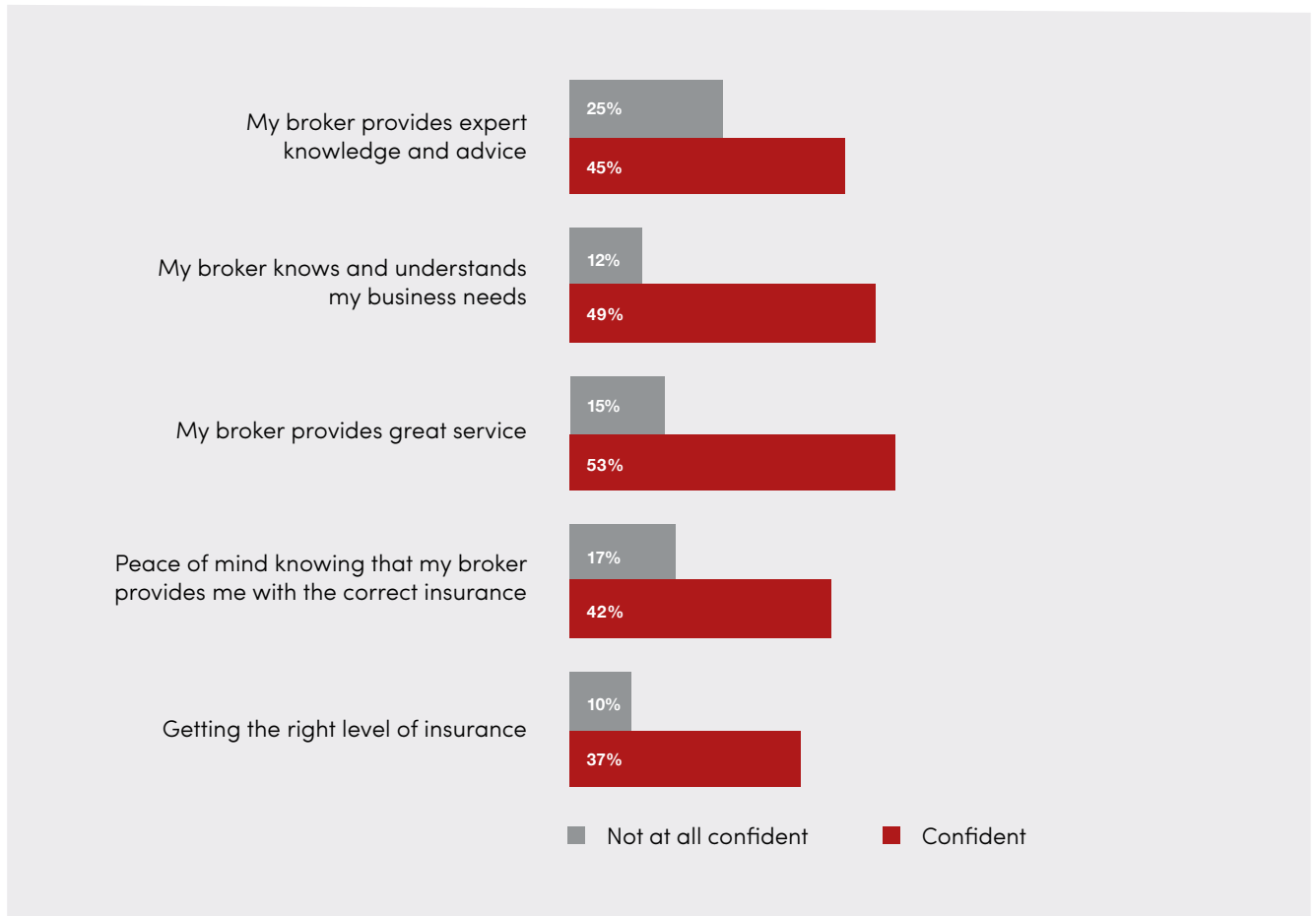
Figure 2.2: Tasks my broker does by natural disaster confidence levels



This data suggests that when brokers spend time understanding SME's business and then providing expert advice on the best policies for their specific needs, their clients are more likely to feel confident.

