

Vero
SME Insurance Index 2021

TRENDS IN INSURANCE
BEHAVIOUR AND ATTITUDES



Informed

Insight into small business drives new opportunities.

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Introduction

"In the midst of every crisis, lies great opportunity". Albert Einstein said this in a very different era, but there is no question that the last eighteen months have provided plenty of scope to test his assertion. And while small businesses in New Zealand have faced significant challenges, the findings from this year's Vero SME Insurance Index suggest that insurance brokers and advisers are embracing the opportunity to deliver assistance to the small business sector in increasing numbers. While there are still areas of improvement for the broking profession to address, our findings suggest that this is a good time to be working in this space.

Therefore, we are delighted to present the second issue of the Vero SME Insurance Index in New Zealand for 2021. Following the deep dive into claims earlier in the year, in this issue we have delved deep to understand

the diversity of New Zealand small business – who they are, how they feel about insurance and how their insurance behaviour is changing and why?

And while each year we see change and growth, more than ever this year we have seen the importance of delivering well on fundamentals. In 2021 we have learnt that insurance brokers and advisers are increasingly important and relevant to New Zealand small businesses, and that building collaborative relationships can help to ensure SMEs are happy working with their broker or adviser for the long-term.

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

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The findings

The second issue of the 2021 Vero SME Insurance Index focusses on trends in insurance, including:

- **Positive trends in insurance purchasing behaviour**
- **The rise of consumer cynicism**

These topics will be explored in detail in this report.

Executive summary

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

- Business decision makers under 50 years of age are a key area of opportunity for brokers. Brokerages could consider targeting this audience in marketing activities.
- Those considering a broker are more likely to say they will try a broker because it will save them time or provide guidance and expertise, so brokerages can think about using these as key messages in marketing communications and when talking to prospective clients.
- Those considering using a broker would use recommendations to help them find the right broker, particularly from trusted professional advisors such as accountants. Brokerages could consider building relationships and referral programs with local professional service firms to help win more new business from referrals.
- As the trend in consumer cynicism grows, brokers can use their relationships and position of trust to educate SMEs and actively demonstrate the expertise, value and time saving that they can deliver to their clients.
- Brokers could look to present engaging and reliable content in the form of blogs on their websites or social media pages to increase the level of trust their clients have in them.
- There is an opportunity for brokers in establishing collaborative relationships with their clients to help increase client satisfaction levels – this includes staying in contact more regularly and having more involved discussions with clients.
- Those SMEs who have been with their broker for 3-5 years are less likely to be satisfied with their broker, suggesting that there is a “honeymoon” effect with new client relationships. Brokers could consider implementing procedures that ensure ongoing relationships and contact (e.g. 90-day touch or another time period that meets SME needs) to translate initial satisfaction to long-term effective relationships. It's also useful for brokers to ask regularly about changes clients may have experienced that may impact their insurance needs (i.e. more or less employees, working from home, new equipment purchases).
- Brokers could consider discussing the business impacts of making reductions to insurance cover to help SMEs understand the potential risks of under-insurance. If brokers know they have clients who are in difficult financial circumstances, brokers could consider working with them to find alternatives to reducing their insurance cover.



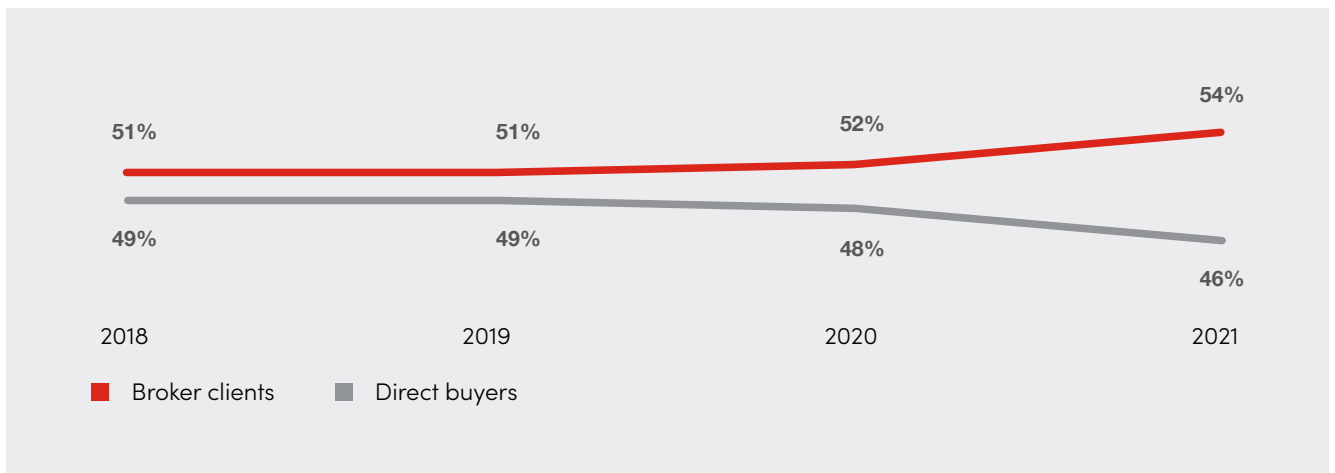
Part 1: Positive trends in insurance purchasing behaviour

SME broker and adviser usage continues to grow

Choice is a feature of most facets of the economy, and small business insurance is no different. A generation ago, buying insurance through a broker was a default option for most small businesses, whereas today SMEs have a range of ways they can buy their insurance. Despite this choice, brokers remain an important purchase channel for many SMEs.

