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Insurance should work harder for your business.

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Introduction

Welcome to the
Vero New Zealand
SME Insurance Index
2019

Our society, economy and way of life are evolving faster than ever before.

As the pace of life increases and our access to information grows exponentially, how are small and medium enterprises (SMEs) in New Zealand coping, and what impact are these changes having on their insurance behaviour?

The third edition of the Vero SME Insurance Index measures and explores the changing needs, attitudes and behaviours of SMEs when it comes to insurance.

This year we have interviewed 900 owners and decision-makers at small and medium businesses across the country and explored a range of topics including their purchasing behaviour, their perceptions of brokers and their overall levels of trust in the insurance industry.

The research uncovers an insurance landscape that is being strongly shaped by the changes in the accessibility and availability of information, and we are witnessing a marked growth in SMEs who are prepared to actively research their insurance and make decisions on insurance without professional advice. We explore the implications of this on their insurance purchasing behaviour and their businesses and hope that the insights uncovered are useful in helping SMEs, brokers and the insurance industry navigate this dynamic environment.



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The findings

The 2019 Vero SME Insurance Index focusses on the general market landscape, including how:

- **Insurance purchasing behaviour is changing**
- **SMEs are playing a bigger role in managing their own insurance**
- **The role that brokers can play is unclear to many**
- **Trust in insurance and brokers is declining**

These topics will be explored in detail in this report.





The insurance purchasing landscape



The insurance purchasing landscape is changing considerably in New Zealand, with an increasing number of SMEs choosing to buy at least some of their cover direct rather than through traditional broker channels.

This behaviour is not limited to simple covers, which means there is a risk that SMEs are making important decisions on complex insurance covers that they may not fully understand.

Our research shows that smaller businesses and price conscious SMEs in particular are more likely to buy direct, which shows they may be basing their purchasing decisions solely on price rather than on product quality, value or service.

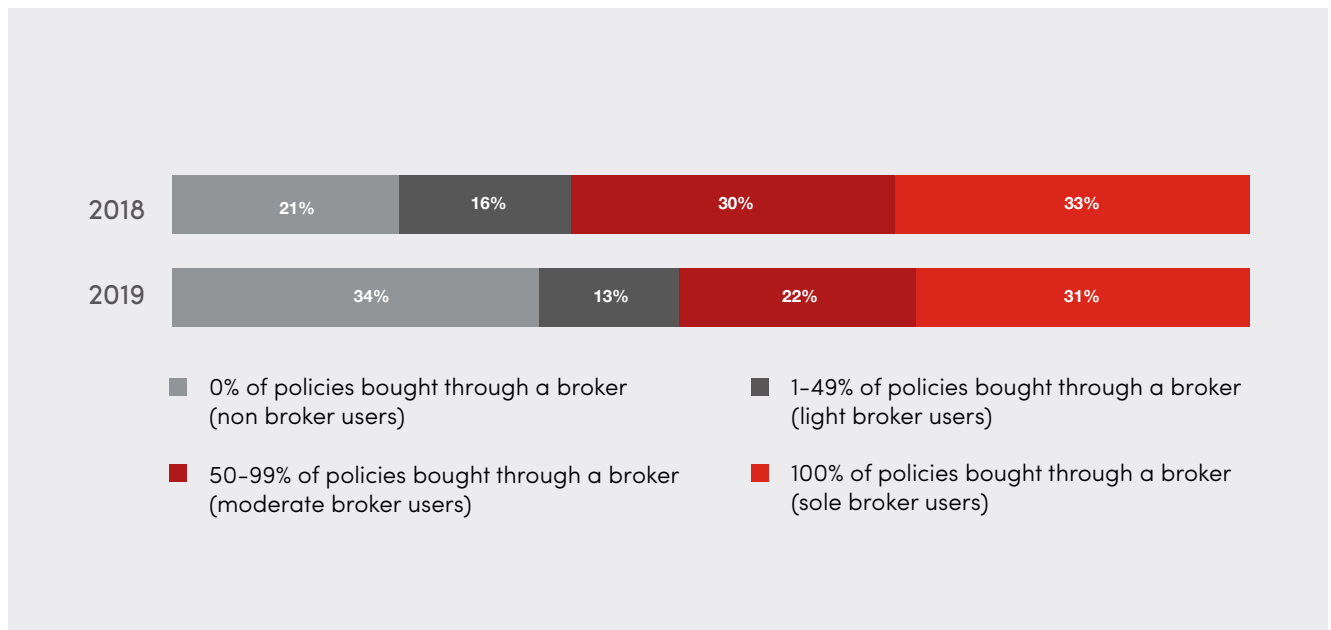
SMEs are changing the way they buy their insurance, as direct purchase becomes more common.

We live in an era of constant and rapid change, and insurance purchasing behaviour is no exception.

Last year we discovered that many SMEs use a mix of channels to buy at least some of their insurance. While this is still the case, we have seen a marked shift in some areas:

- Those who buy their insurance through a broker has remained relatively stable
 - 31% in 2019
 - 33% in 2018
- There has been a drop in those claiming to use a mix of channels, where SMEs are buying some, but not all, of their insurance through a broker
 - 35% in 2019
 - 46% in 2018
- At the same time, there has been a significant increase in those claiming to have not used a broker at all (see Figure 1.1).
 - 34% in 2019
 - 21% in 2018

Figure 1.1: Percentage of insurance purchased through brokers

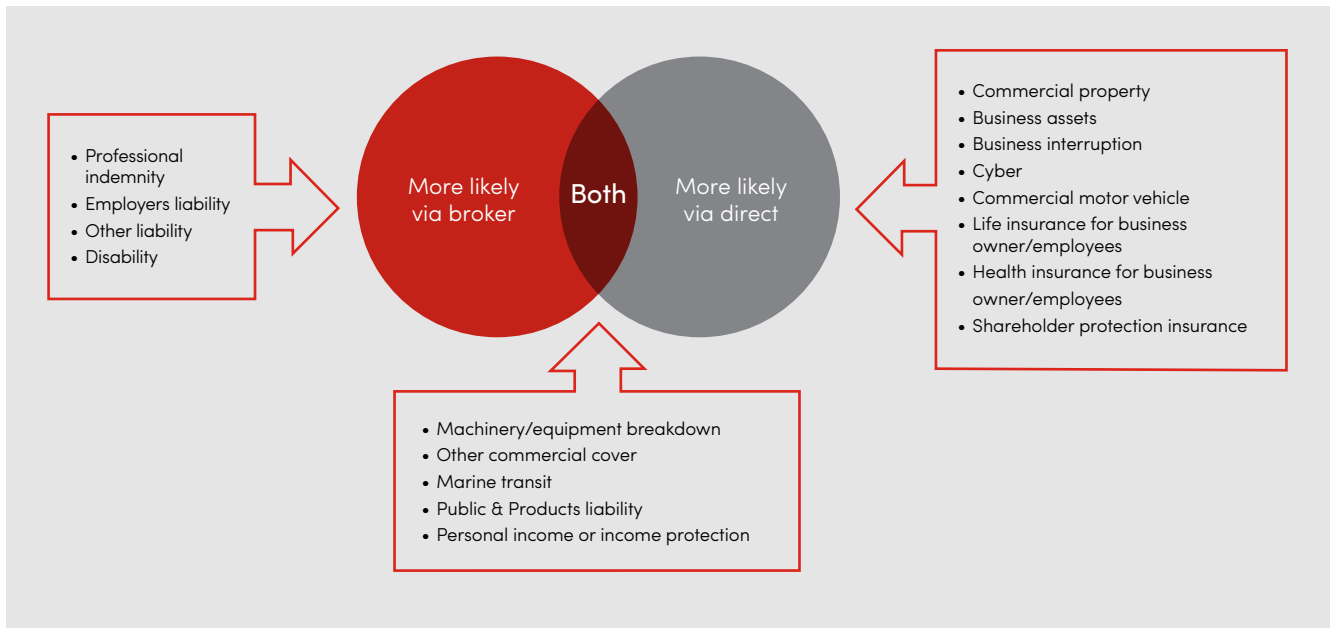


To better understand the dynamics behind this purchasing behaviour, we have interrogated the data to see which types of policies are being purchased direct versus through a broker. Our hypothesis was that SMEs would be more likely to purchase

covers that are perceived to be more simple direct, while turning to brokers for more complex covers. Whilst this is true to some degree, the data suggests some SMEs are purchasing complex covers direct from insurance companies (see Figure 1.2).

This suggests that SMEs are increasingly making decisions on complex covers on their own, independent from brokers advice, which potentially puts them at risk of making incorrect decisions for their businesses.

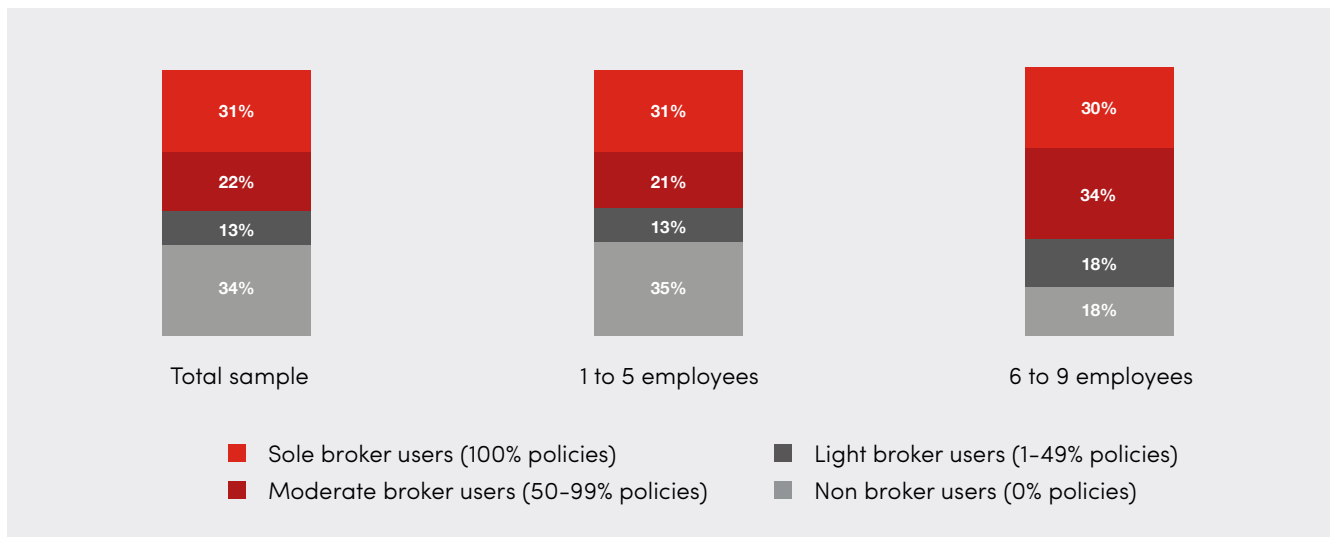
Figure 1.2: Policies most purchased direct and through brokers



Smaller businesses are more likely to choose direct options to buy their insurance

Smaller businesses are significantly more likely to not buy any insurance through a broker, with 35% of business with less than 5 employees buying 0% of their insurance through a broker, compared to 18% of businesses with 6-19 employees (see Figure 1.3).