High levels of confidence also correlate with the reasons that SMEs choose to work with their broker. Confident SMEs are significantly more likely to say that they work with their broker because of their expertise, business understanding, service and peace of mind that they have the right insurance (see Figure 2.3).

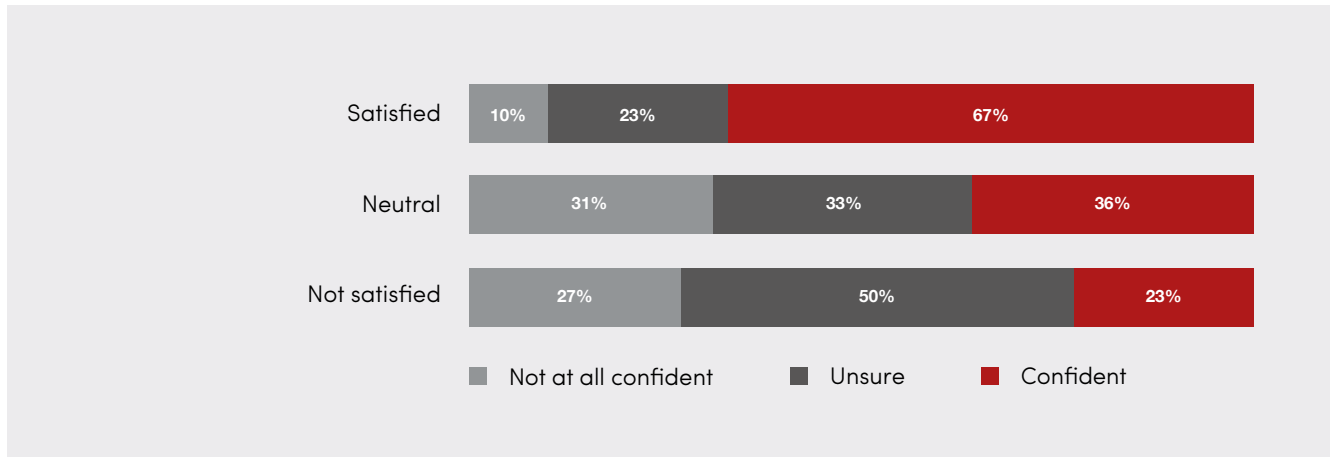
Figure 2.3: Reasons to work with current broker by natural disaster confidence levels



This confidence is linked to the level of satisfaction SMEs experience in relation to their broker. Around two thirds (67%) of broker clients who are satisfied with their current broker say that they feel confident in their natural disaster coverage, compared to only 23% of those who are not

