

Vero Issue Two
SME Insurance Index 2022

—
RENEWAL EXPERIENCES
AND SME ATTITUDES
TO RISK



Informed

Insights into small business drives new opportunities.

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Introduction

Welcome to the second issue of the 2022 Vero New Zealand SME Insurance Index.

Although risk is an inevitable part of life, business insurance is a fundamental way to successfully manage some of the risks faced by SMEs. Effectively managing business risk is not a simple task and can be difficult and confusing for time-poor SMEs. Resolving this complexity is one of the key benefits that brokers and advisers provide their clients.

By gaining insights into how SMEs make decisions about their insurance, brokers and advisers can develop a valuable understanding of their clients' needs. In particular, it is important for brokers and advisers to understand their clients' relationship to risk, and whether they are consciously accepting potential risks or unknowingly underinsuring their businesses. The aim of the Vero SME Insurance Index is to help brokers and advisers gain this

understanding, and therefore we are delighted to share more of the findings in our 6th edition.

In this second issue we shine a light on risk: what SMEs do to review their insurance at renewal time, and SMEs perceptions of insurance coverage for the risks that their business will face.

We hope that the insights uncovered are useful in helping brokers and advisers to develop communications and ways of working that deliver growth for their brokerages.

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The findings

The second issue of the 2022 Vero SME Insurance Index explores these topics in detail:

- **Renewals as an insurance moment of truth**
 - **The risk of inadequate cover and underinsurance**
-

Executive summary

This year's research results uncovered many opportunities for brokers and advisers to grow their business and this issue explores these findings:

- Over 1 in 4 broker clients are renewing their insurance without the benefit of a broker's review and advice. Female decision makers and those who are under 45 particularly often renew themselves, giving an opportunity to brokers to ensure they proactively communicate the importance of undertaking a regular review and the value of advice to these segments.
- Many direct buyers are renewing their insurance without adequate review and could potentially be at risk of underinsurance or inappropriate insurance for their needs. This is an opportunity for brokers to inform and educate direct buyers about the importance of expert advice and the value of using a broker.
- Only 1 in 5 SMEs feel completely covered for all insurable business risks, which suggests an opportunity for brokers to work with clients to help them understand the risks of underinsurance and potentially discuss the value of Business Continuity Planning with them.
- Large numbers of SMEs appear to be unconcerned when it comes to thinking about risk, with many thinking "it won't happen to me". Brokers are in an excellent position to educate clients about risks that they may not think about, and perhaps share stories and case studies of what can go wrong to minimize the numbers of SMEs who aren't thinking about their risks.