Figure 1.3: Insurance purchasing by business size



Many smaller businesses are likely to consider that their insurance needs are relatively simple and that they can therefore easily purchase their

insurance on their own. One potential implication of this could be that smaller businesses are missing out on the benefit of expert advice and at risk of

being either under- or over-insured, meaning that SMEs may not be taking up covers that they don't realise are important to manage their risk.

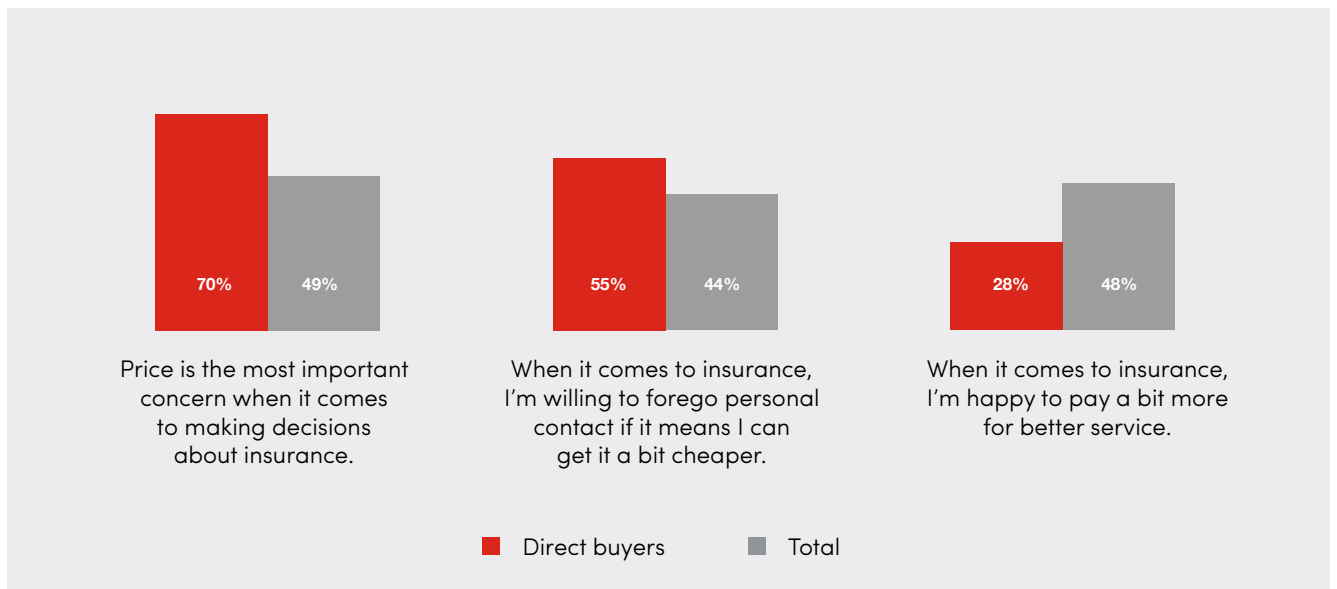
Direct purchasers more price conscious than value-conscious

According to the data, direct purchasers are indeed more price conscious and more likely to agree with statements such as "price is the most important concern when it comes to insurance", and to say that they are

willing to forego personal contact to get their insurance cheaper (see Figure 1.4). However, at the same time almost half of SMEs would be happier to pay more when purchasing their insurance if they were receiving

a better service. For brokers this is indicative of the additional value they can bring to the overall insurance offering for their customers.

Figure 1.4: Direct purchasers attitudes to price in insurance







Increasing involvement in insurance



SMEs are becoming increasingly involved in their own insurance and are less likely than before to want to “set and forget” it.

While this is positive, our research shows that those who actively research

their insurance are more likely to buy their insurance direct, often because they think that insurance is easy enough to do themselves. A large number of SMEs report that they are increasingly finding even

complex insurance tasks less daunting and are more likely to purchase these policies direct as opposed to through a broker. This means they could be at risk of getting incorrect or inappropriate insurance.

SMEs are increasingly willing to actively research their insurance but may only be getting a limited view of the complexities of the products they’re buying.

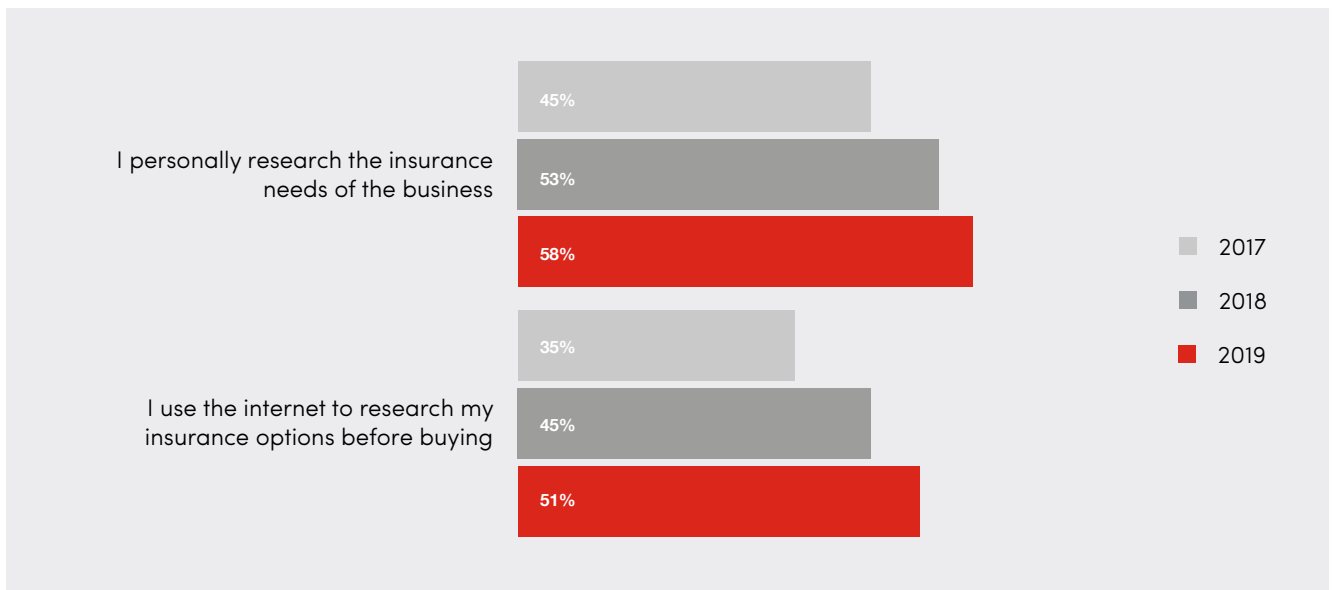
In the past, many SMEs liked to be hands-off when it came to insurance, preferring to delegate all research and decision making to a professional (usually a broker).

One of the most significant changes over the last three years of the Vero

SME Insurance Index is an increased willingness of SMEs to be more actively involved in the insurance process, undoubtedly aided by the rise of the internet and the availability of information online.

In the first Index in 2017, 45% of SMEs said that they personally researched the insurance needs of their business. In 2019, this figure has climbed to 58%. Similarly, the numbers claiming that they use the internet to research their insurance has increased from 35% in 2017 to 51% this year (see Figure 2.1).

Figure 2.1: Attitudes towards insurance buying process



While an increasing interest in insurance from SMEs is very positive, there is a need to ensure that this involvement is based on a sound understanding of insurance. Due to the intricate nature of insurance and limited understanding of its complexity, SME may not realise that they are missing out on important details and it is important that SMEs do not place themselves in positions of risk due to

their inappropriate decisions about their insurance needs. A broker’s experience and in depth understanding of SMEs insurance requirements can play a significant role in ensuring exposure to risk is minimised.

To understand what lies behind the changes in attitudes towards higher levels of involvement, we have taken a deeper look at the behaviours of the group of SMEs who are more engaged with their insurance. We’ve called this

group of SMEs “active researchers” and have defined them as SMEs who agree with the following statements:

- I personally research the insurance needs of the business
- I use the internet to research my insurance options before buying
- I’m willing to forego personal contact with a broker or insurance company to get my insurance cheaper.

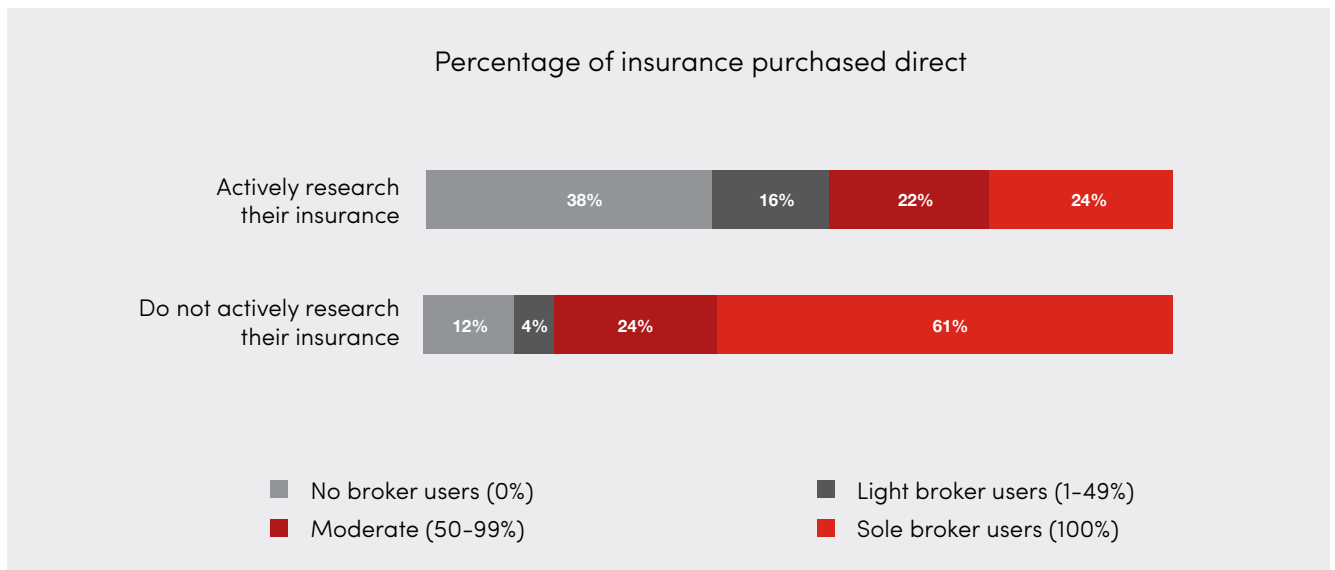
Insurance behaviours of “active researchers”

The first observation is that active researchers are more likely to be buying their insurance direct and more likely to say that they’ve reduced

their broker usage over the last year. Specifically, around 38% of active researchers buy all their insurance direct, compared to only 12% of less involved SMEs (see Figure 2.2).