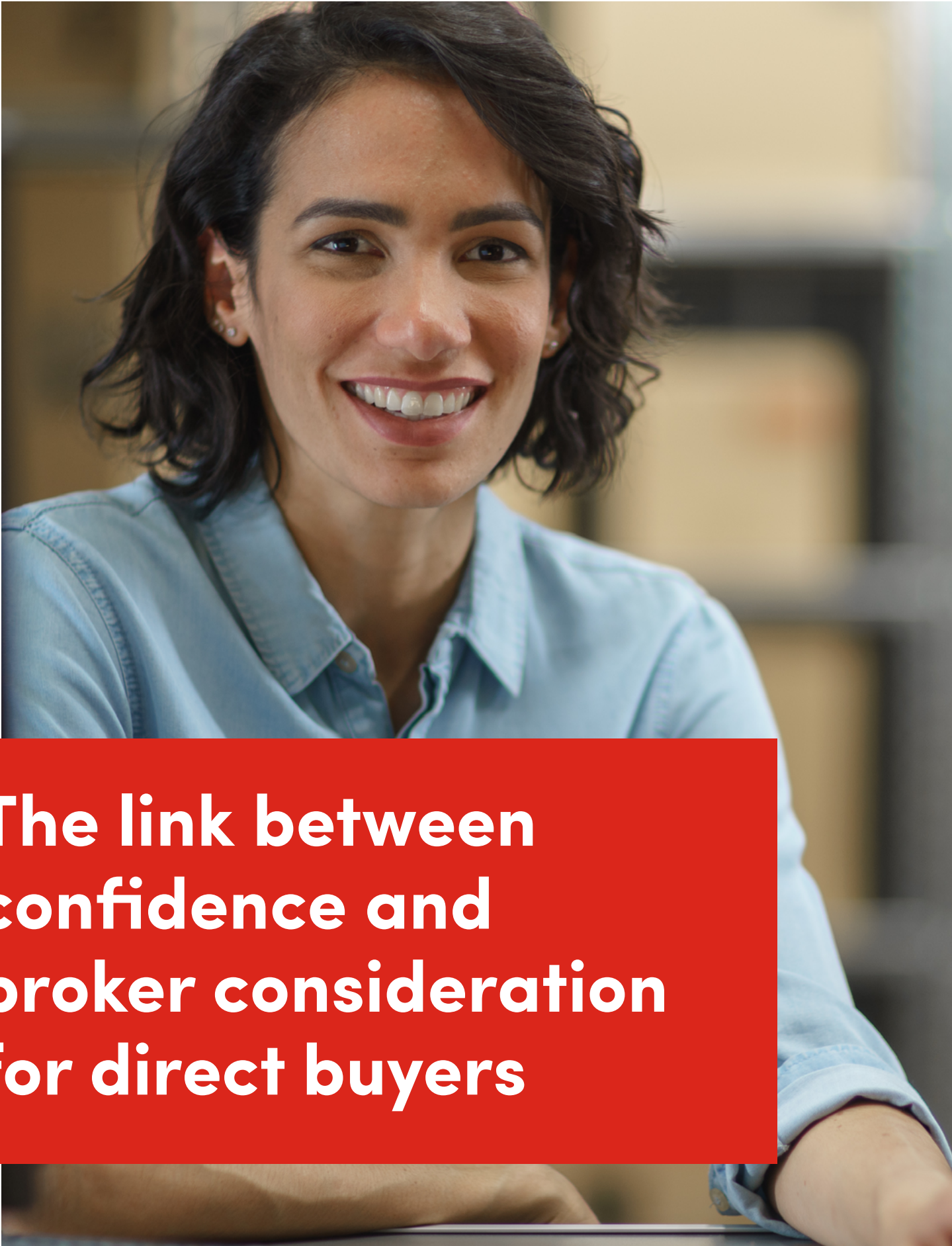
satisfied with their current broker (see Figure 2.4). This suggests that building confidence in having adequate natural disaster coverage is one way to increase overall client satisfaction.

Figure 2.4: Confidence that business is covered for natural disasters by broker satisfaction



What this means for brokers

- Working with SMEs to assess their business risks and ensure they're adequately covered for natural disasters will help SMEs to feel more confident which leads to greater broker satisfaction.
- Ways to build confidence include assessing your clients risk profile, providing information on insurance or regulatory requirement changes and general insurance trends as well as advocating on your client's behalf to insurance companies.
- Vero's Risk Profiler tool can help brokers have quality conversations with their clients about natural disaster risks, which will further assist SMEs to develop confidence they have the cover they need.
- Vero has developed new information sheets related to natural disasters, so make sure you revisit the Risk Profiler tool at vero.co.nz/risk-profiler.