Part 1: Renewals as an insurance moment of truth

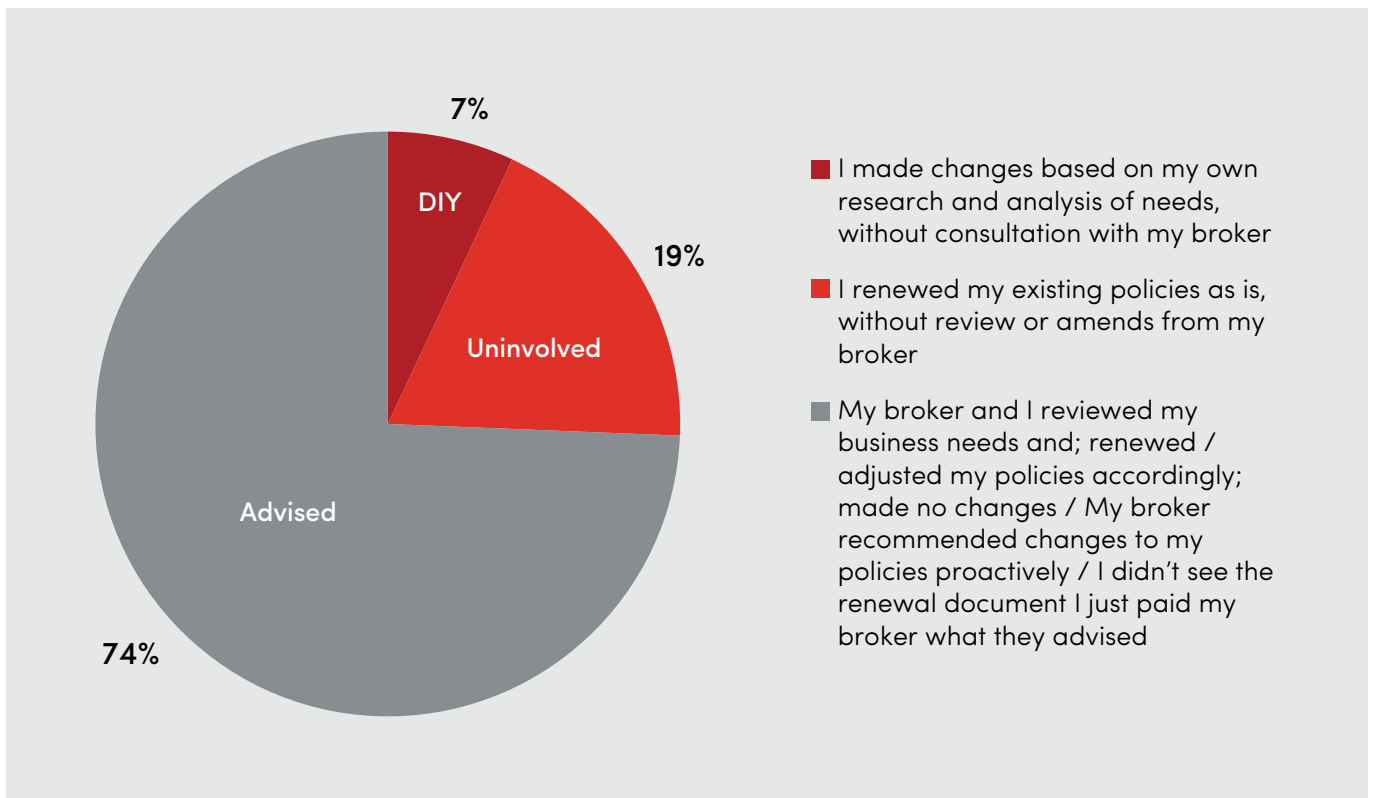
Renewals are an annual event that provide an important opportunity for businesses to review and reflect on their business changes, risks and insurance needs. But a surprising proportion of SMEs miss the chance to be actively involved with their broker or adviser during the renewal process.

Renewals are an opportunity for review

Continually reviewing and updating insurance is critically important for businesses to ensure they are appropriately covered, particularly as their businesses evolve and market conditions change, and therefore we wanted to understand the process that SMEs go through to review their insurance. So, this year we asked broker clients about their most recent renewal experience. Most broker clients appear to be benefitting from expert advice at renewal time, with 74% saying that their broker reviewed their insurance and either recommended changes or decided to keep the insurance unchanged (see Figure 1.1).

However, a further 7% did their own review, without consulting their broker and 19% simply renewed their insurance as is, with no review. This suggests that there is a substantial proportion of SME broker clients who have renewed their insurance without the benefit of their brokers expert analysis and advice. As many businesses have made changes in the last 2 years due to COVID, there may be a significant number of SMEs who haven't taken advantage of the annual renewal process to ensure that their insurance reflects any changes to business needs. Brokers could take the annual renewal of policies as an opportunity to get in touch with SME clients they haven't heard from to ensure they have the right cover for their needs and to grow the relationship.

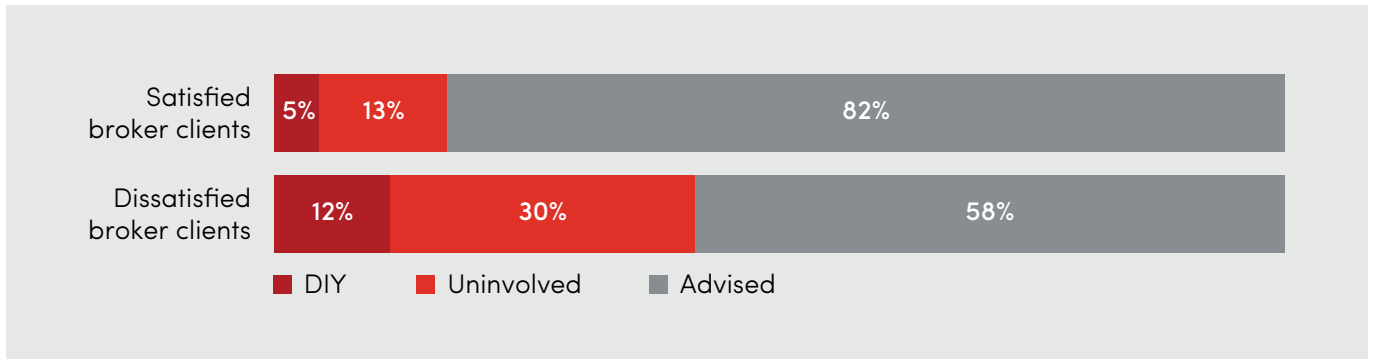
Figure 1.1: Broker clients experience last renewal



Clients who receive advice at renewal time are more satisfied with their broker or adviser

Advice at renewal time is important not only for clients, but also for brokers, as those broker clients who were provided advice show they are significantly more satisfied than those who didn't (see Figure 1.2). Renewals are a key opportunity for brokers to demonstrate their value and expertise by reviewing SMEs business activities and risks, noting where changes have been made, and then making the required updates to the insurance cover.