This suggests that the willingness to be actively engaged in insurance is an important driver of the overall trend to direct insurance.

Figure 2.2: Broker usage by active research



Active researchers think insurance tasks are easy enough to do for themselves

The reasons active researchers cite for going direct for insurance are telling:

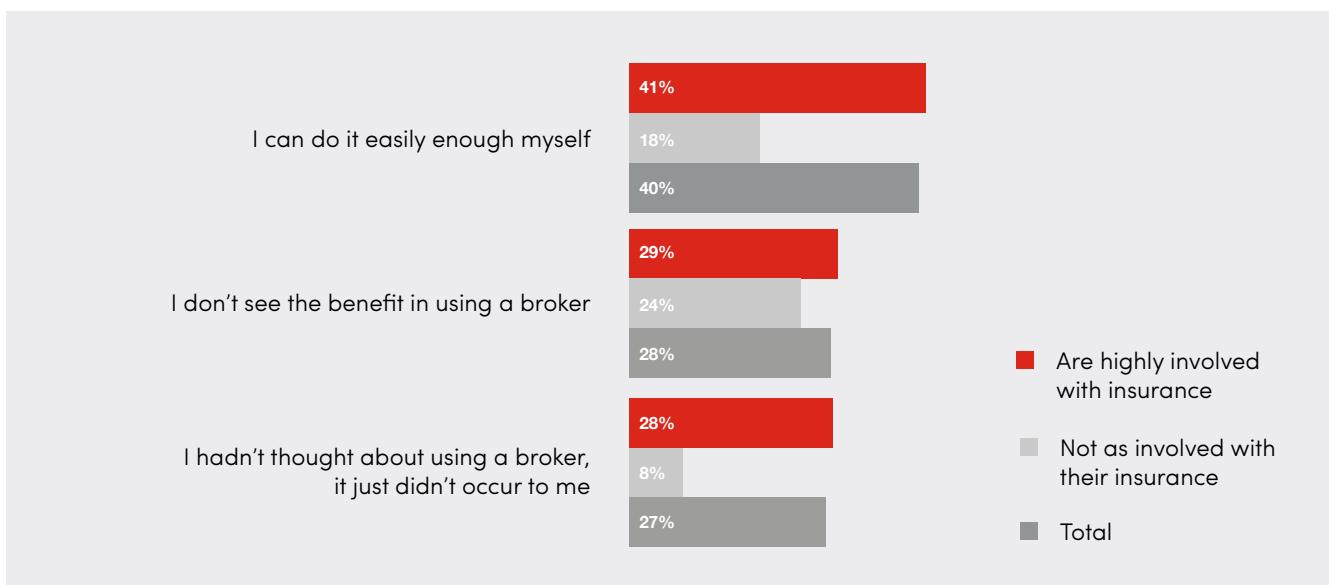
- 41% say that they can do it easily enough themselves
- 29% don’t see the benefit of using a broker and,

- 28% simply hadn’t thought of using a broker (see Figure 2.3).

All these reasons point strongly to the fact that many SMEs do not understand what brokers do or how using a qualified broking professional

could help their business. This means that there is a significant risk that many SMEs may be missing out on the expertise of professional insurance advice because they believe that they can easily make insurance decisions on their own.

Figure 2.3: Reasons active researchers give to buy direct



Active researchers appear to be making purchasing channel decisions based solely on price

Those who actively research their insurance and use a broker are more likely to say that they use a broker for price reasons.

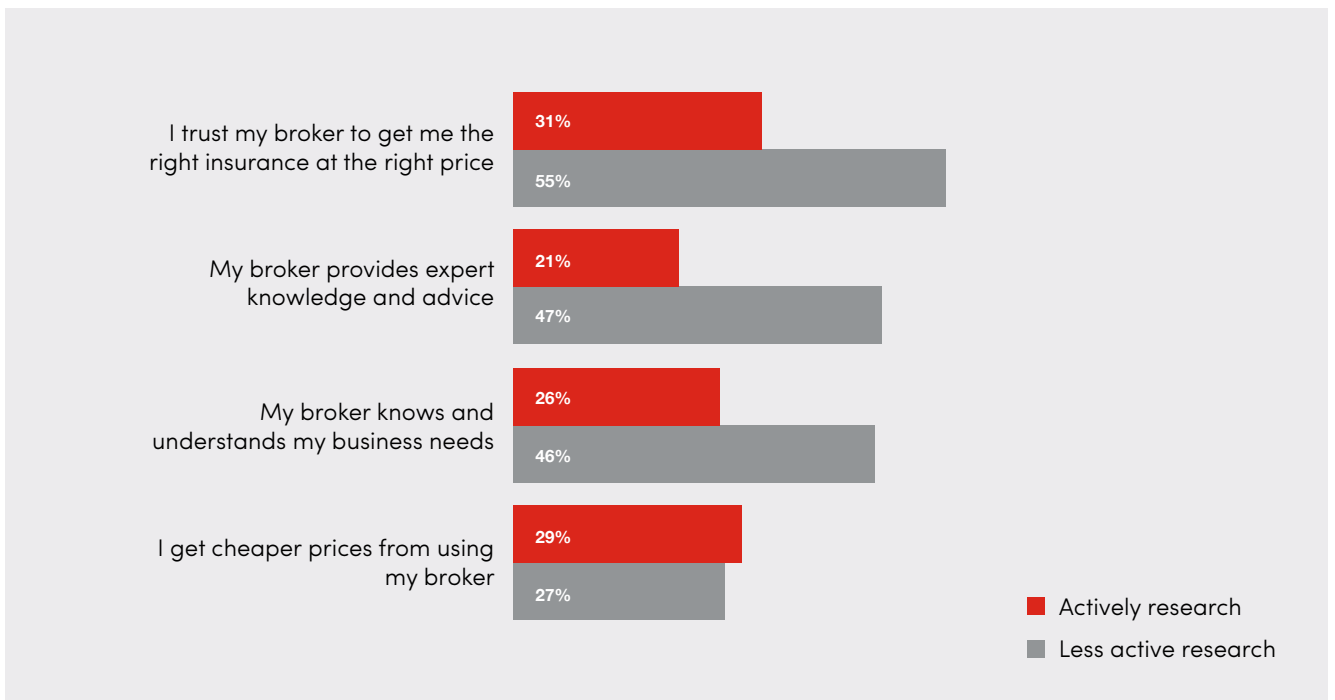
- 31% trust their broker to get the right insurance at the right price

- 29% believe they get cheaper prices through their broker

In contrast, expertise and business understanding are less important reasons for this group to use a broker (see Figure 2.4). This may suggest that

many SMEs increasingly feel confident making their own insurance decisions and see brokers simply as an insurance sales channel.

Figure 2.4: Reasons to use a broker based on active research



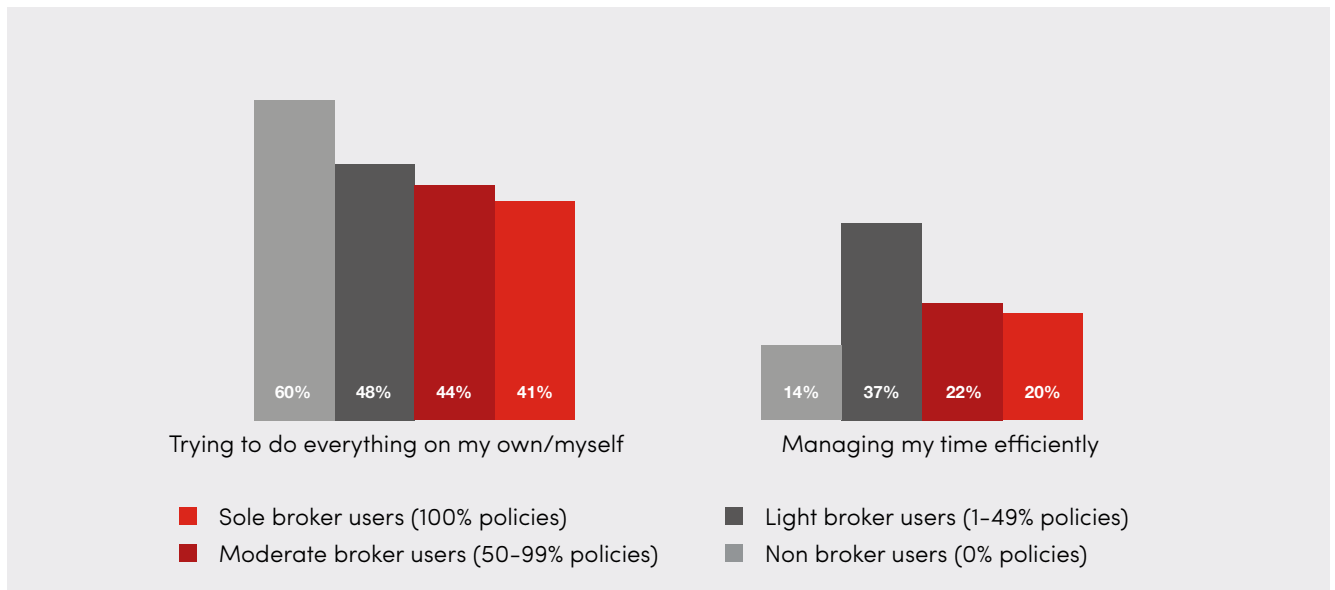
SMEs may be spending time on insurance tasks which would be better delegated to a professional

All of these findings point strongly to a group of SMEs who are willing to spend time researching their insurance and making insurance decisions. And yet, when we look at the challenges that these SMEs claim to be facing, we can see a significant contradiction.