The link between confidence and broker consideration for direct buyers

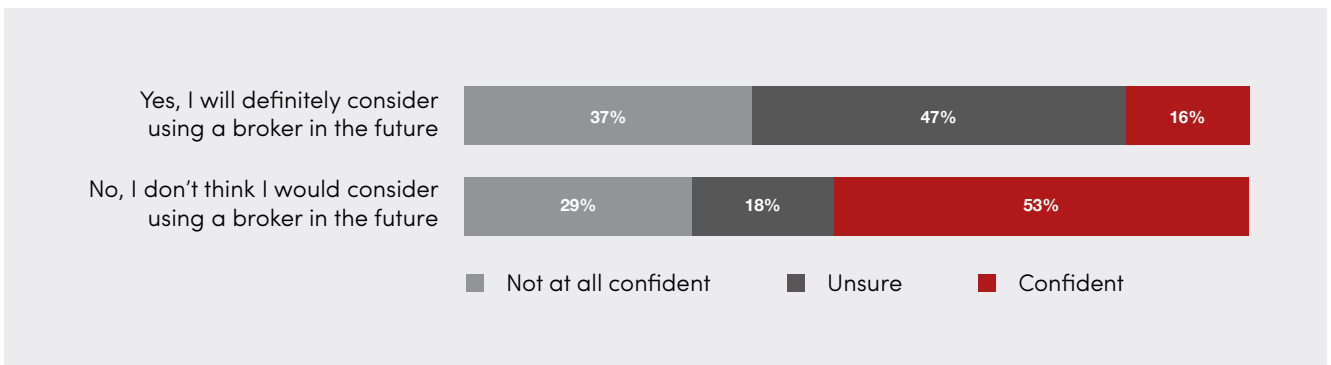
Direct buyers who don't feel confident that they are covered for natural disasters are more likely to consider using a broker.

SMEs who buy their insurance direct show a clear correlation between levels of confidence and likelihood to consider using a broker in the future. In general, we know that direct buyers tend to be less confident about their natural disaster cover than broker clients, and this appears to link to broker usage consideration.

When direct buyers are asked if they would consider using a broker in the future, we see significant differences based on their confidence levels (see Figure 3.1):

- Of those who WILL consider using a broker in the future, 37% are not confident about their natural disaster cover, while 16% are confident
- Of those who WILL NOT consider using a broker in the future, 29% are not confident while 53% are confident.

Figure 3.1: Confidence that business is covered for natural disasters by broker consideration (amongst direct buyers)



We can see that brokers have an opportunity to attract new business from the 37% of direct buyers who are less confident about their natural disaster cover.

What this means for brokers

- Brokers' expertise in ensuring that their clients are adequately covered could be a valuable and compelling story to attract new clients.
- Promoting the value-add service of examining the risk profile of SME businesses is one way brokers could attract new clients, especially within the 37% of direct insurance purchasers who are less confident about their Natural Disaster cover.