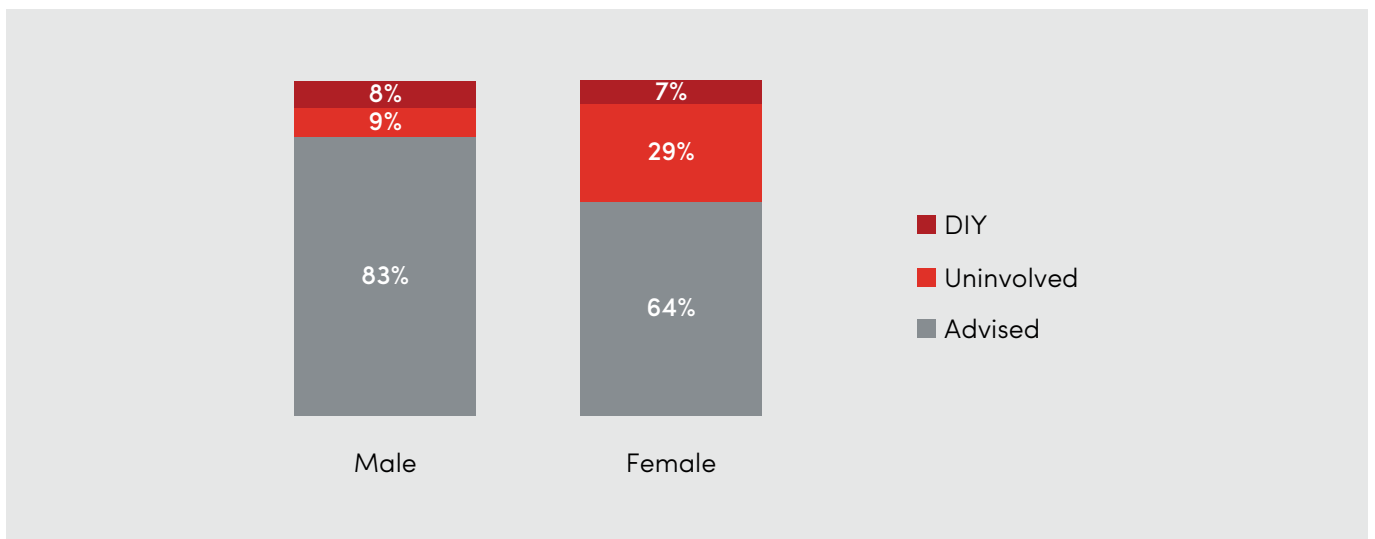
Figure 1.2: Broker clients experience last renewal by broker satisfaction