Those SMEs who don't use a broker at all or only use a broker for a minority of their insurance (light users), are more likely to view managing their time efficiently and trying to do everything on their own as significant challenges when running their business (see Figure 2.5). Insurance brokers

can add substantial value in the insurance purchasing process by saving SMEs time in looking after a key business task. Currently however, they are not widely perceived in that light and would benefit if this additional value offering for SMEs was more widely known.

Figure 2.5: Key business challenges by broker usage



SMEs claim to find even complex insurance tasks easy

Those who know insurance well understand how complex it can be. But the research has found that SMEs don't necessarily feel the same way. This year, for the first time, SMEs were asked how easy they find a range of

insurance tasks, from administrative details to deciding the right insurance cover for their business. The data shows that most SMEs are relatively comfortable with the majority of insurance tasks.

Unsurprisingly, a large majority (77%) find administrative tasks such as contacting their insurer or changing their details relatively easy (see Figure 2.6).

Figure 2.6: Comfort with business insurance tasks



Interestingly, almost 70% of SMEs claim to find evaluating the insurance needs of their business easy. This includes understanding the risks that face the business and determining appropriate levels of coverage, which, in many instances, will be complex decisions requiring professional expertise.

There appears to be degree of complacency about the complexities of insurance and the risk of under-insurance. While SMEs can have outstanding skills in their chosen areas, do they have the specific experience and knowledge to be making complex decisions about their insurance?

This is an important question for the industry as a whole to consider and points to the need for increased insurance education to encourage awareness amongst SMEs.





The role that brokers play

The role that brokers can play is unclear to many SMEs

This year’s research shows that SMEs are increasingly unclear about the service expertise of insurance brokers, where many are also unaware of the specific benefits of using a broker.

SMEs are not always aware of, or being provided with, the full spectrum of services that a broker can offer to support their specific insurance

requirements. This is particularly true when it comes to risk analysis and advice on the appropriate types and levels of cover, which is having a large impact on how confident SMEs are in their ability to face and weather risks.

Brokers appear to be increasingly viewed as a transactional channel rather than as risk advisors, insurance

experts or claims advocates – where many SMEs are now turning instead to personal networks for advice, meaning they may not be receiving adequate advice when making business decisions around risk.

SMEs are increasingly not recognising the expertise brokers can bring to their insurance needs

In a changing market, the perceptions and role of brokers for SMEs is changing.

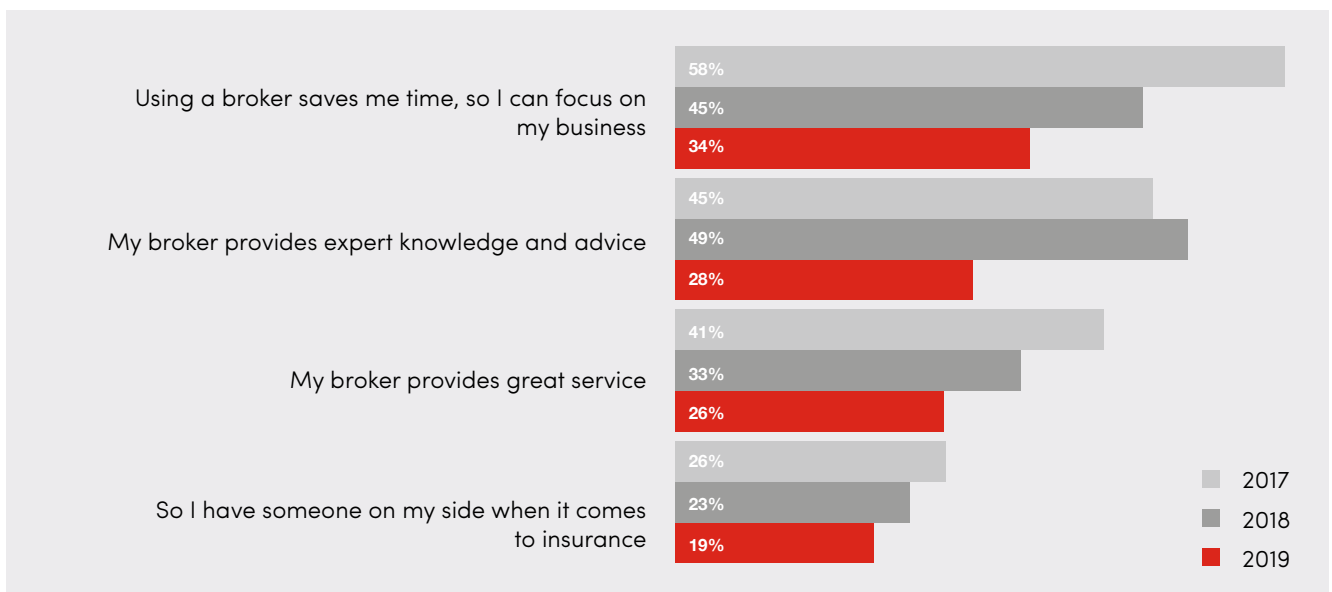
Expertise has always been one of the main reasons for SMEs to use a broker and it is a core element of the broker value proposition. But this year the data shows a marked drop in the

number of SMEs who say that they use a broker because of their expert knowledge and advice, down from 49% last year to only 28% this year (see Figure 3.1).

In addition to this, the data shows a decline in the number of SMEs choosing to use a broker because of

the service they provide. There has been a decline in those saying that their broker provides great service, falling gradually from 41% in 2017 to 26% in 2019. Also, significantly less SMEs think that using a broker saves them time, dropping to 34% this year from a high of 58% in 2017.

Figure 3.1: Reasons for using a broker



The benefits of using a broker aren't top of mind for some SMEs

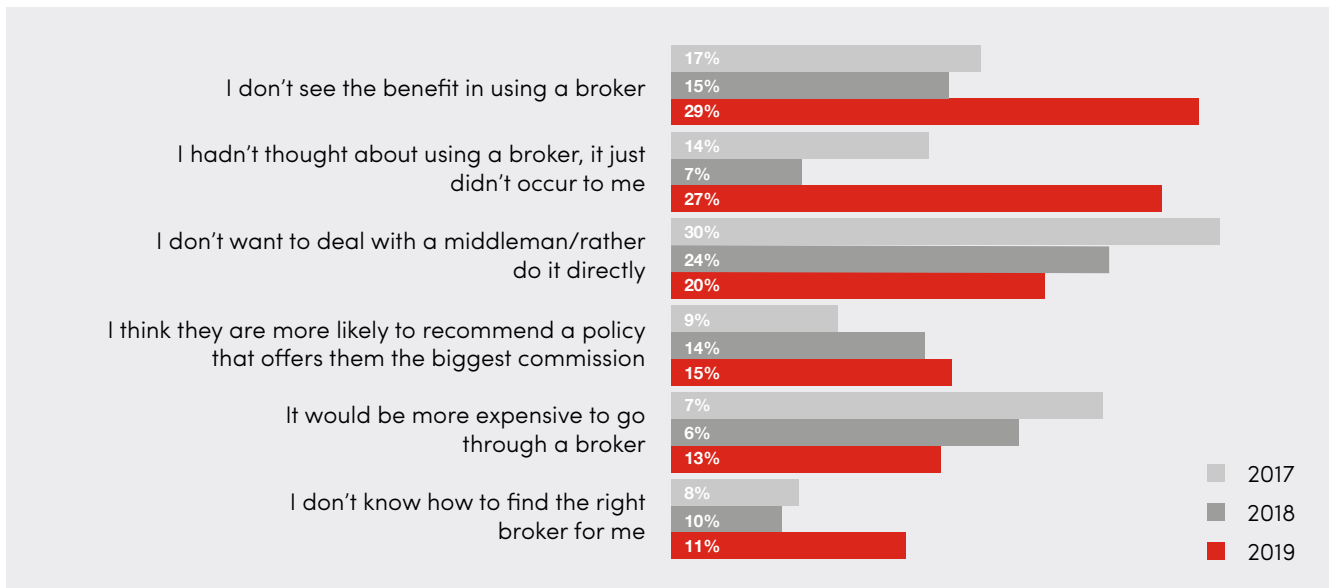
Turning to those who choose to buy their insurance direct, it appears that apathy and lack of knowledge are major drivers, with increasing numbers saying that they don't use a broker because they don't see the benefit

(from 17% in 2017 to 29% in 2019) or hadn't even thought about it (from 14% in 2017 to 27% in 2019) (see Figure 3.2).

Interestingly, SMEs seem quite content with using an intermediary broker service as long as they are

experiencing a sense of value from them, where they are not simply choosing direct options for the sake of going direct.

Figure 3.2: Reasons for NOT using a broker



SMEs value a range of unique broker services but aren't always accessing them

Brokers are able to undertake a range of tasks on behalf of their clients, but which tasks are most important to SMEs? Overall, it appears that SMEs

value many of the services that brokers offer. Finding policies that are the best value is rated as the most important task, but a significant majority consider

a large range of tasks to be very important (see Figure 3.3).