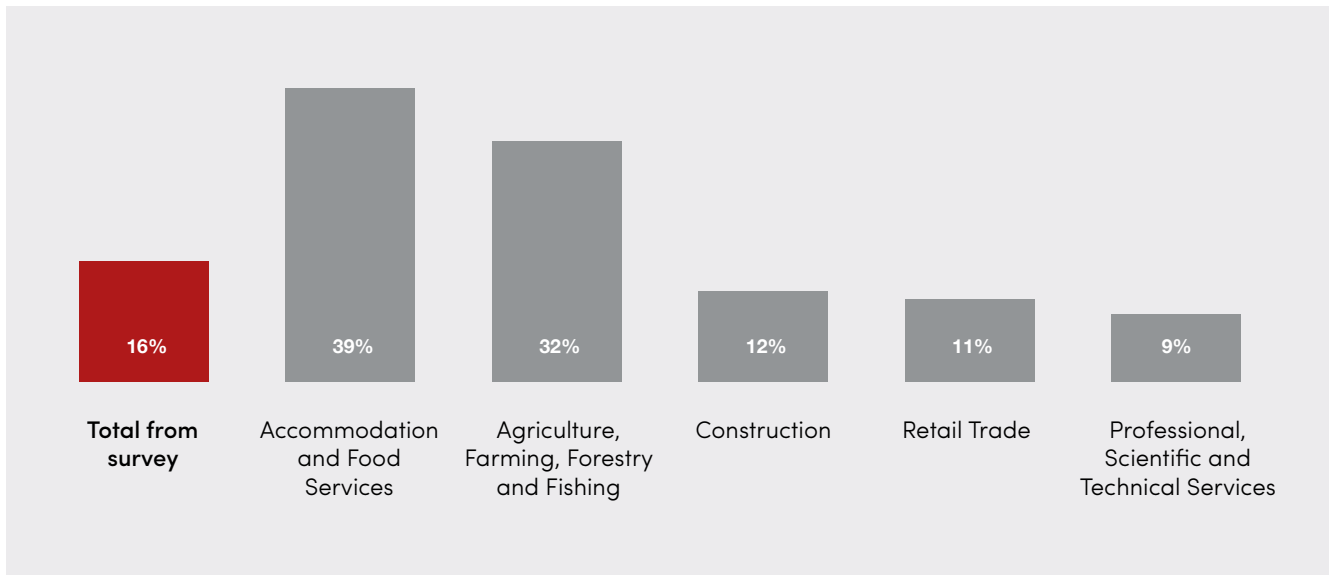
Difference by industry and region

Concern and confidence regarding natural disasters differs by industry and location.

While overall concern about natural disasters amongst SMEs is low, large differences can be seen in the levels of concern in certain industries. 39% of those in the accommodation and food services industry, and 32% of the agriculture, farming, forestry and fishing industry claim to

be concerned about natural disasters, compared to the total survey average of 16%. Other large industries, such as construction, retail and professional services are less concerned than the average (see Figure 4.1).

Figure 4.1: Natural disaster concern by industry



It's quite reasonable to assume that agriculture and accommodation and food services would be highly impacted as a result of natural disasters, so these heightened levels of concern are unsurprising. However, other industries such as construction and retail are also at risk but appear to be less concerned. Could this be because they are adequately prepared or is it because of a lack of awareness of potential risks?

Brokers have an opportunity to ensure that SMEs who are included in the less concerned industries actually have the correct cover in place by providing risk profile assessments to help their SMEs feel confident in the event of a natural disaster. The Vero Risk Profiler is a handy tool designed to assist with this process.

Kaikoura Earthquake

The Kaikoura earthquake struck on 14 November 2016 causing loss of life and massive changes to the geology of the area, as well as significant damage to infrastructure. The insurance industry as a whole incurred claims related costs of over \$2.2b for the event.

Vero Insurance New Zealand paid out over \$500m in claims across all portfolios. In terms of business insurance claims* where we would expect most of our SMEs to be insured, there were over 550 claims made from this single event accounting for almost \$30m in claims as a result.