Renewal advice levels vary by demographic

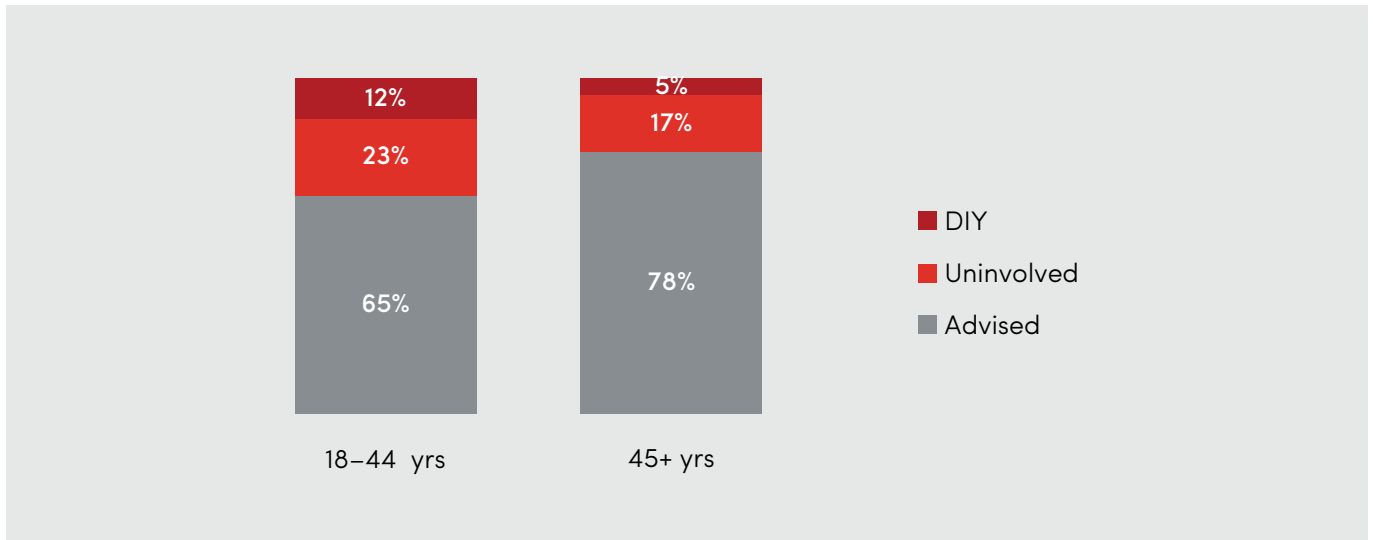
Renewal without advice is more common amongst three key groups of broker clients – females, younger SMEs and businesses who use a mix of broker and direct channels to buy their insurance. Only 64% of female SMEs renewed their insurance with advice from a broker, compared with 83% of males, and 29% simply let their insurance roll over without review compared to only 9% of males (see Figure 1.3).

Figure 1.3: Broker clients experience last renewal by gender



Similarly, only 65% of younger SMEs received advice when renewing compared to 78% of those 45 years and over. 23% of younger SMEs let their insurance roll over compared to 17% of older SMEs and 12% did their own review compared to only 5% of older SMEs (see Figure 1.4).

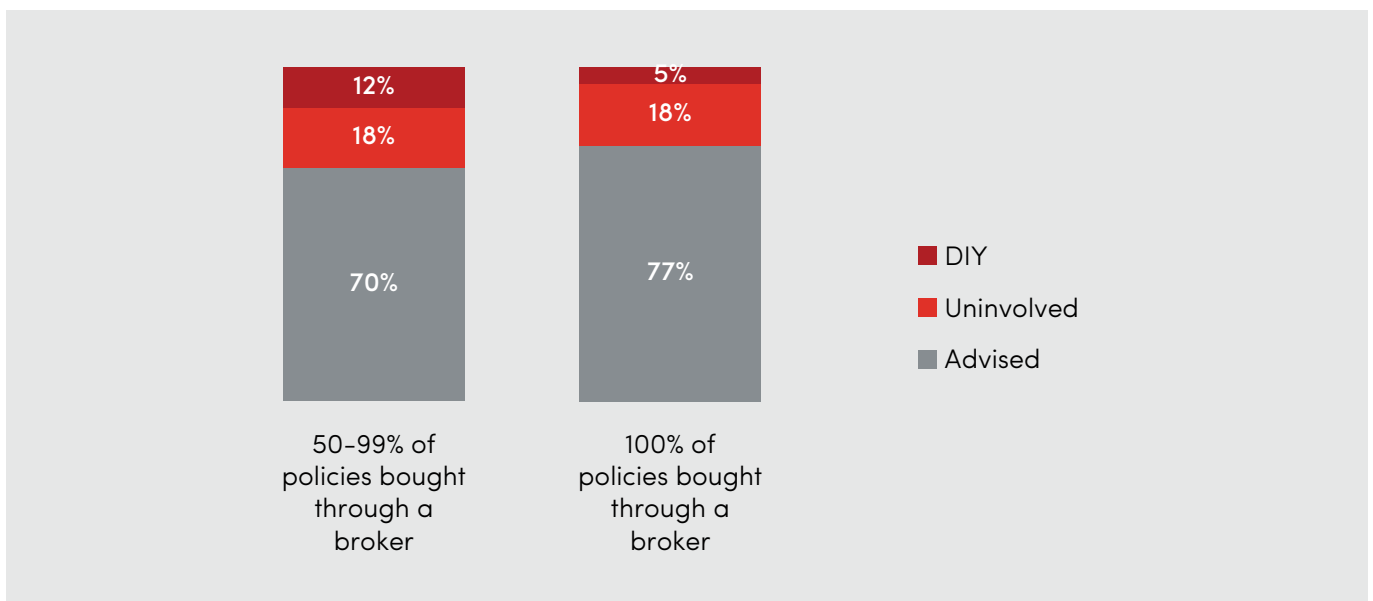
Figure 1.4: Broker clients experience last renewal by age



Brokers may need to consider employing different renewal strategies to their general client base to engage females and younger clients at renewal time to ensure they understand the benefits of regular insurance reviews and advice, as well as the potential implications of not conducting reviews. This is particularly important given the high levels of change many businesses have undergone during the last two years due to the COVID pandemic.

