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# Introduction

This, the first report of the Vero SME Insurance Index in New Zealand, paints a picture of the insurance landscape for this segment today. How are Kiwi SMEs buying insurance? What do they want from their broker relationship? What worries them most as business owners, and do they have the protection strategies to cover it?

## Overview/At a glance

- Small to medium businesses (SMEs) have fewer than 20 employees
- 97% of all businesses in New Zealand are SMEs
- Insights on this report are based on over 1,000 SMEs surveyed

## The small to medium sized business (SME) sector is a significant growth engine for the New Zealand economy and a major audience for the insurance industry.

It is a diverse, complex and dynamic sector, and as our economy comes to terms with the changes, understanding the attitudes of this important business group has never been more critical. According to the Ministry of Business, Innovation & Employment's 'The Small Business Sector Report 2016', 97% of businesses in New Zealand are SMEs with fewer than 20 employees. The estimated contribution to GDP of SMEs is \$57,163 million.

While brokers and advisers know their own clients better than anyone else, there is value in individual brokers and advisers gaining a broader view of the dynamics of the sector and the trends, issues and attitudes existing in SMEs. For brokers and advisers to plan for the future, it is important for them to understand this critical sector comprehensively – how it is thinking, behaving and changing – and what role both insurance and their broker partners can play in this evolving environment.

This is why Vero has developed the Vero SME Insurance Index. The research is designed to identify insights and shed light on the challenges and opportunities presented by SMEs – defined here as businesses employing less than 20 people. It looks at the attitudes and needs of those who make decisions concerning insurance for SMEs and their responses to the broader economic and business environment.

In the course of this research, we interviewed over 1000 SMEs and decision makers across the country – a highly diverse and representative mix of businesses from metro and rural, young and old, male and female, in every region and across a large range of industry sectors.

Underpinning these results are over 1000 individual business stories, highlighting that no two businesses are the same. Each owner and decision maker is driven by their own unique history, ambitions, conditions and attitudes to insurance. We have synthesised these stories into a series of insights about SMEs which will be shared with the insurance community over the next few months.

During the year, we will release a series of reports that will dive deeper into specific issues, including:

- an in-depth analysis of younger SMEs
- an exploration of what makes some broker and adviser SMEs dissatisfied
- a snapshot of the attitudes and needs of the larger end of our spectrum – businesses with more than five employees.

The results of our inaugural Vero SME Insurance Index confirm, challenge and illustrate some widely held views on the direction the insurance industry is following. The Vero SME Insurance Index presents a picture of how SME decision makers view the value proposition that brokers provide and defines a set of strategic challenges for the industry moving forward.

The insights in this report will help build a deeper understanding of commercial insurance for SMEs in New Zealand. By understanding how SMEs approach insurance, we will have a more meaningful perspective of the changes, challenges and risks facing the commercial insurance industry and will be better equipped to meet them head on.

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# The findings

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This inaugural report of the Vero SME Insurance Index focusses on the general market landscape, including:

- insurance purchase behaviour
  - broker satisfaction
  - reasons for using a broker
  - broker relationships
  - barriers to using a broker
  - current business concerns
- 

Later, we will explore three further findings centered around the following themes:

**1** Younger SMEs

**2** Reasons for broker dissatisfaction

**3** Businesses employing less than five employees





# THE INSURANCE PURCHASING LANDSCAPE

**For the majority of New Zealand SMEs with six or more employees, purchasing insurance through an insurance broker is still the norm.**



# The insurance purchasing landscape

**The research shows, SMEs are a diverse group, and their purchase behaviours vary significantly. Business size is the most notable driver of difference. The general trend appears to be that the larger the business, the more likely they are to buy their insurance through a broker or adviser.**

## Business size is a factor

Using a brokers is most prevalent among SMEs with more than six employees (69%). (See figure 1 opposite.)

## Location is a factor

Location is another factor that appears to impact insurance purchasing behaviour. Only 53% of regional SMEs claim to buy their insurance through a broker, which is significantly less than their peers in major metropolitan centres, 59% told us they use a broker. (See figure 2 opposite.)

## Age and gender are not factors

Conversely, age and gender appear to have little influence on a business' insurance purchasing behaviour, with no significant differences apparent between either group.

## Type of industry is not a factor

In general, the industry a business operates in makes little difference to its likelihood of using a broker. The two exceptions are agriculture, farming, forestry and fishing, who are less likely to use brokers (35%) (most likely due to the prevalence of using mutual insurance company FMG in this industry) and professional, finance, administration and media who are more likely to use brokers (65%).

## What a typical broker SME customer looks like

- Owns a larger business
- Has a degree / masters / diploma
- Works in professional / finance / administration or media (and less likely to work in agriculture, farming, forestry or fishing)
- Has more insurance overall (on average).

Given that brokers and advisers have long been considered to be the standard insurance purchase channel for businesses in New Zealand, the fact that a third of SMEs claim to buy their insurance direct may come as a surprise to many in the industry. When looking at this data, there are a number of factors to keep in mind.

First of all, this study reports claimed behaviour. This means that the results reflect what SMEs think they do, rather than what they actually do. So, for example, 17% of SMEs believe that their broker underwrites their insurance, and therefore believe that they buy their insurance direct. Conversely, a SME with a close relationship with an insurance agent may believe they deal with a broker or adviser. This means that there may be some small discrepancies between actual and claimed behaviour.

Another factor to consider is international context. Worldwide, the trend towards disintermediation is accelerating, driven partly by the increasing popularity of online channels. For example, the equivalent to this study in Australia, which has been running for several years, has found that the current rate of broker and adviser usage is just 30% which represents a significant decrease from 50% four years ago. Similar trends can be seen in other comparable markets such as the United Kingdom and Canada.

Importantly, it is the trend that is most important. The Vero SME Insurance Index aims to track the movement of broker and adviser usage and therefore the current reported rate of broker and adviser usage is an important benchmark to follow in years to come.