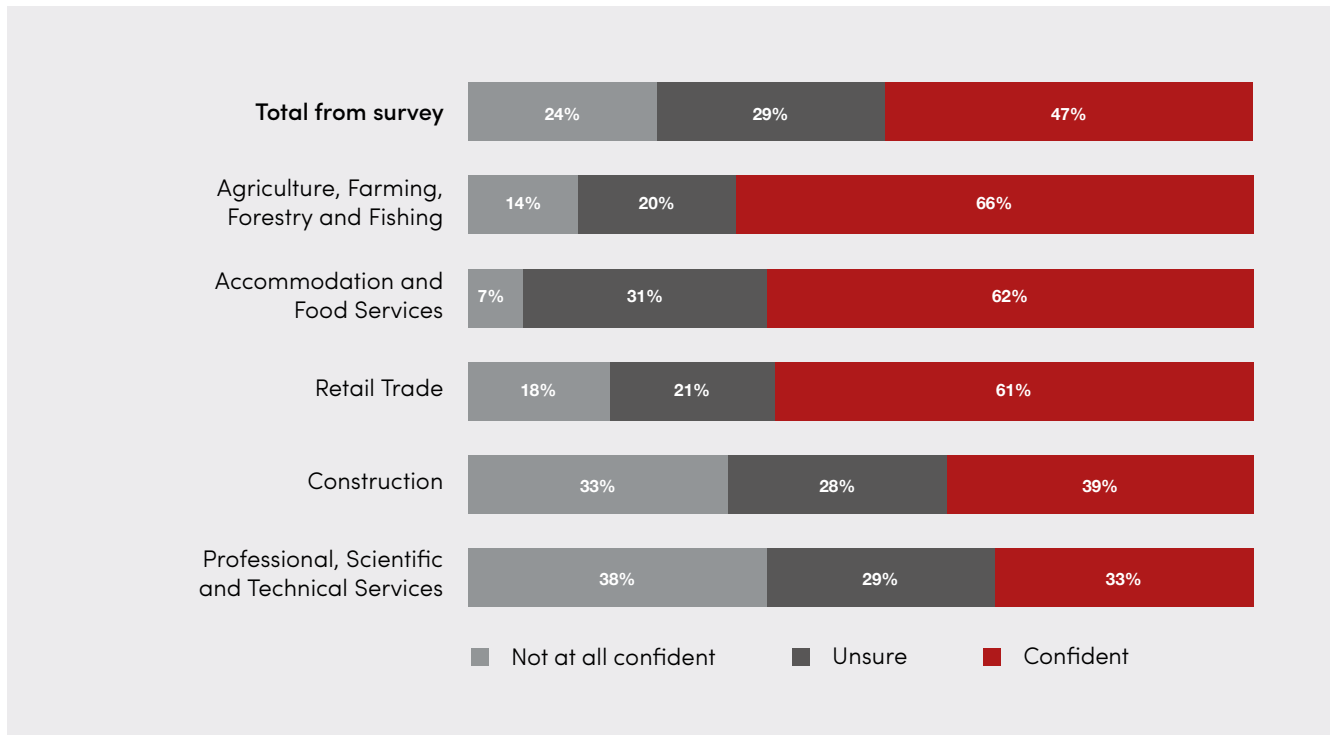
If we look at some of the major industries that our SMEs operate businesses within, the top 3 industries according to event claims numbers were the retail industry with the majority, closely followed by accommodation & food and then professional services.

**Business Insurance claims include Commercial Fire and Commercial Motor only. Excludes Corporate and Rural claims.*

Interesting trends emerge when we compare how confident different industries feel about their cover in the face of natural disasters. While those in agriculture and accommodation and food service industries are more concerned about natural disasters, they also appear to be more confident

about their cover. 66% of agriculture businesses and 62% of accommodation and food service businesses say that they feel confident, compared to 47% of all SME businesses, while only 39% of those in construction and 33% of professional services feel confident (see Figure 4.2).

Figure 4.2: Confidence that business is covered for natural disasters by industry



This suggests that there is a clear opportunity to build confidence across more industries through greater education and awareness about natural disasters and what precautions businesses can take to minimize their exposure and ensure the appropriate level of insurance cover. Industries such as construction and professional services are less concerned about natural disasters but also feel less confident that they are covered, which may suggest that some in these industries need more education.

Location is also a key differentiator in attitudes to natural disasters. SMEs located in Canterbury, the wider South Island and Auckland are slightly more concerned about risks from natural disasters. Notably, those in Wairarapa/Wellington are even less concerned than the total survey average of 16%, despite being in a high-risk earthquake zone (see Figure 4.3).