Figure 3.3: Importance of broker tasks



However, for many key tasks, there is a gap between how important that task is and how many brokers actually do that task for their clients, meaning that there are some tasks that are

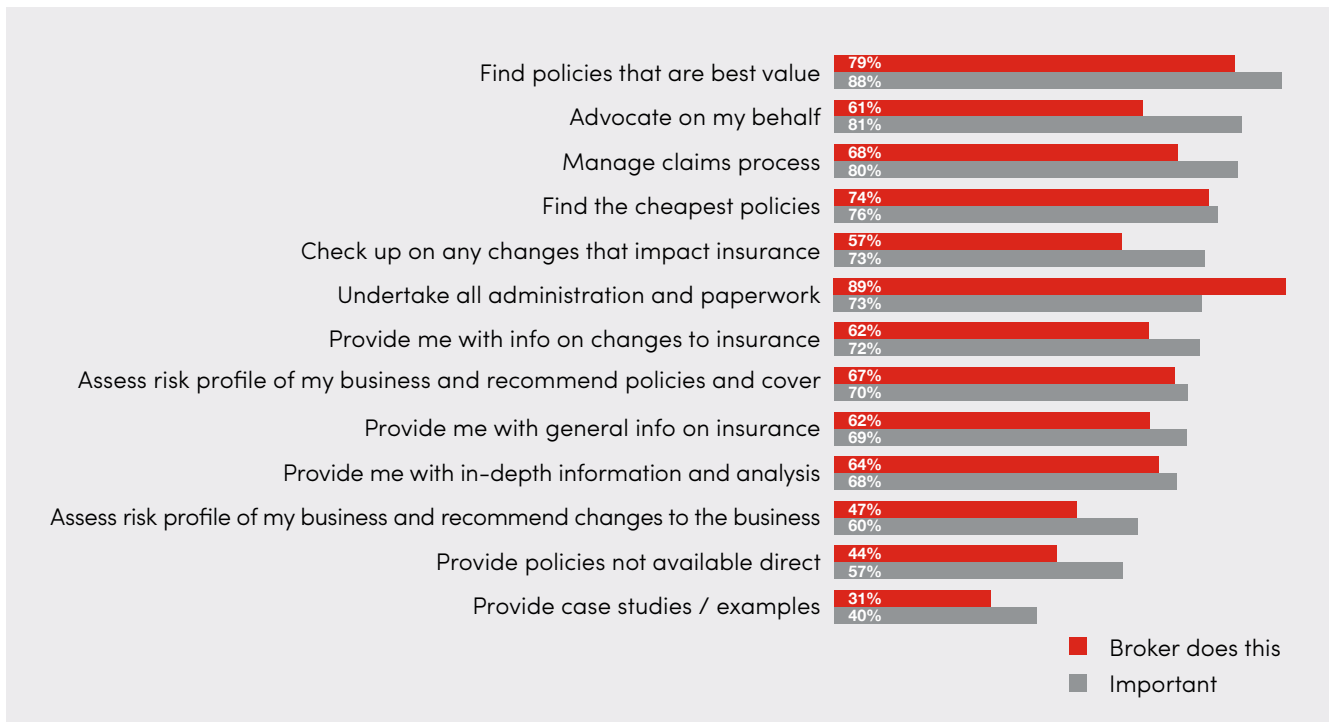
important to SMEs that aren't being undertaken by many brokers.

For example, 81% of SMEs say it is important that their broker advocates on their behalf, while only 61% actually

do this for their clients.

The only task that is undertaken more than it is important is undertaking administration and paperwork. (see Figure 3.4).

Figure 3.4: Brokers who do these tasks



By mapping these tasks on a grid (see Figure 3.5), we have identified three main groups of tasks:

Essential tasks

These are important tasks that are delivered by most brokers and tend to be the fundamental tasks that are seen as a bare minimum for brokers to deliver. This includes:

- Finding policies that are best value
- Finding cheapest policies
- Managing claims
- Administration and paperwork

Desired tasks

These are important tasks that are being offered by a smaller number of brokers and tend to be tasks that require more analysis, engagement and specialist expertise. This includes:

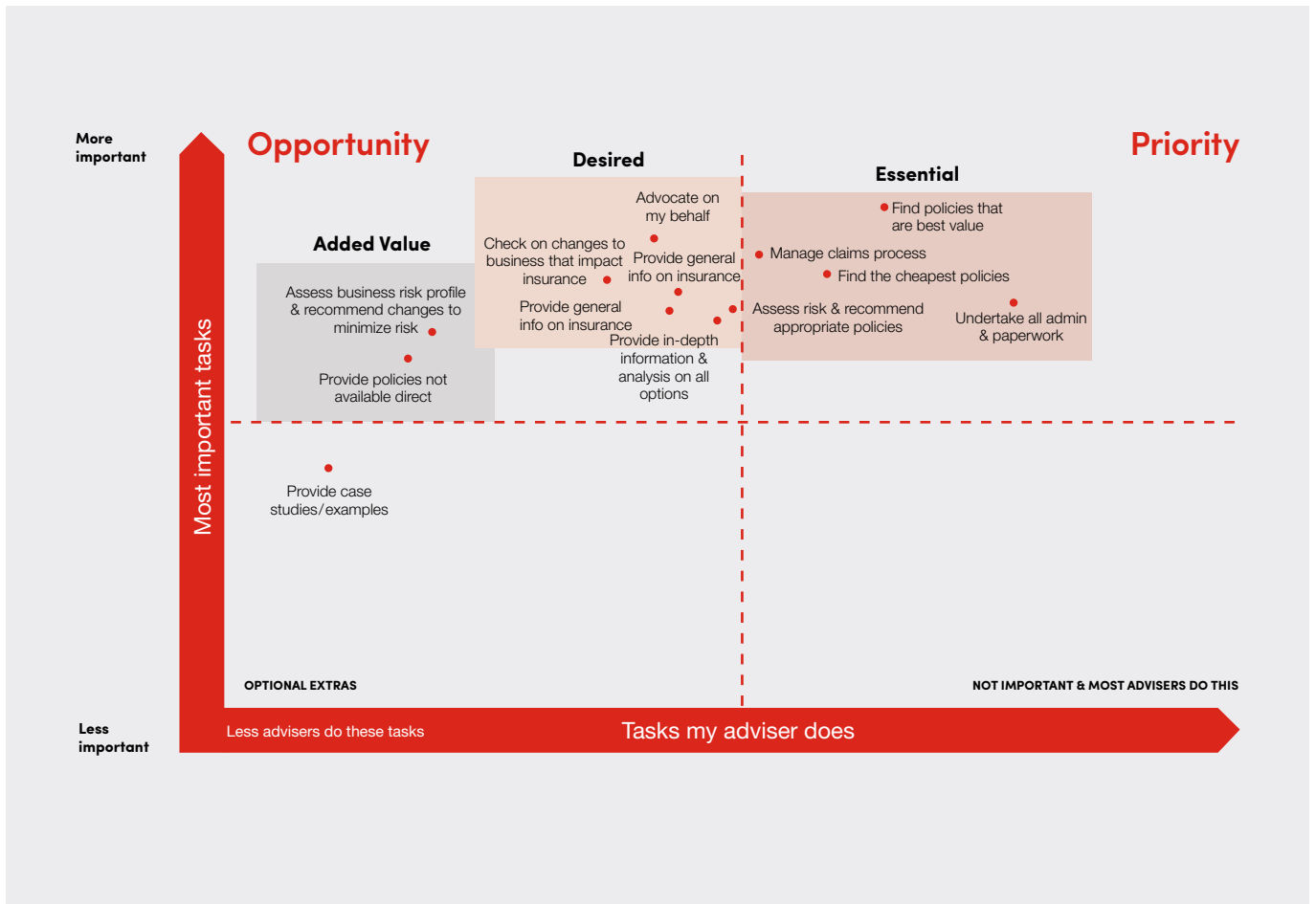
- Assessing risk profile of business and recommending policies
- Advocating on a client's behalf to insurers
- Providing a client with in-depth information and analysis
- Checking up on changes to a client's business
- Providing general information

Added-value tasks

These are tasks that are important to a slightly smaller number of SMEs, but far less commonly offered by brokers and therefore reflect the highest level of service to clients. This includes:

- Providing coverage that is not available direct
- Assessing risk profile and recommending changes to business

Figure 3.5: Tasks undertaken by brokers and importance of tasks to SMEs



This analysis suggests that most SMEs that use a broker are receiving the tasks that are most important to them from their brokers. However, when it

comes to more involved tasks, there is a significant gap between what is important to clients and what is being delivered by the majority of brokers.

This means that focusing on more desired and added value tasks would enable SMEs to get the most out of their experience with brokers.

SMEs are not always using a broker to understand and manage their risks

Conducting regular risk analysis is an important element in ensuring SMEs are prepared to manage the risks that face their business.

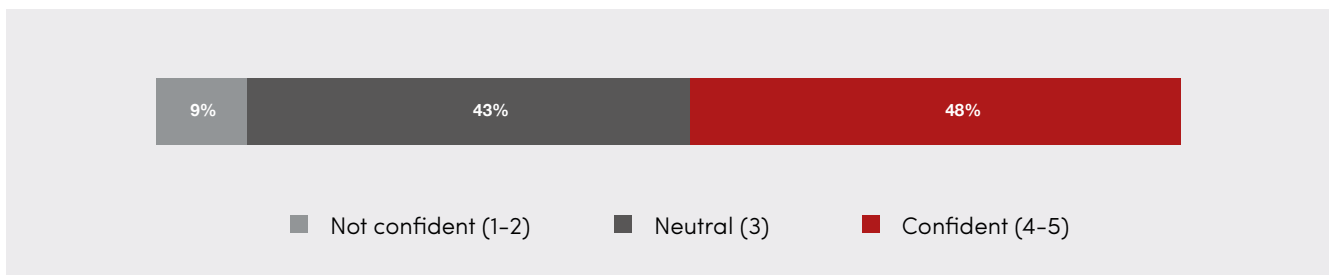
So for the first time, this year's Index asked SMEs how confident they feel

that their business is prepared to meet potential risks.

In general, confidence levels are relatively stable with around half of SMEs saying that they feel somewhat or very confident (see Figure 3.6).

However, a significant number feel either neutral or not confident, suggesting that risk may need to become more of a focus for many SMEs to help them feel more in control of their risk.

Figure 3.6: SMEs confidence in preparedness for risk



SMEs who conduct risk analysis are more likely to feel confident that they are prepared

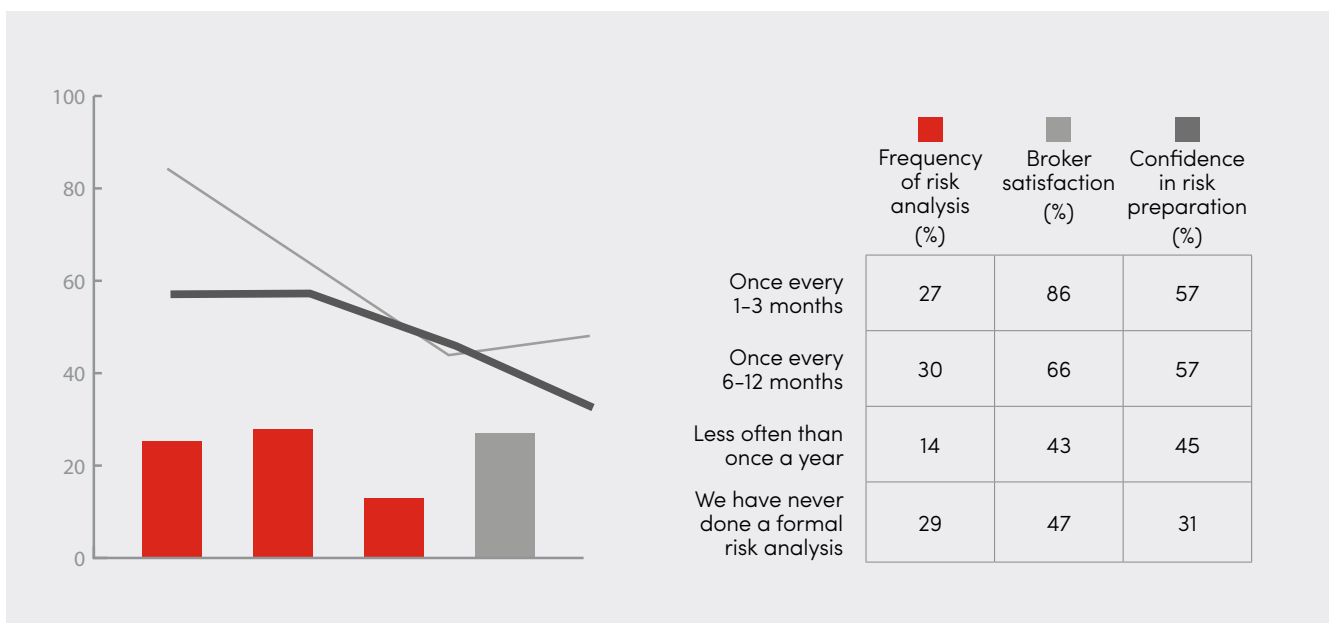
The research has found that over half of NZ SMEs conduct risk analysis (self-defined) at least once a year. Importantly, those who analyse their risk regularly feel more confident that they are prepared to deal with risks and are significantly more satisfied with their broker. For example, 57% of those who conduct risk analysis at least

once a year feel confident that they are prepared to meet risk, compared to 31% of those who have never done any risk analysis.