Figure 1: Where SMEs purchased their business insurance – by business size

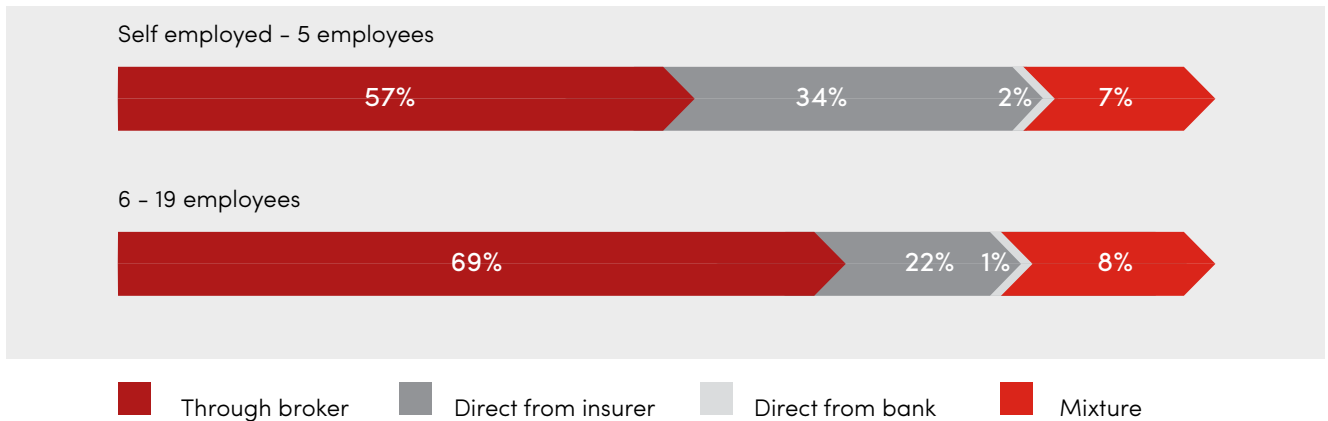
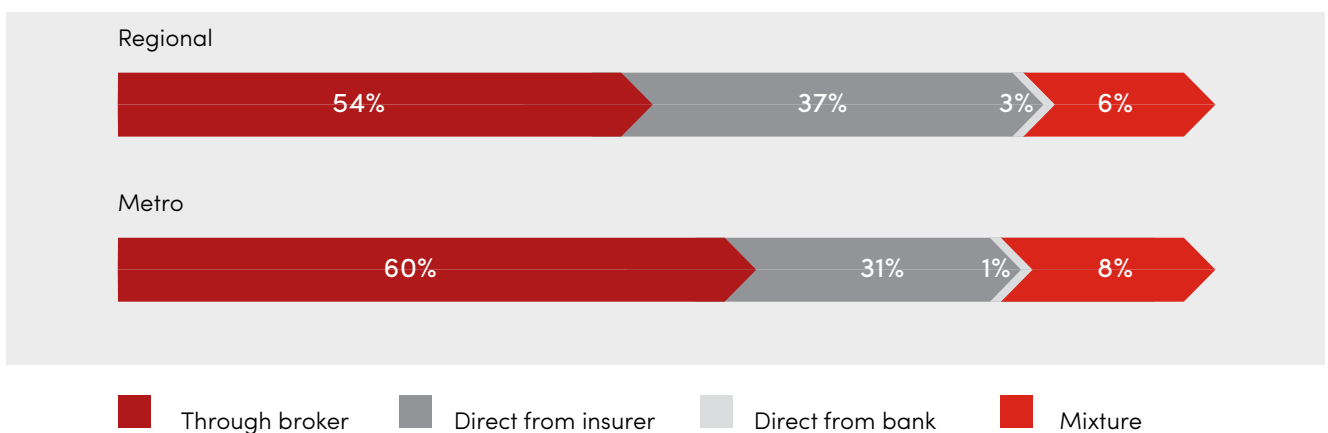


Figure 2: Where SMEs purchased their business insurance – by business location



### Things for brokers and advisers to consider

- Brokers and advisers are still the main way for SMEs with six or more employees to buy their insurance in New Zealand. This indicates there's an opportunity for brokers and advisers to be more targeted in the SME market.
- While direct purchase, especially via online channels, is still very low, international trends suggest that this will change and that brokers and advisers need to prepare for this to change in years to come.
- Australian broker usage by SMEs appears to have been significantly impacted by the rise of online purchase over the last few years and New Zealand brokers should prepare for similar trends.
- Brokers and advisers need to think about building relationships and being a trusted adviser rather than falling into more transactional business relationships, in order to guard against similar decline in broker usage.





# UNDERSTANDING BROKER RELATIONSHIPS

**The research has uncovered that relationships with brokers and advisers are central to the way SMEs protect their businesses in New Zealand, and therefore understanding how these relationships work is critical.**



# Understanding broker relationships

**We know that the majority of SMEs with six or more employees use a broker or adviser to purchase their insurance, but given that the international trend is for declining use of intermediaries, what reasons do Kiwi business owners give for working with brokers and advisers?**

## Benefits of using a broker

The single biggest reason cited is **time saving** – 58% of broker and adviser customers say that using a broker saves them time so they can focus on their business. We know that most small business owners are time-poor, so this is a very potent, relevant and material benefit. This is followed by 53% of broker and adviser SMEs saying that they trust **their broker to get the right insurance at the right price**. (See figure 3, opposite.)

Clearly there are many varying reasons to use a broker or adviser, and when clustered together, reasons connected to delivering service and expertise come out strongly. For example, 45% say they use a broker or adviser because their broker provides **expert knowledge** and advice, while 41% say their broker or adviser **provides them with great service**. (See figure 3, opposite.)

**Emotional assurance** also plays a role, 39% claim to value the peace of mind that their broker is providing the correct insurance, while 37% appreciate that their broker **knows and understand their business needs**.

## Price vs value of recommendation

Price is always an important factor, particularly for SMEs with six or more employees watching their cash flow; but it appears that value is more important than getting the cheapest possible insurance for most. Only 22% say that they use a broker because their broker gets them cheaper prices.