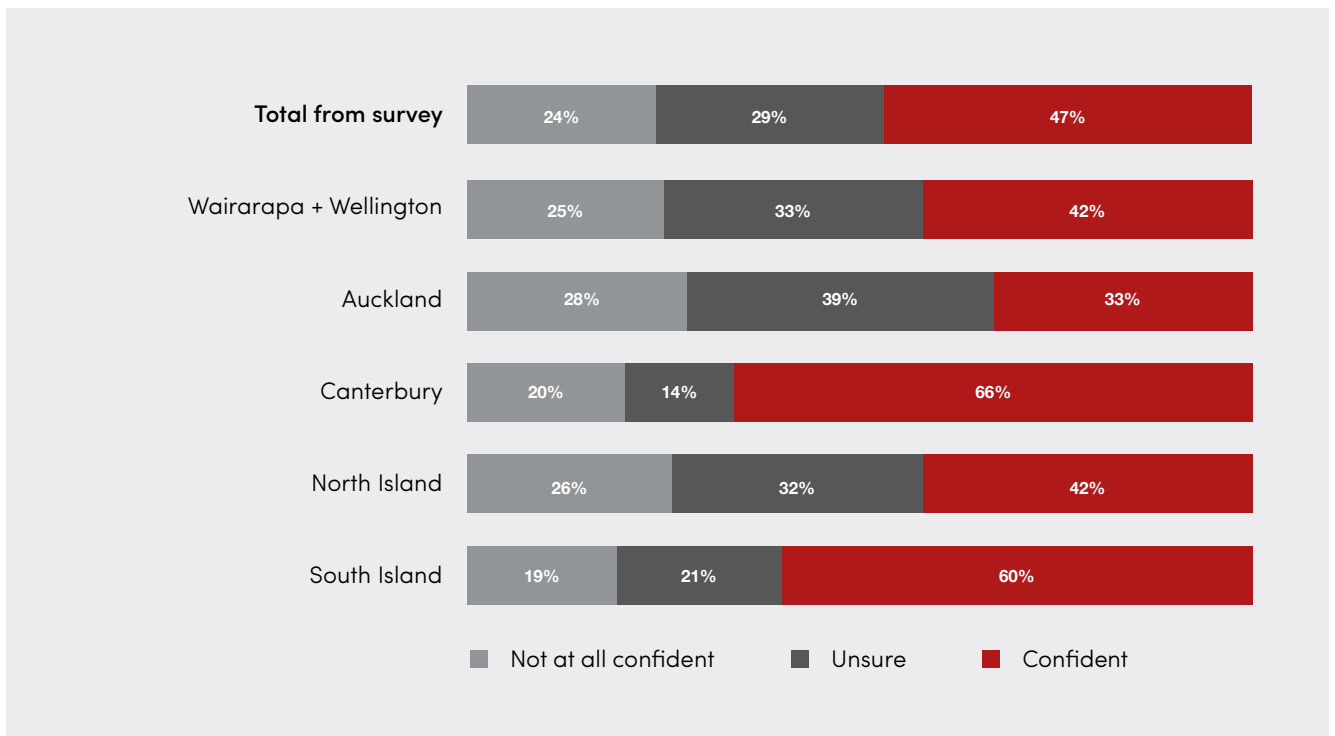
Figure 4.3: Natural disaster concern by location



So how confident are SMEs in different areas when it comes to their coverage for natural disasters? As with industries, confidence in natural disaster coverage is higher in areas which are more concerned. Specifically, 66% of Canterbury SMEs and 60% of South Island SMEs say that they feel confident about their ability to face natural disasters, compared to only 33% in Auckland and 42% in Wairarapa/Wellington (see Figure 4.4).

These higher levels of confidence amongst South Island based SMEs may reflect that experiencing significant earthquake damage has brought a focus on ensuring that they have the right cover for future events. This suggests that there may be scope for brokers to help those in other areas, such as Auckland and Wellington, to focus more on their natural disaster coverage to feel better covered for any future events.

Figure 4.4: Confidence that business is covered for natural disasters by location



What this means for brokers

- Accommodation and food service along with agriculture industries have higher levels of concern about natural disasters and high levels of confidence compared to others. Brokers have an opportunity to educate clients about the potential risks of natural disasters, particularly those in industries that have less concern and confidence.
- SMEs that understand the risks of natural disasters appear to have higher confidence that their business is covered. This suggests that educating clients on the risks of natural disasters and locking in the best cover for their business is a key area for brokers to focus on when talking with their clients.

Natural Disaster coverage by Vero

In the last two years natural disaster events have resulted in SME's lodging over 1,000 claims which equates to over \$15m paid out to SMEs to help them get their businesses back on track.

If we look at the data by location, we can see the South Island accounted for over 900, which includes the Timaru hailstorm and the North Island accounted for almost 60.

The research

This report is based on research involving 900 business owners and decision makers from around New Zealand. The research was independently* conducted using an online quantitative survey.

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

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 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

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