SMEs who use a mix of channels to buy their insurance (mixed broker users) are also less likely to be advised, with only 70% of those who buy between 50% and 99% of their insurance through a broker getting advice at renewal time (see Figure 1.5). This suggests an opportunity exists for brokers to highlight the risks of DIY insurance reviews to mixed broker users to persuade them to buy more of their insurance through a broker.

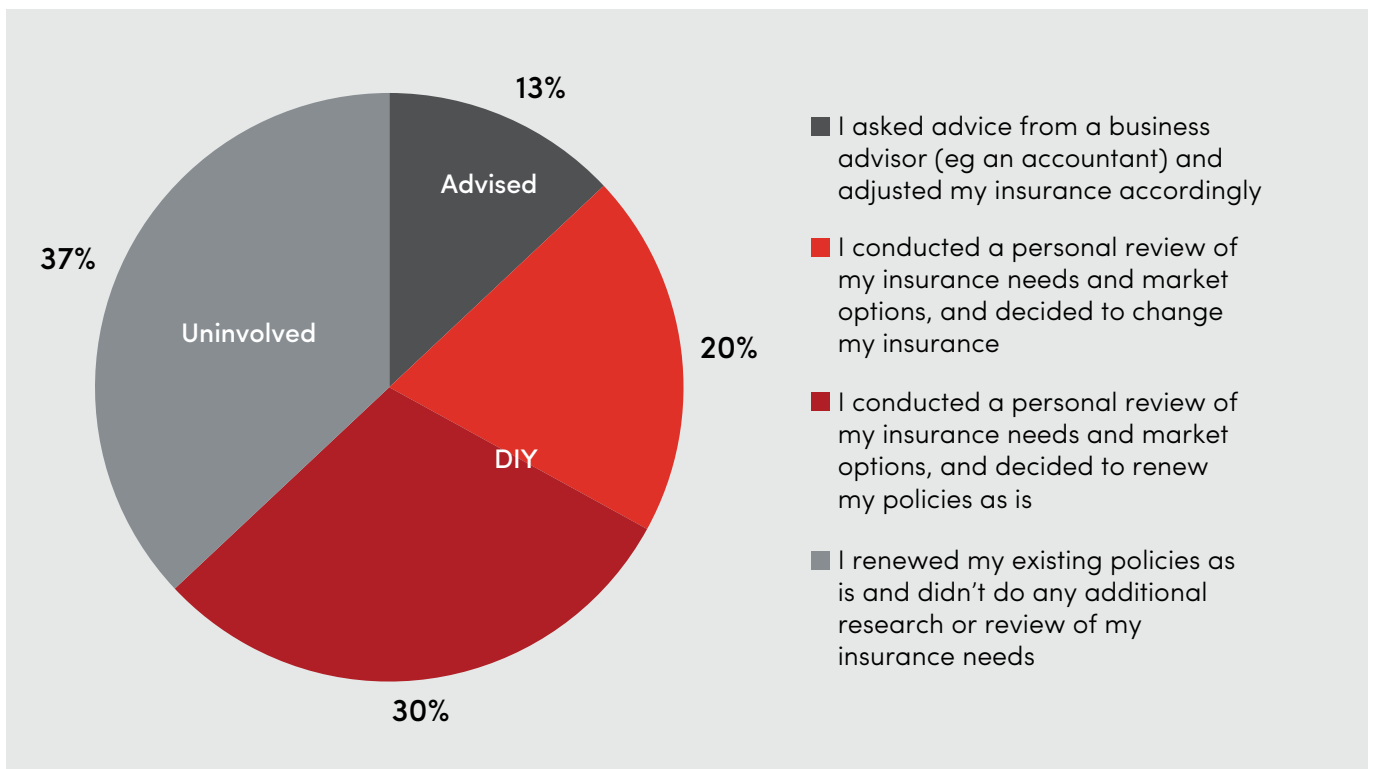
Figure 1.5: Broker clients experience last renewal by % of policies bought through broker



Many direct buyers renew their insurance without review

While broker clients have access to an expert adviser to help them review their insurance, what happens to those direct buyers without the same level of advice? Our data shows that over a third, or 37%, of direct buyers are simply renewing their insurance as is with no review (see Figure 1.6). Half conduct their own review and research at renewal time, while 13% seek advice from other business advisors such as accountants. This highlights that many direct buyers could be at risk of underinsurance or inappropriate insurance for their needs without the benefit of expert analysis and review, particularly in a time of significant change.