## Broker and adviser tasks important to SMEs

Brokers and advisers undertake a wide range of activities on their clients' behalf. While some of these tasks are rated by respondents as more important than others, most activities are valued by a significant number of broker and adviser SMEs. Our survey asks SMEs what tasks are important to them and what tasks their broker or adviser actually does for them. Gratifyingly, there is little obvious gap – most brokers and advisers are doing the tasks that are most important to their clients. (See figure 4, page 12.) The single most important task, as nominated by 64% of SMEs, is advocating on their behalf to insurance companies, with 60% also putting importance on managing the claims process, both of which suggest that the personal support provided by brokers is highly valued.

## SME satisfaction

Broking is seen primarily as a service, and therefore the satisfaction levels of broker and adviser SMEs are an important indicator of the industry's strength. **The majority of New Zealand broker clients appear to be satisfied**, with over half scoring their broker at least eight out of 10 or higher. More concerningly however, over a quarter claim to be dissatisfied, and almost a fifth are indifferent. While these high levels of ambivalence are sustainable in a static environment, there could be considerable risk that these clients will be the first to be tempted to alternative channels as they become more widely available. (See figure 5, page 12.)

## Types of relationships

Relationships are at the core of the insurance broker offer. To better understand the types of relationships that SMEs have with their brokers we asked them to choose a statement to describe the relationship they have with their broker. We then grouped these into three different types of relationships:

### DELEGATED

- My broker makes all the decisions about my business insurance.
- My broker presents a recommendation and I usually choose that.

### PARTNERSHIP

- My broker presents me with some choices and we make the decisions together.

### DISTANT

- My broker gets me quotes, but I still do all the work.
- I haven't had much to do with my insurance broker in the last few years.

*“You know you're talking to someone who's well versed in the industry who can then understand your business.”*

*Broker and adviser customer, Software start up*

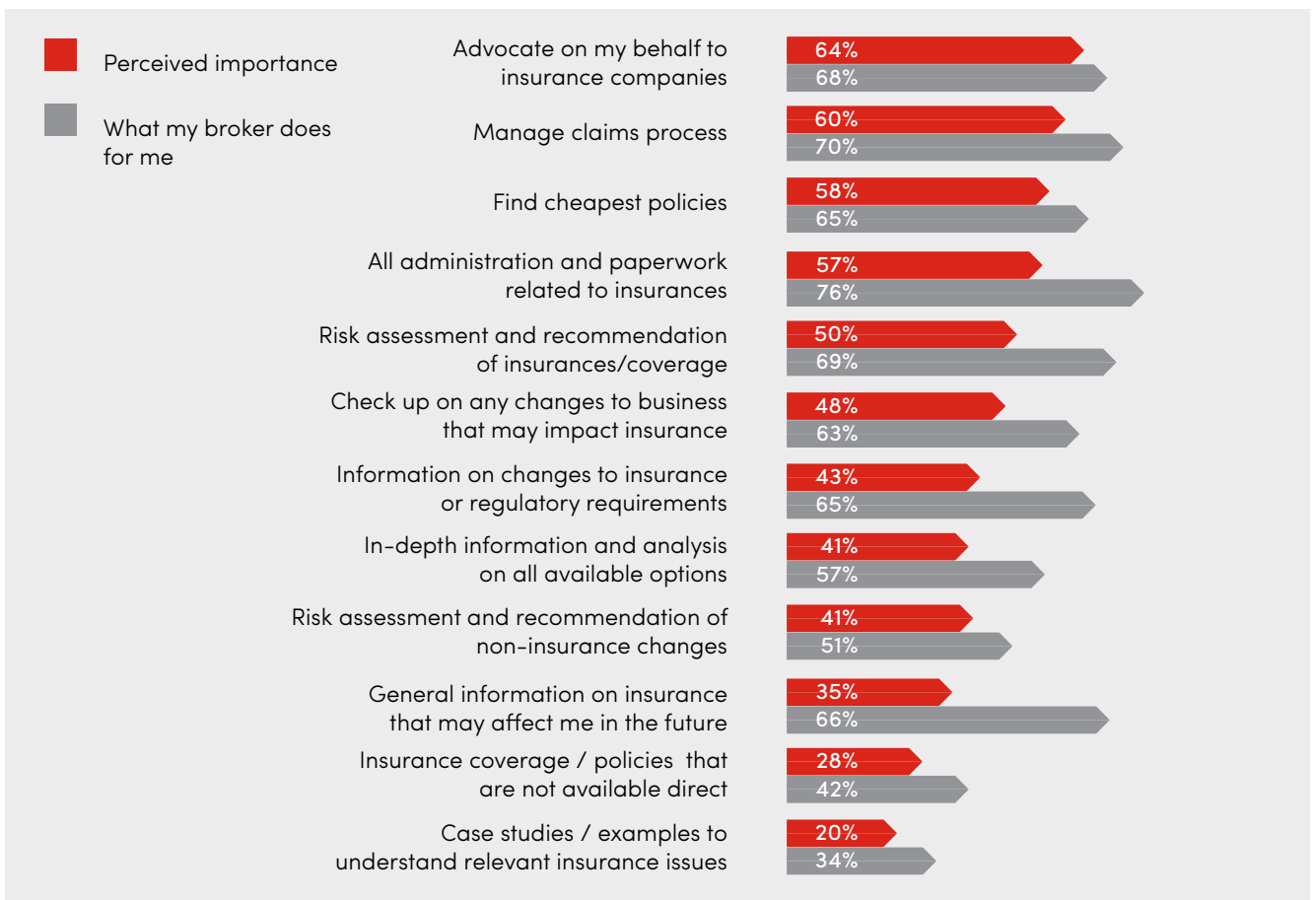
**Figure 3: Broker and adviser customers – reasons for working with current broker or adviser**