However, 29% of SMEs say that they've never conducted a formal risk analysis (see Figure 3.7).

Conducting regular risk analyses would appear to be a positive step for many SMEs in making them feel more confident about their ability to manage risk. Those who conduct regular risk analyses are also markedly more satisfied with their broker, suggesting risk analysis could be a useful tool for brokers.

Figure 3.7: Frequency of risk analysis: confidence in risk preparation and broker satisfaction

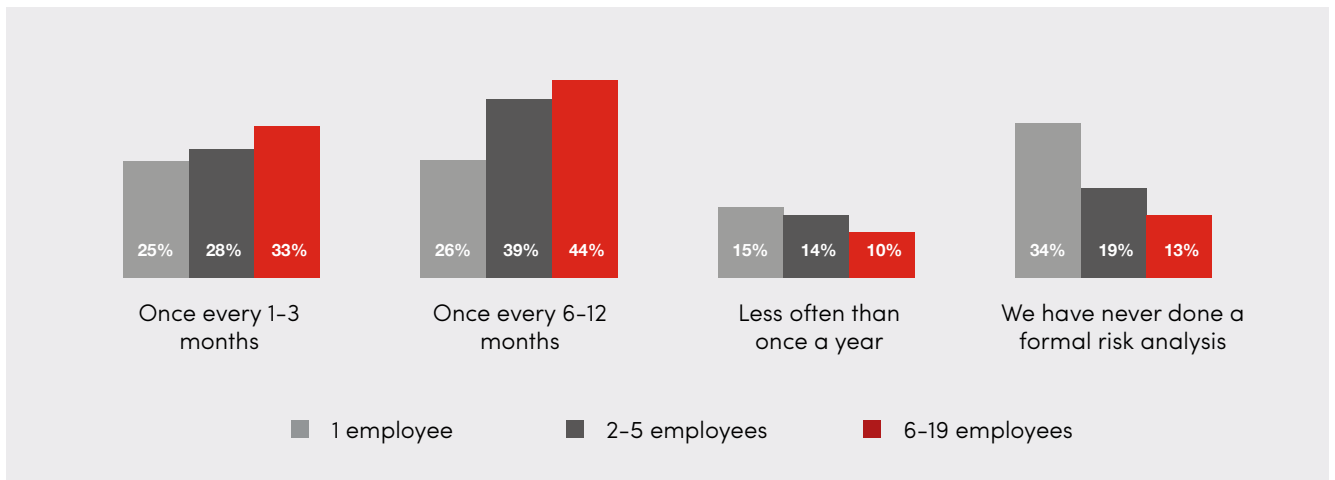


Unsurprisingly, the research shows that smaller businesses are less likely to do regular risk analysis, with 34% of sole traders saying that they have never done any formal risk analyses (see Figure 3.8).

However, almost a quarter of businesses with 6-19 employees say that they rarely or never do any risk analysis. Given that most businesses of this size tend to be more complex, this means that a sizeable

portion of medium-sized businesses are missing out on important preparation to ensure that their businesses are set up to manage risk.

Figure 3.8: Frequency of risk analysis by business size

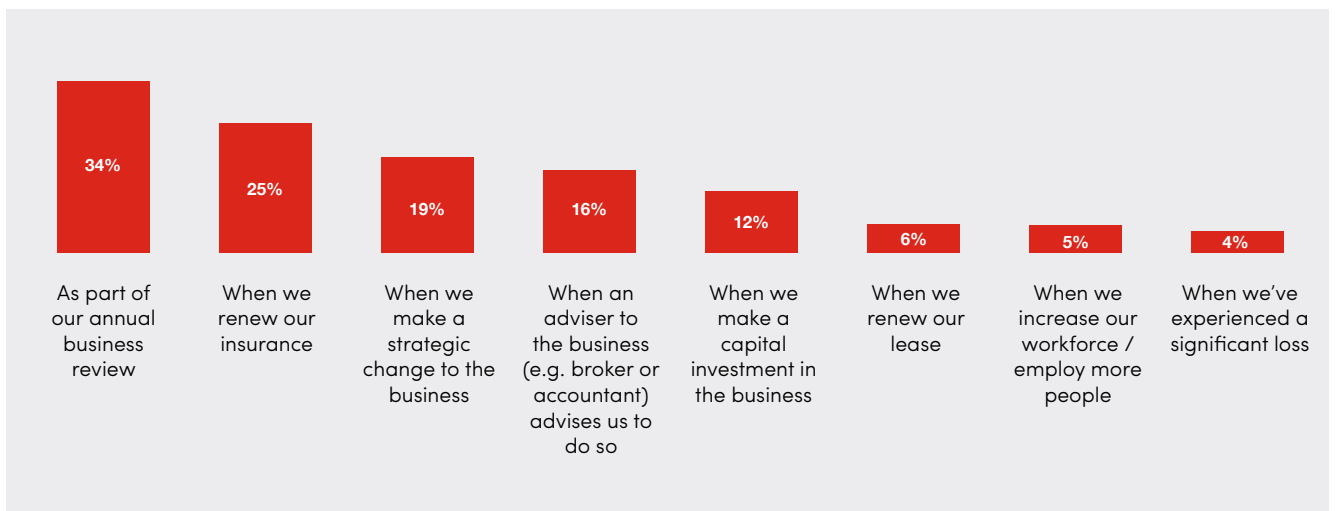


For many SMEs, risk analysis is prompted as part of an annual review process or when renewing insurance (see Figure 3.9). The insurance renewal cycle appears to be

a relevant and effective trigger for SMEs to think about risk. Only 16% say that they undertake risk analysis when prompted by an adviser such as a broker or accountant.

This provides an enormous opportunity for brokers to act as the trigger and drive this risk renewal behaviour for SMEs.

Figure 3.9: Prompts for risk analysis



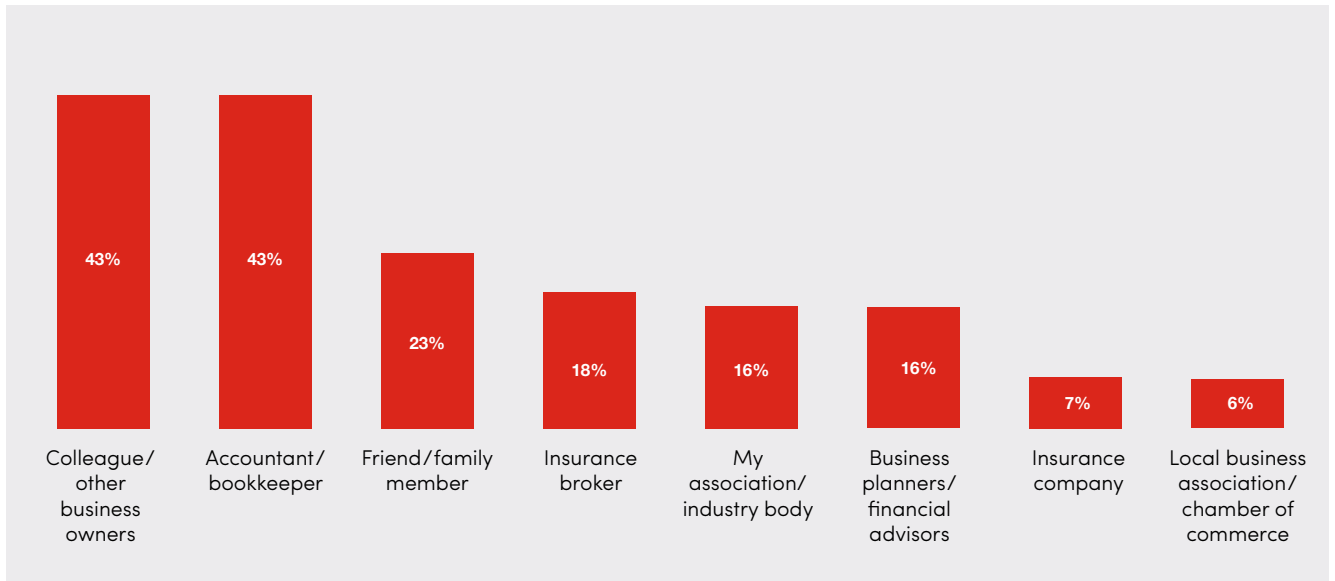
SMEs are not accessing professional advice to analyse their risks

SMEs consult a wide variety of sources when they think about risks to their business. Personal networks and accountants are the equal biggest sources of advice on risk, each having 43% of SMEs claiming to use them as

sources of advice (see Figure 3.10). Conversely, insurance experts such as brokers and insurance companies are less sought after, with less than 1 in 5 saying they would go to their insurance broker to get advice on

business risk. This again highlights the fundamental finding that many SMEs are not getting access to the full range of professional insurance advice needed for their business.