Figure 1.6: Direct buyers experience last renewal



What this means for brokers and advisers

- Over 1 in 4 broker clients are renewing their insurance without the benefit of a broker's review and advice. Female decision makers and those who are under 45 particularly often renew themselves, giving an opportunity to brokers to ensure they proactively communicate the importance of undertaking a regular review and the value of advice to these segments.
- Many direct buyers are renewing their insurance without adequate review and could potentially be at risk of underinsurance or inappropriate insurance for their needs. This is an opportunity for brokers to inform and educate direct buyers about the importance of expert advice and the value of using a broker.

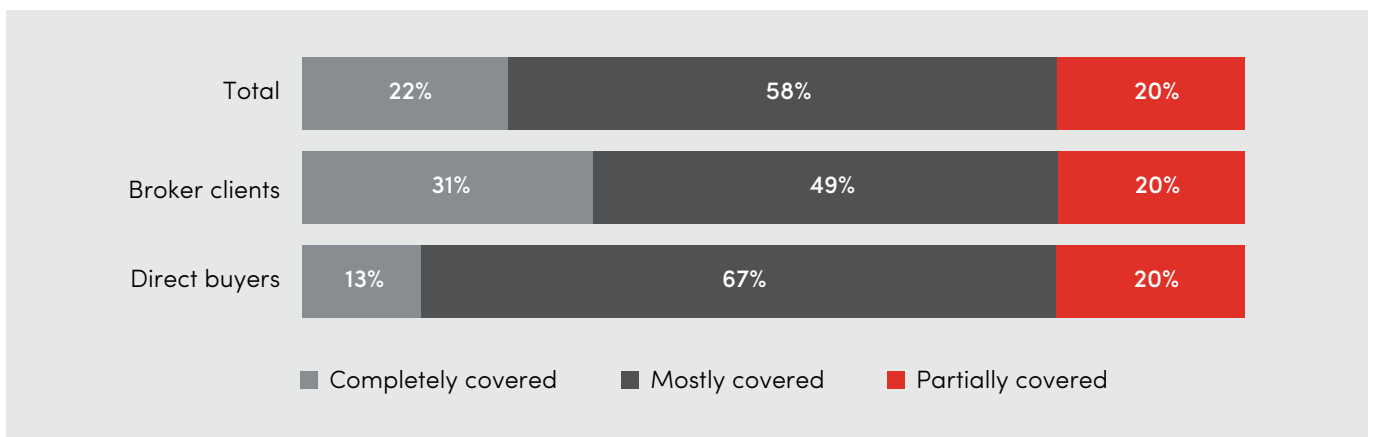


Part 2: The risk of inadequate cover and underinsurance

As business owners grapple with uncertainty, brokers and advisers have a unique opportunity to deliver expert, informed advice and to reinforce their role as risk advisers. In a series of new questions in the Vero New Zealand SME Insurance Index, we shine a light on risk: how completely do SMEs think they are covered by their insurance and what would they do if they experienced a major negative event for which they weren't insured?