Service & Understanding 62% net	
41%	Broker or adviser provides me with great service
37%	Broker knows and understands my business needs
35%	Service personalised to my needs
26%	Have someone on my side
Time 47% net	
58%	Saves me time so I can focus on my business
23%	Claims are resolved faster
Expertise 46% net	
45%	Broker provides expert knowledge and advice
39%	Peace of mind that my broker provides the correct insurance
23%	Broker keeps me proactively updated
20%	Access to better policy wording
Price 41% net	
53%	Trust my broker or adviser to get the right insurance at the right price
22%	I get cheaper prices using a broker

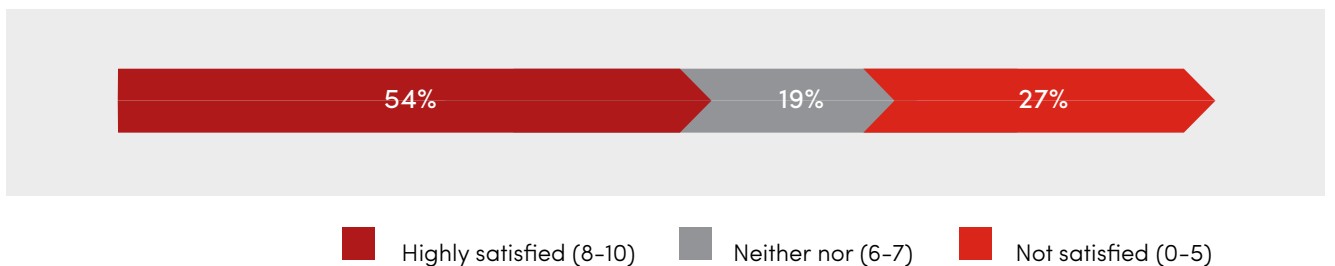
“The personal connection with them, rather than ringing a call centre and speaking to whoever’s on duty at that time.”

*Broker and adviser customer, Computer sales and service*

**Figure 4: Broker and adviser SMEs – what brokers and advisers currently do compared to what SMEs consider extremely important**



**Figure 5: Broker and adviser SMEs – overall satisfaction**





**While different SMEs obviously have different needs, customer service best practice would suggest that partnership relationships are the healthiest and what most service / advisory businesses should be aiming for in 2017.**

### Relationship type and SME satisfaction

The research suggests SMEs with six or more employees, male business owners and decision makers and regional SMEs have the highest proportion of 'partnership style' relationships with their broker or adviser. Older business owners are significantly more likely to delegate decision making to their broker or adviser, and thus have a more passive relationship. Younger, metro and female business owners are more likely to have more distant relationships. (See figure 6, page 14.)

SMEs that describe a partnership style relationship with their broker or adviser were most satisfied.

### Importance of regular contact

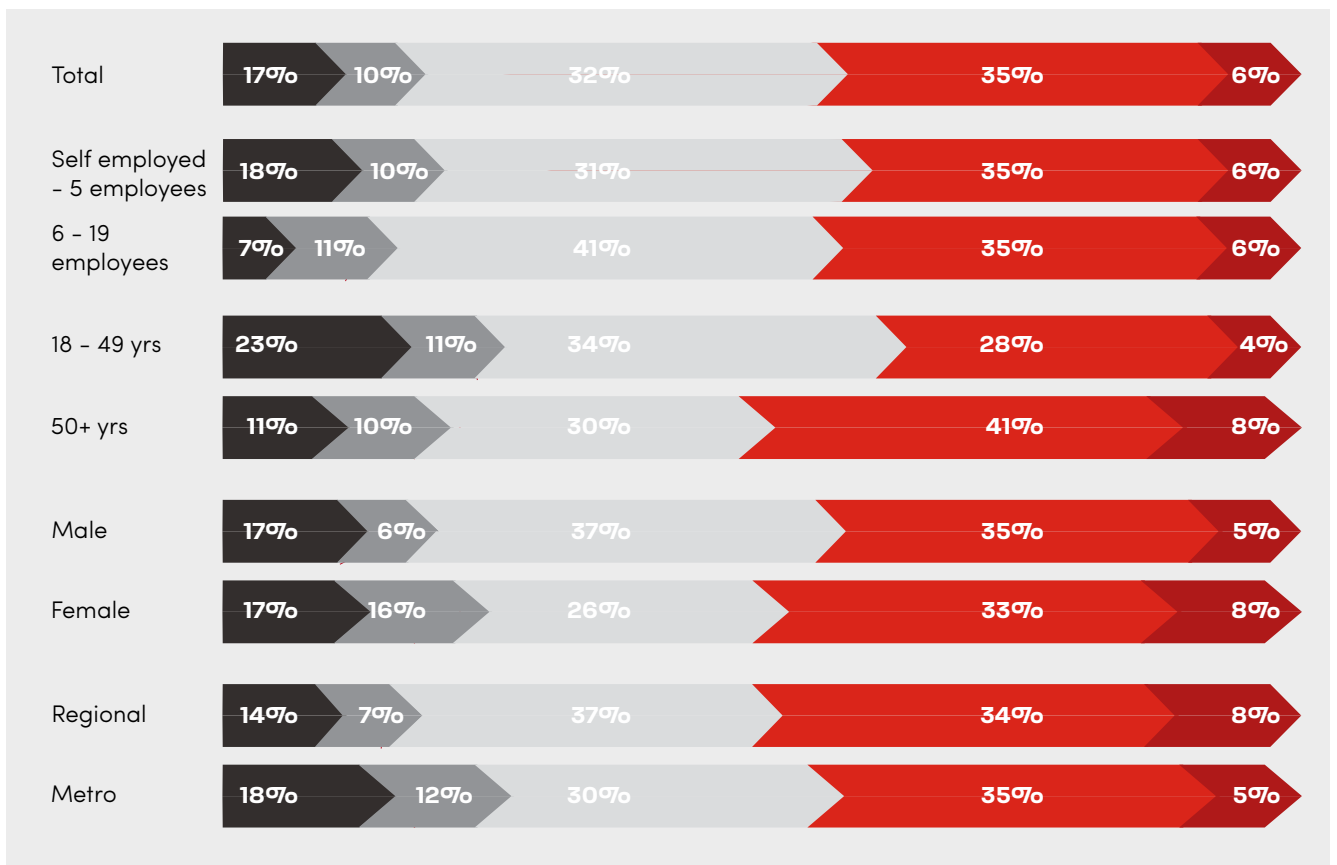
Dedicated personal contact is one of the major differentiators between buying insurance direct or through a broker or adviser. This contact has the ability to make a big difference to the quality of broker and adviser SME relationships because it allows brokers and advisers to understand their SMEs' businesses, demonstrate their expertise and ultimately build trust and loyalty.