Figure 3.10: Sources of advice on business risk

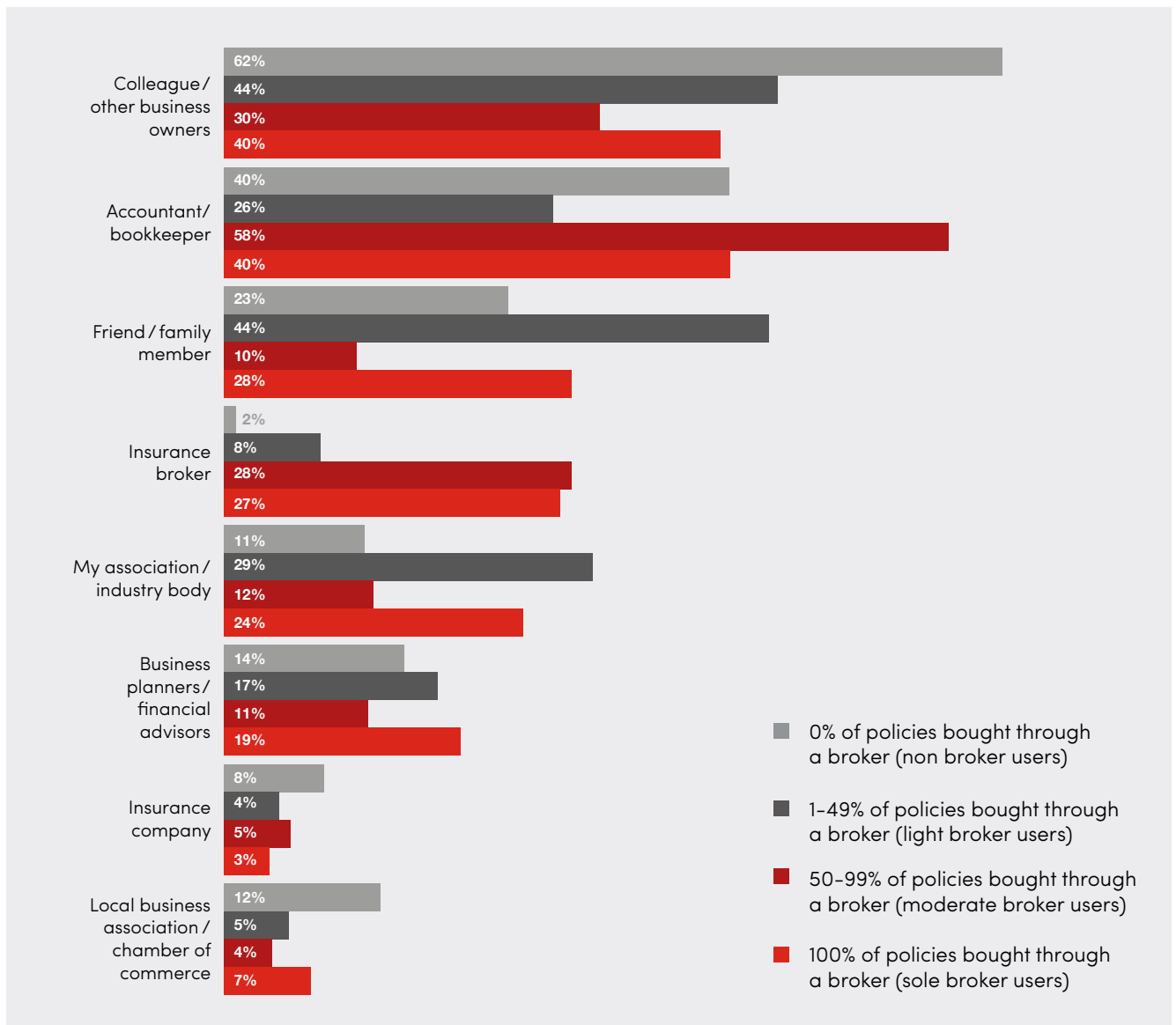


This is highlighted again we look at non-broker users and light brokers users, who are far more likely to turn to personal networks for advice about risk. Notably

62% of those who don't use a broker at all get advice from colleagues or other business owners, compared to only 40% who get advice from an accountant

and 8% from an insurance company (see Figure 3.11). Are direct buyers and light broker users getting enough professional, expert advice when it comes to risk?

Figure 3.11: Sources of advice on business risk, by business usage

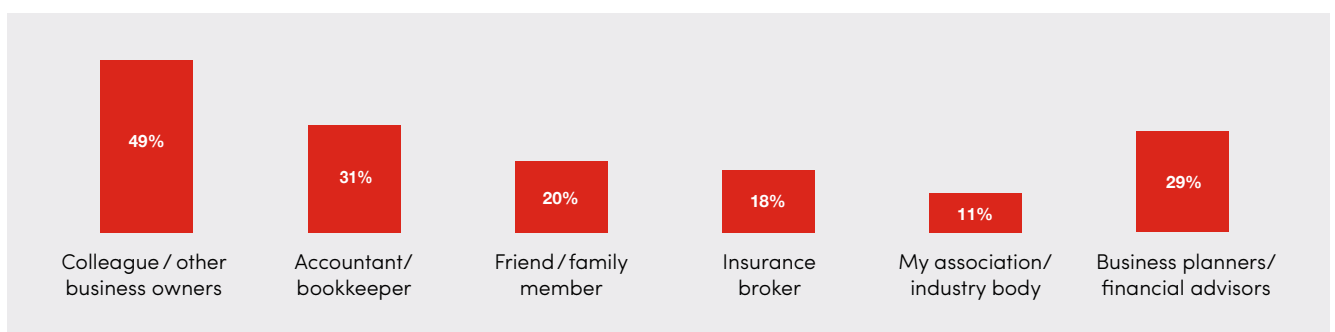


If brokers aren't seen as a major source of advice on risk or a prompt to review risk, what role do SMEs think brokers play in helping them prepare their business against potential risks?

The research shows that SMEs mostly believe that the broker's role lies in advising on insurance policies and coverage, and less so on overall risk assessment. For example, 49% believe that the brokers role is to advise on the type of policy to

choose, while 20% think that brokers should provide them with a risk assessment to ensure the business operation is set up to minimise risk. Only 11% see their brokers as trusted risk advisers (see Figure 3.12).

Figure 3.12: Broker role in risk advice

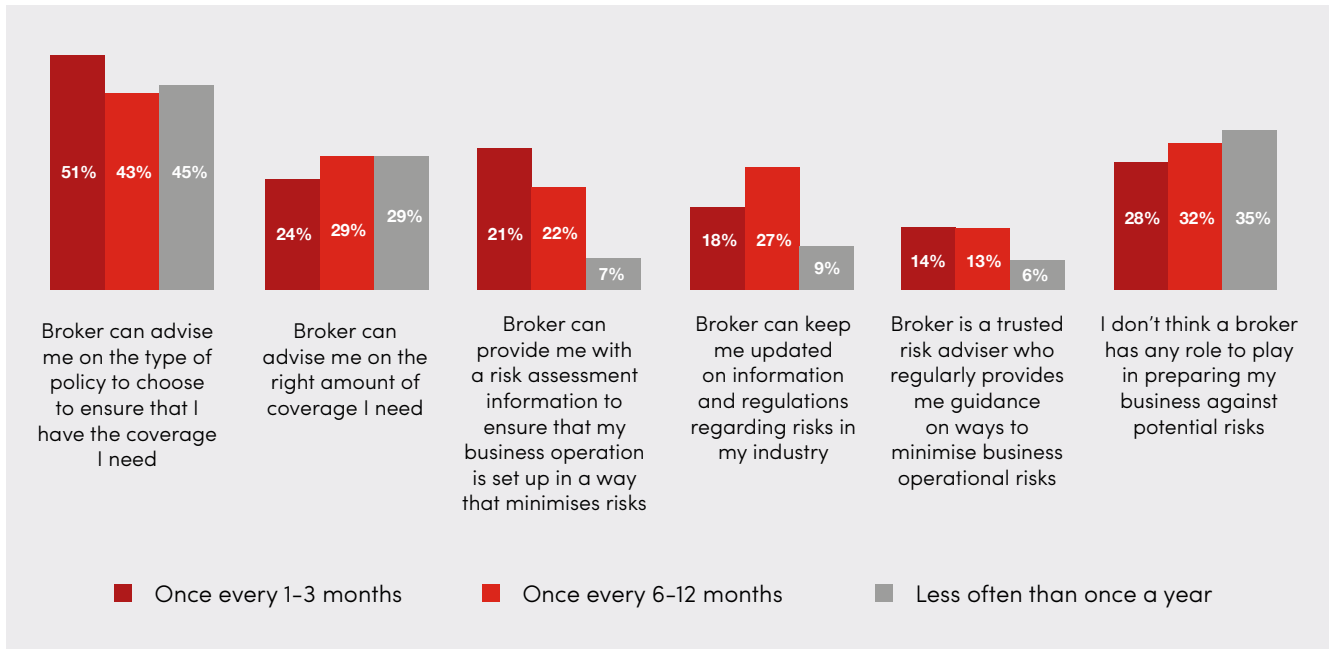


Exploring more deeply, it appears that the best way for brokers to be seen as risk advisers is to undertake more regular risk analysis. Those SMEs who conduct risk analysis more frequently are more likely to see a

broader role for their broker as a risk adviser. Specifically, 31% of those who conduct risk analysis every 3 months say that their broker’s risk assessment can help them set up their business operations to minimise risk, compared to only 7% of those

who rarely or never undertake risk analysis. Similarly, 14% of regular risk analysers consider their broker to be a trusted risk adviser, compared to 6% of those who never conduct risk analysis (see Figure 3.13).

Figure 3.13: Broker role in risk advice by risk frequency assessment









**Trust in insurers
and brokers is
declining**

Declining levels of trust across developed societies are being reflected in reduced trust levels for insurance companies and brokers in New Zealand.

SMEs are more likely to trust brokers who undertake more complex, value added tasks such as in-depth analysis and thereby demonstrate transparency and expertise.