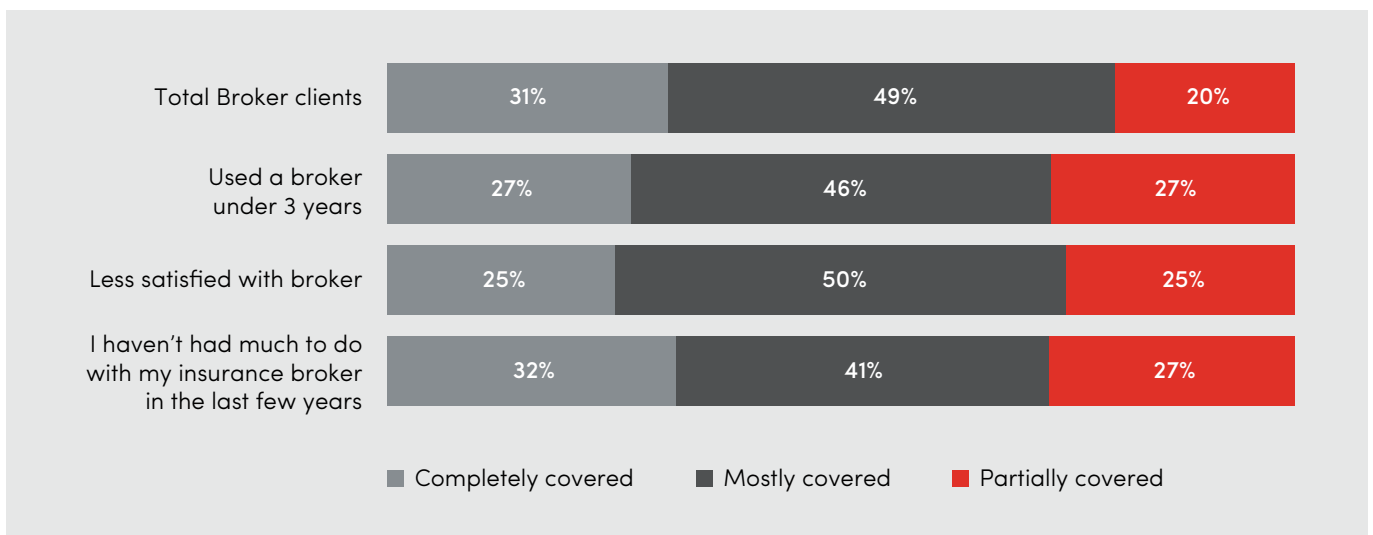
SMEs perceived coverage levels

To uncover SMEs' understanding in this area, this year we asked what their perceived cover levels are for their insurable business risks. 22% of respondents think that they are completely covered, while 58% say that they are mostly covered and 20% admit to only being partially covered (see Figure 2.1). Importantly, broker clients are far more confident, with 31% saying that they are completely covered compared to only 13% of direct buyers. This suggests that broker usage tends to lead to better coverage and greater peace of mind for clients. However, while brokers can point to the greater confidence they instil for many clients, there are also opportunities to improve perceived cover levels for the 20% of broker clients who think they are only partially covered.



In particular, the research identified certain types of broker clients who are more likely to think that they are only partially covered. These include 27% of newer broker clients (used a broker for under 3 years), 25% for those who are less satisfied with their broker and 32% of those who haven't had much to do with their broker in recent years perceiving themselves as only partially covered (see Figure 2.2).

Figure 2.2: Perceptions of coverage levels by different broker client groups

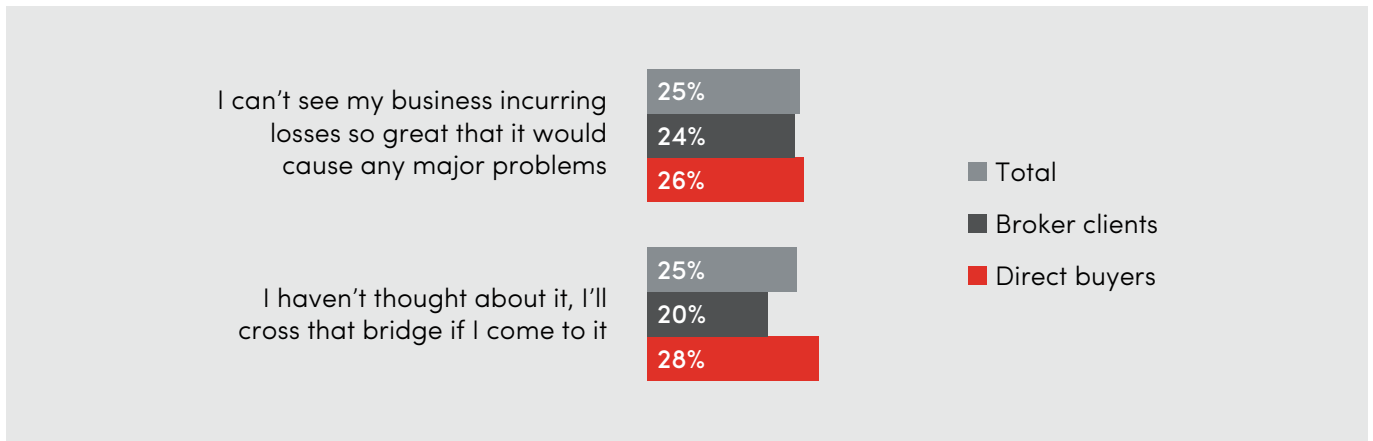


SMEs accepting risk of self-insurance

The fact that a majority of SMEs consider themselves to be either mostly or partially covered suggests a degree of conscious risk acceptance amongst SMEs. To understand the extent to which these SMEs have thought through the consequences of this risk acceptance, we asked respondents what they would do if their business experienced a major negative incident for which they weren't insured.