Broker and adviser SMEs have told us that they would **like more contact with their broker**. Specifically, 60% of SMEs say that they would like to hear from their broker or adviser at least two to three times a year, but in reality only 45% hear from their broker or adviser that frequently. (See figure 7, page 15.)

**“Establishing relationships when you’re a smaller business is always nice because then you know that someone’s sort of fighting your battles for you and giving you honest advice.”**

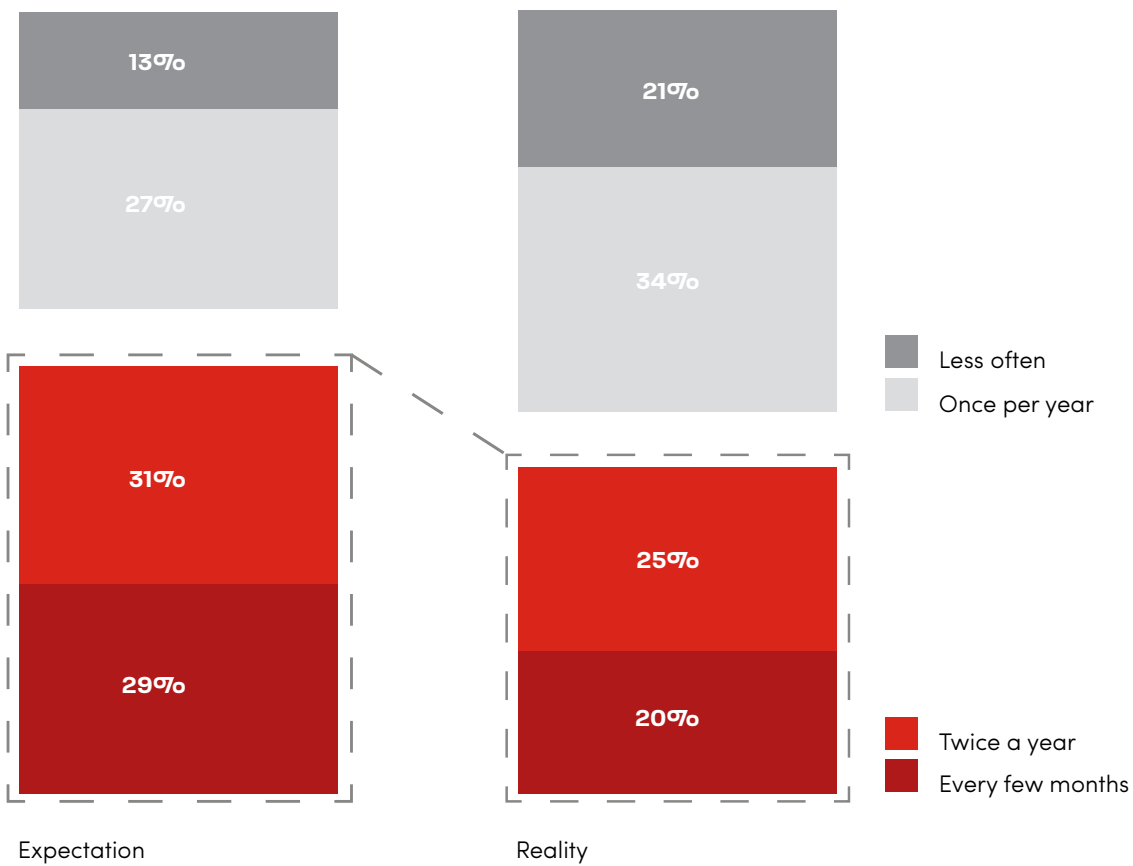
*Broker and adviser customer, Footwear designer*

Figure 6: Broker and adviser customers – relationship with broker or adviser



- I haven't had much to do with my insurance broker in the last few years
- My broker gets me quotes, but I still do all the work
- My broker presents me with some choices and we make the decisions together
- My broker presents a recommendation and I usually choose that
- My broker makes all the decisions about my business insurance

Figure 7: Broker and adviser customers – contact frequency expectations vs. reality



“He seems to be pretty regular with checking in and seeing how I’m running. I don’t ever feel like it’s a sales thing.”

*Broker and adviser customer, Hairdresser*



### Contact frequency by length of use

Importantly for brokers and advisers, it is newer SMEs who require the most frequent attention. 70% of SMEs who have been with their broker for less than three years would like to hear from their broker at least twice a year, compared to 60% of those who have been with their broker for over three years. (See figure 8, below.)

Despite the majority of businesses preferring to hear from their broker two to three times per year, 22% of SMEs only hear from their broker less than once a year or never. (See figure 8, below.) A deeper analysis of SMEs who report hearing from their broker

less often than they would prefer shows that they are considerably more dissatisfied than most broker SMEs. (See figure 9, opposite.)

### Information relevant to SMEs

When SMEs hear from their broker, they are particularly interested in industry or occupation related information, as well as information on protecting their business and mitigating risk. Insurance product related information is of less interest.

When thinking about the relationships SMEs have with their brokers, it is worth bearing in mind that many business owners have minimal understanding of

how insurance works. As an example, almost one in five business owners thinks that their broker underwrites their insurance! (See figure 10, opposite.) The more brokers can help their SMEs understand insurance, the better the relationship is valued and the stronger the industry will be.