In an increasingly mistrustful society, SMEs are most likely to trust professionals who demonstrate expertise

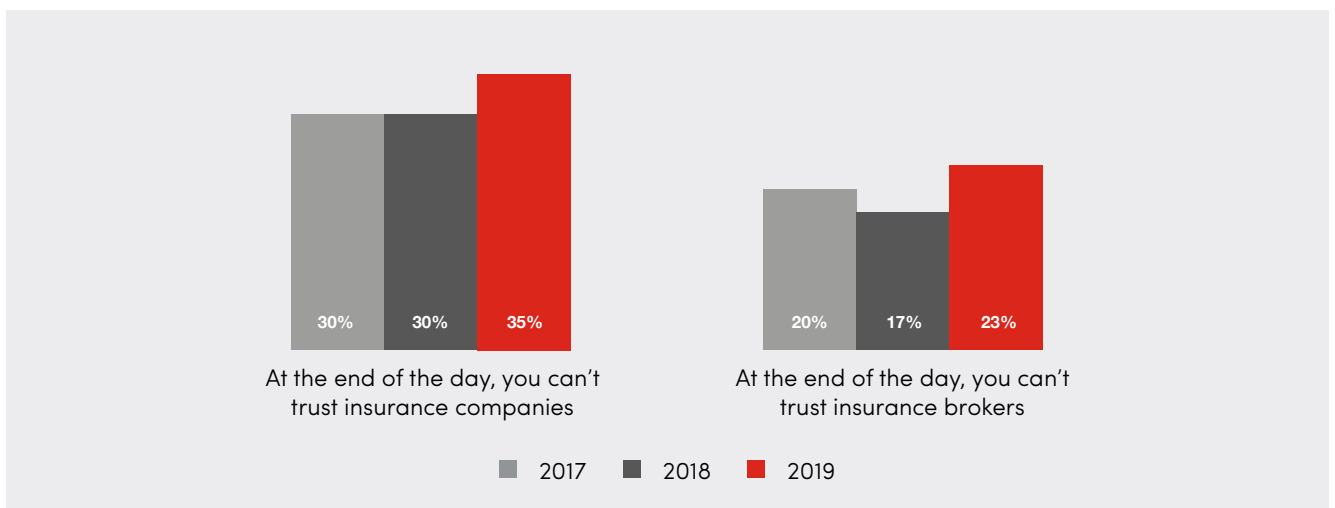
The decline of trust is a major trend in developed societies in recent years, with many studies pointing to falling trust levels in government, business and major financial institutions. This environment of declining trust makes it timely to review some of the trust-related statements in the Vero SME Insurance Index to see if this general trend of declining trust is being replicated in insurance.

Earlier editions of the Index observed relatively positive levels of trust with both insurance companies and insurance brokers. However, this year's research shows a small but clear deterioration.

This year 35% of SMEs said that they can't trust insurance companies, up from 30% in 2017. Brokers suffered a similar drop in trust, with 23% saying they couldn't trust brokers, up from just

17% in 2018 (see Figure 4.1). Many SMEs feel wary of the insurance industry at the moment and this perspective of mistrust is a relevant factor for all those who deal with SMEs in the insurance space.

Figure 4.1: Agreement to statements of insurance and brokers trust

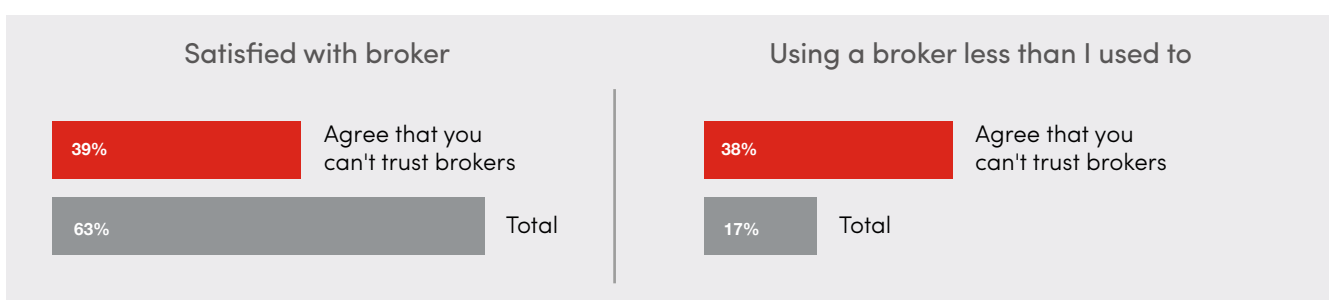


This lack of trust in brokers appears to be filtering through to insurance behaviour. In fact, 38% of those who say that they can't trust brokers have reduced their use

of brokers compared to 17% of the total population (see Figure 4.2). Meanwhile, SMEs with a broker who agree that insurance brokers cannot be trusted are

less likely to be satisfied with their own broker (only 39% satisfied compared to 63% of all broker users) (see Figure 4.2).

Figure 4.2: Broker trust and impact upon broker use - Among those who agree that "At end of the day you can't trust brokers"



Strong value offer is a trust builder for SMEs

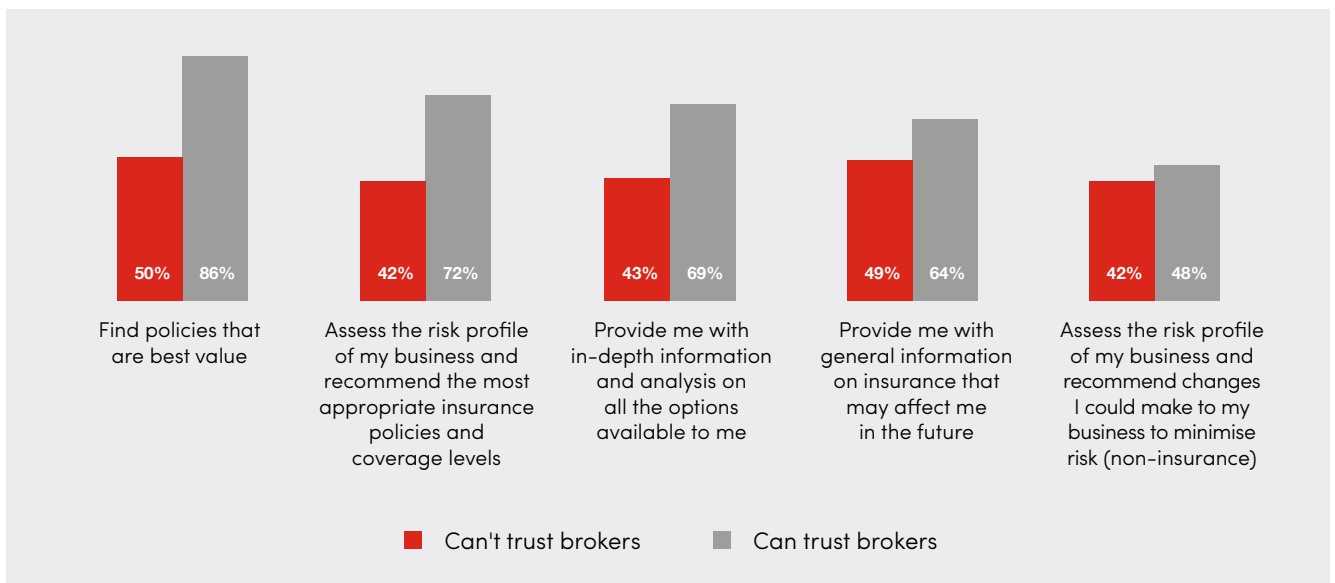
So what appears to be driving this mistrust, and are there any particular behaviours or attitudes that are more associated with mistrust?

Exploring the tasks that brokers undertake on behalf of their clients

uncovers the strongest clue. Those SMEs who agree that brokers can be trusted are far more likely to have brokers who undertake tasks such as providing in-depth information and analysis, assessing risk profile and

checking up on changes to the business (see Figure 4.3) This suggests that SMEs are more likely trust professionals and advisers who deliver value-added activities that provides transparency and demonstrates expertise.

Figure 4.3: Broker tasks for those say they don't trust brokers



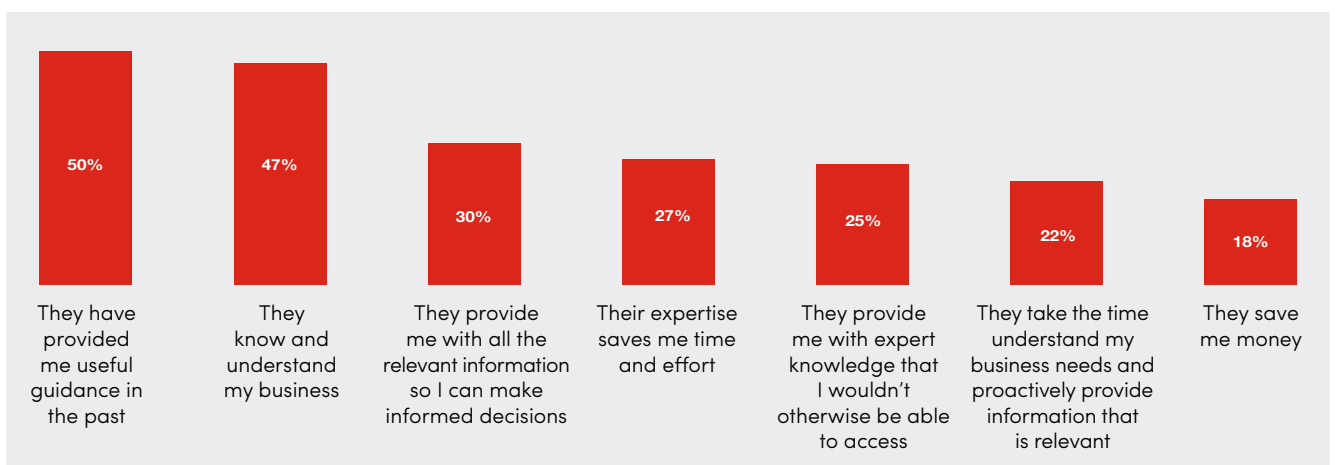
What makes advice trusted?

To further understand advice and how it delivers trust, this year for the first time we asked SMEs what makes them trust a broker's advice. It appears that previous positive experiences and

a demonstrated understanding of their business are major factors, with around half claiming that each of these factors are important in them trusting advice (see Figure 4.4). This suggests

that building long-term relationships and taking the time to really understand businesses are valuable elements in the establishment of trust between brokers and their clients.

Figure 4.4: Reasons to trust advice



In a nutshell

- SMEs are increasingly unclear of the distinct benefits of using a broker, with fewer saying that they choose a broker because of their specific service expertise.
- The most significant reasons that SMEs are choosing to avoid using a broker is often dependent on a lack of understanding as to what brokers can actually offer them.
- Many SMEs perceive brokers skillsets as restricted to the sale of insurance, not as diverse risk management specialists.
- Brokers aren't always delivering the highly valued tasks which are important to SMEs, especially concerning more in-depth or analytical tasks.
- SMEs who are conducting regular risk analysis on their business are more likely to feel a sense of confidence in their capacity to face and weather risk.
- Many SMEs feel comfortable seeking advice on risk from their own personal networks. But is this the best possible advice for their business? Are they making the right decisions around risk?
- The claims process remains a key moment of truth for insurance, where brokers can play a vital role in improving the overall experience for SMEs

The research

This report is based on research involving more than 900 business owners and decision makers from around New Zealand. The research was independently* conducted as a 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 November 2018 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:

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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