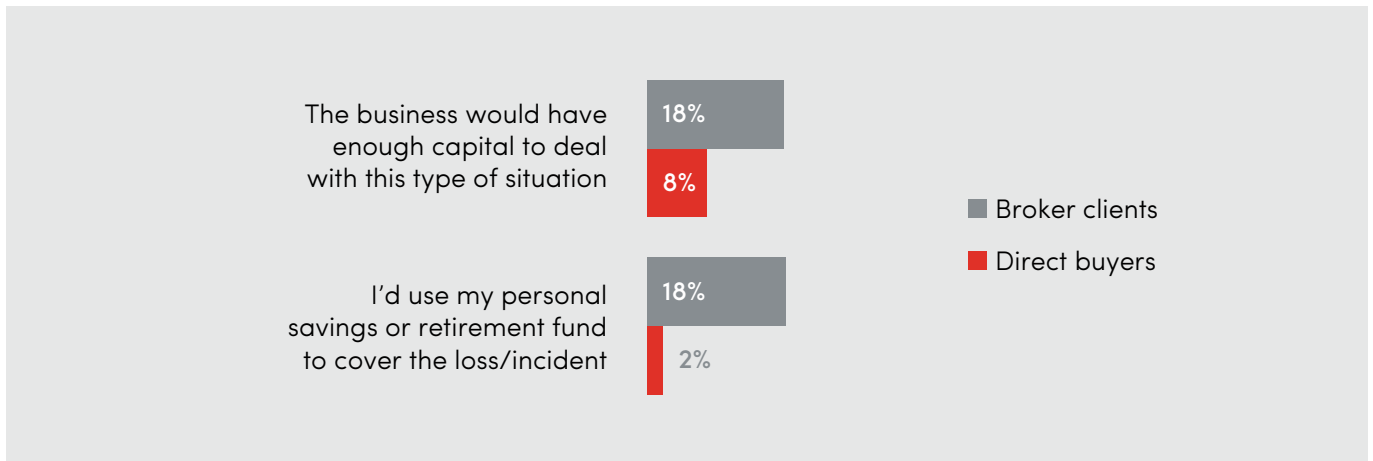
The findings uncovered a high degree of complacency, with over a quarter of mostly or partially covered SMEs indicating they don't have a plan if the worst was to happen. 25% do not believe their business would incur losses that would cause a problem, while 25% said that they simply hadn't thought about it (see Figure 2.3). Surprisingly, broker clients are just as likely as direct buyers to say that they don't think they would incur losses, suggesting an opportunity for brokers to ensure that clients understand the potential consequences of underinsurance. However, only 20% of broker clients say that they just hadn't thought about it compared to 28% of direct clients, demonstrating the benefit of broker advice to provide greater reflection of risk.

Figure 2.3: Plans for insurance incident if not completely covered



Of course, self-insurance may be a reasonable and conscious decision for businesses who report being only partially covered, especially those with high levels of capital, and a higher number of broker clients say that they would be able to cover potential losses. 18% of broker clients who report being only partially covered, say they would have enough capital to deal with this type of situation, compared to only 8% of direct buyers. A further 18% of broker clients say they would use personal savings or investments compared to just 2% of direct buyers (see Figure 2.4). This suggests a higher level of planning and may reflect a more considered approach made in conjunction with the expert advice of a broker.

Figure 2.4: Self-insurance plans for insurance incident if only partially covered



What this means for brokers and advisers

- Only 1 in 5 SMEs feel completely covered for all insurable business risks, which suggests an opportunity for brokers to work with clients to help them understand the risks of underinsurance and potentially discuss the value of Business Continuity Planning with them.
- Large numbers of SMEs appear to be unconcerned when it comes to thinking about risk, with many thinking “it won’t happen to me”. Brokers are in an excellent position to educate clients about risks that they may not think about, and perhaps share stories and case studies of what can go wrong to minimize the numbers of SMEs who aren’t thinking about their risks.



The Vero Risk Profiler is a tool designed for brokers and advisers by Vero’s Risk Management specialists and provides a wealth of information on typical business risks including claims stats, guides, checklists and in-depth information on high-risk activity according to business category and risk type. You can find the Risk Profiler at vero.co.nz/risk-profiler

The research

This issue is based on research involving 638 business owners and decision makers from around New Zealand. The research was independently* conducted using an online quantitative survey.

The survey was conducted during December 2021 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 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

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