**Figure 8: Broker and adviser customers – contact frequency expectations by length of broker use**

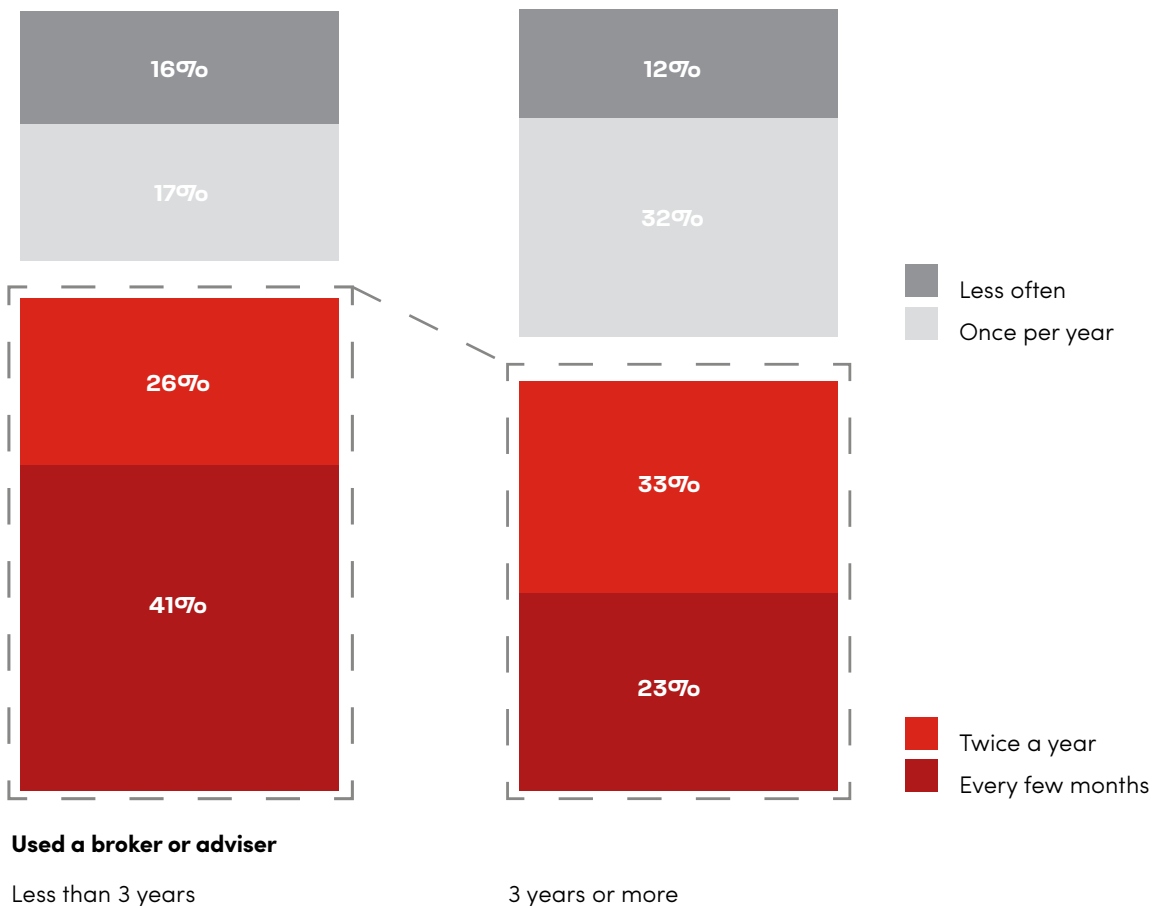


Figure 9: Broker and adviser customers – overall satisfaction by contact frequency

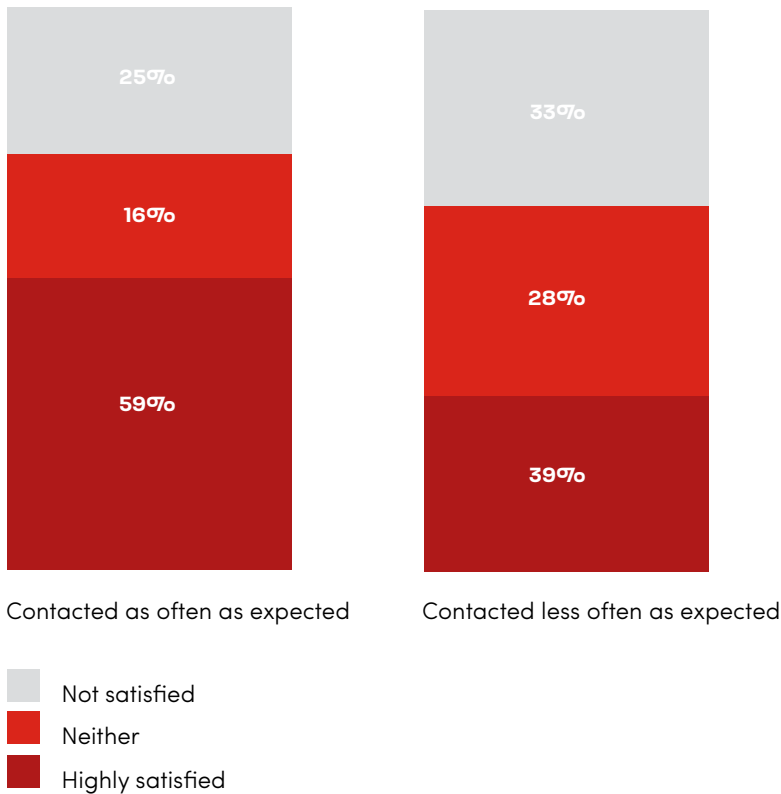
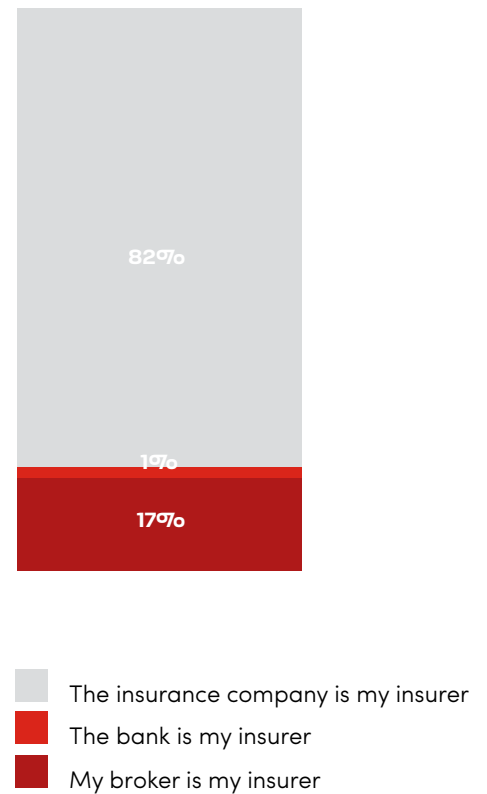


Figure 10: Broker and adviser SMEs – who they regard as their main insurer



### Things for brokers to consider

- Relationships are at the core of the insurance broker and adviser offer. While different SMEs have different needs, partnership relationships appear to be the healthiest in terms of what brokers and advisers should be aiming for. This is because SMEs that have a partnership style relationship with their broker or adviser were the most satisfied.
  - In particular, partnership relationships have resonated with SMEs with six or more employees. This suggests a targeted approach to building relationships.
- SMEs appreciate brokers having a deep understanding of their business, recommending personalised insurance at the right price, providing expert knowledge and advice and the time saving benefits that brokers give them. If brokers and advisers focus on these benefits they can ensure that SMEs understand the value proposition of using a broker.
- What can brokers do to improve satisfaction levels?
  - Particularly for the changing dynamic of younger business owners understanding the needs of younger business owners is critical, and we will focus on this group later in our series of reports.
  - In the meantime ...stay in contact! The research shows there’s a correlation between the number of times SMEs are contacted and satisfaction. The more they are contacted, the more satisfied SMEs are. Most SMEs want to hear from their broker a few times per year, even if it’s just to check in and see if anything’s changed in their business. This also provides a platform for better understanding the SMEs’ business (also seen as a strength).
- Industry or occupation related information, information on protecting their business and mitigating risk are all areas of interest for SMEs in regards to what they want to hear from their broker.







# BUSINESS CONCERNS

With a multitude of business concerns prevalent for all New Zealand SMEs, our research unearths what keeps them awake at night, and, the role insurance can play.

# Business concerns

**There are a multitude of things that SMEs and decision makers can worry about however, which are the ones most likely to keep them awake at night? In order to explore this in more detail, we asked our respondents about the current business risks that concern them the most. (See figure 11, opposite.)**

The biggest concern is being unable to trade for a long period of time, with 32% of respondents saying this is a major concern for them. Closely following this are concerns about a potential economic downturn, with 29% claiming to be very worried about increasing costs and 28% concerned about adverse publicity or reputational damage and regulatory or legislative change.

Notably, the biggest concern of SMEs is the one that we can insure against - being unable to trade through business interruption cover. Worth remembering this is one of a number of concerns SMEs have.

Of course, these risks vary considerably by type of businesses. Smaller SMEs (self-employed - 5 employees) are more concerned about being unable to trade and a downturn in the economy, while large SMEs (6 - 19 employees) with more than five employees also worry about a downturn in the economy but also more about staff related concerns. In particular 38% of large SMEs are very worried about being able to find good staff, 32% worry about workplace accidents and 22% worry about employee negligence. (See figure 12a, opposite.)

Location also makes a difference to what concerns SMEs the most. Businesses in metropolitan areas are more concerned about the economy and rising costs, while regional businesses are more likely to think about the risks of adverse regulatory change and natural disasters. (See figure 12b, opposite.)

It is important to note that this research is a self-completion survey, which means that responses are based on SMEs' own perceptions and understanding rather than the potential reality. It is likely that some SMEs think they are covered for things they aren't, and conversely others may not realise the extent of their coverage.

**"If I'm not working then you get no money, so that's a major concern actually."**

*Direct buyer, Electrician*

Figure 11: SMEs – Key business concerns

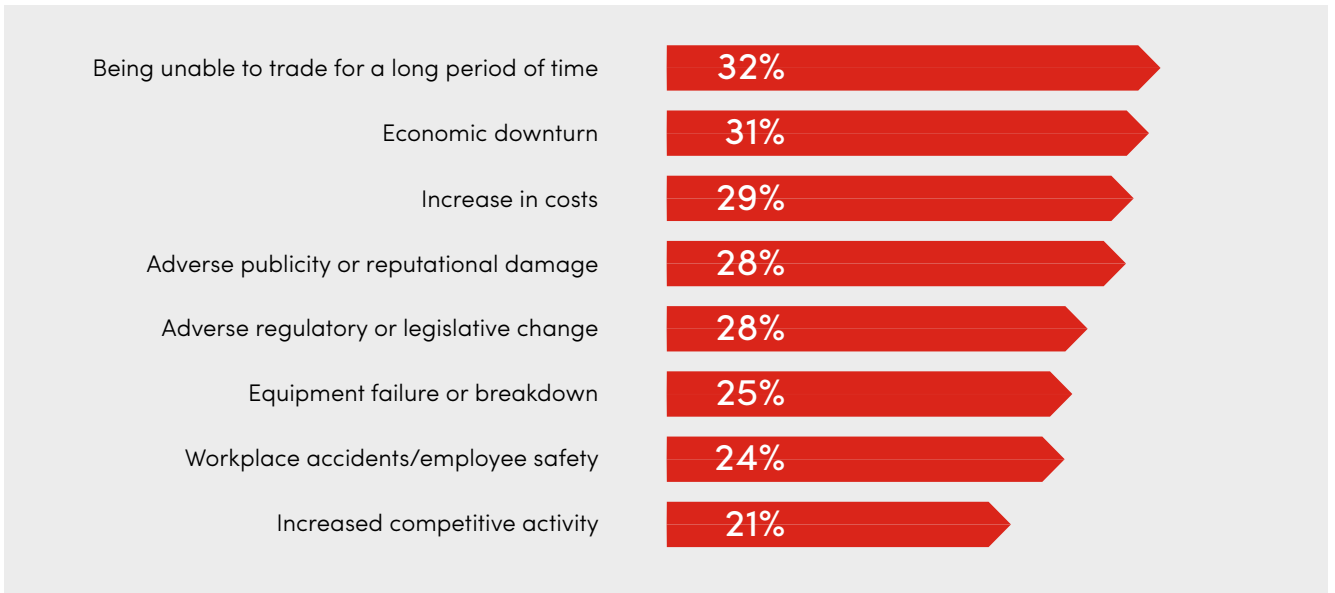
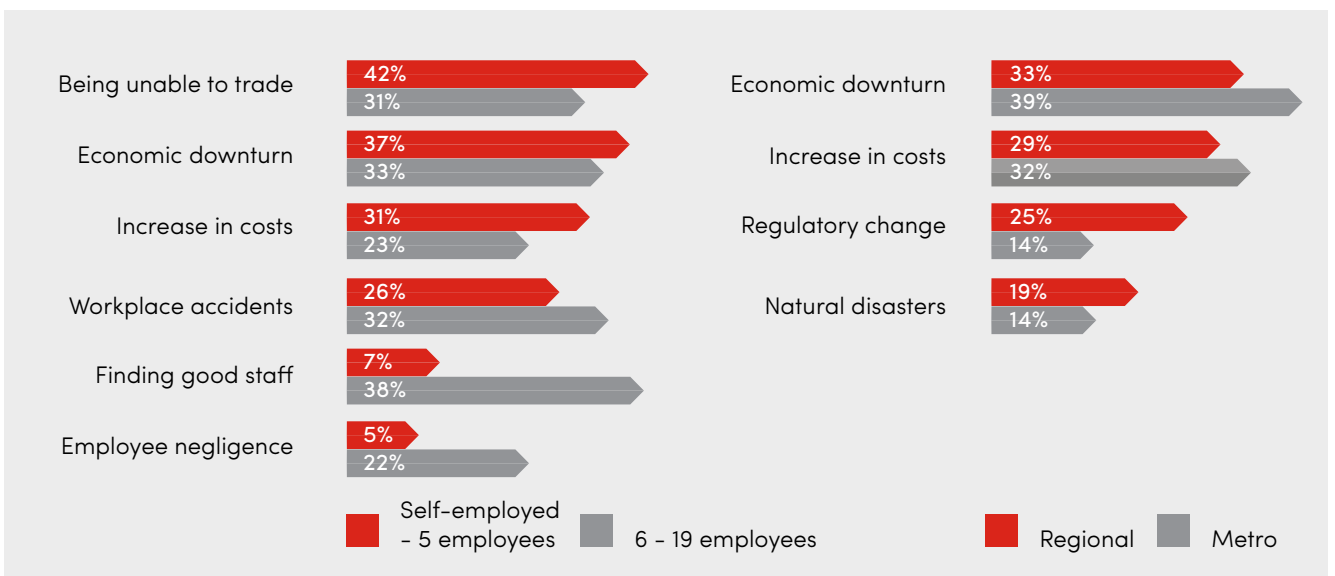


Figure 12a: SMEs – Key business concerns by business size

Figure 12b: SMEs – Key business concerns by business location



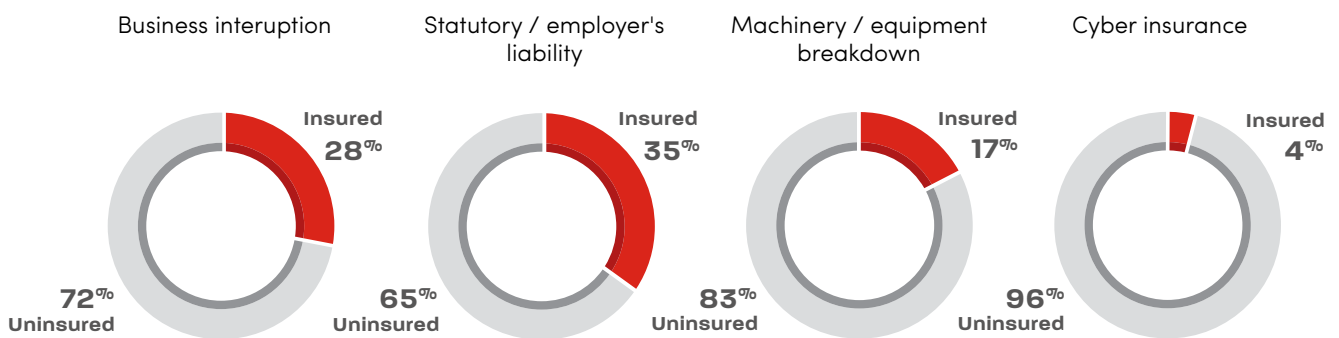
# Business concerns and insurance coverage

Based on their claimed coverage, it would appear that many SMEs do not think that they are covered for the business risks they are most concerned about. (See figure 13, below.) Four insurance covers in particular present opportunities:

- Of those who are concerned about being unable to trade, only 28% think that they have **business interruption** cover.
- Of those who are concerned about workplace accidents, only 35% have **statutory and employer liability** cover.
- Of those concerned about machinery or equipment breakdown, only 17% have machinery / equipment breakdown cover.
- Of those concerned about the risk of cyber-attack, only 4% have **cyber insurance**. As an emerging insurance cover, it is not surprising that 96% of those who are concerned do not believe they currently have cyber insurance.

As this is self-completed data, these results estimate the penetration of these specific covers in New Zealand. They suggest that there is likely to be a high degree of misunderstanding of these covers amongst SMEs.

Figure 13: SMEs – are they covered for the things that concern them? Key gaps and opportunities.



## Things for brokers to consider

- Business interruption cover came up as a large opportunity as almost a third of SMEs who are concerned about being unable to trade do not believe they have this covered by insurance.
- Help SMEs to understand what they are actually covered for.
- Educate SMEs on the importance of various covers and link these to the things that they are worried about.



# The Research

**This report is based on research involving more than 1,000 business owners and decision makers from 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 state 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 state 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:

- Younger SMEs
- SMEs employing more than six employees
- 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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