This year, 54% of SMEs claimed that they purchased their most recent insurance policy through a broker. This is a small increase of 2% on last year and continues the trend of small year-on-year increases of this important measure (see Figure 1.1).

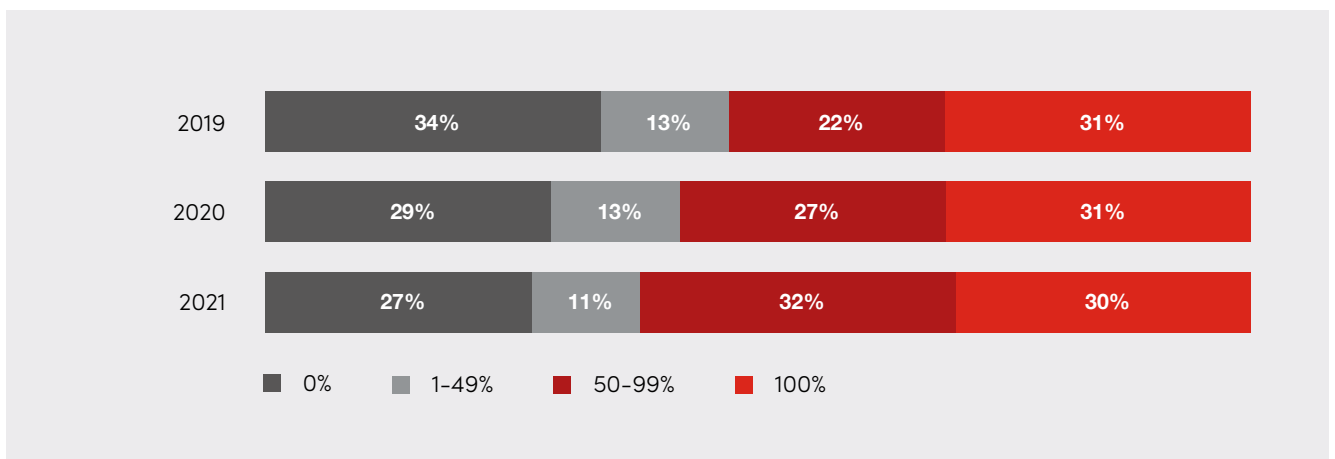
Figure 1.1: Broker usage



Our research over recent years has identified that many SMEs use a mix of channels to buy their insurance. When asked approximately how much of their insurance is purchased through a broker, almost 2 in 3 claims to use a broker for at least half of their insurance, and 30% use a broker exclusively (see Figure 1.2). At the same time, the

number of SMEs who report buying all their insurance direct has declined steadily, from 34% in 2019 to 27% this year. This suggests that brokers may be growing in relevance to these SMEs, which presents a fantastic opportunity for broker business growth.

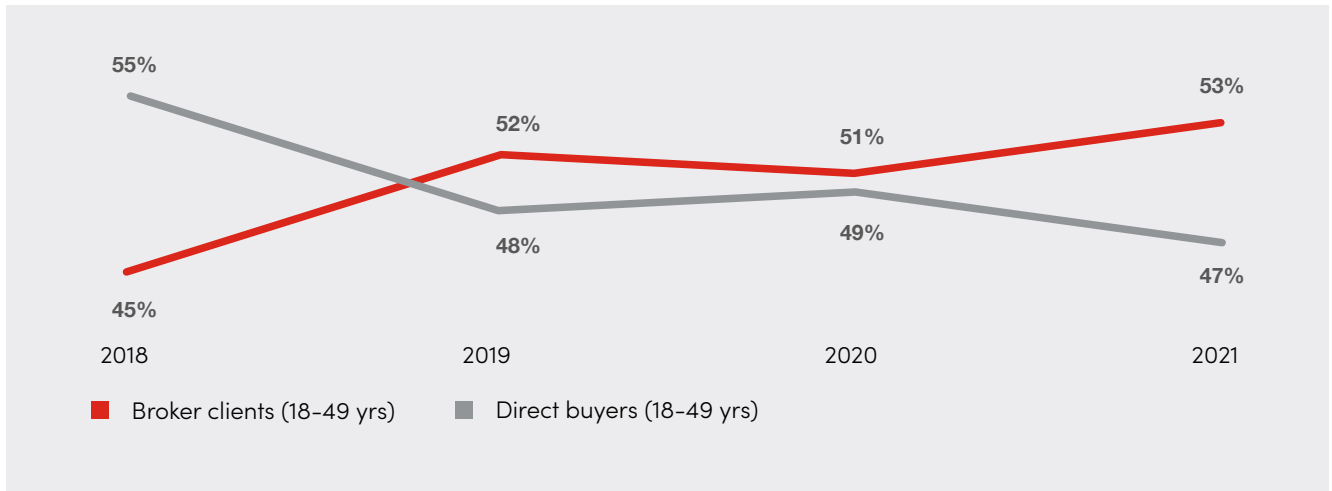
Figure 1.2: % of policies bought through broker



Brokers are used by a wide range of SMEs, and this year's data demonstrates that the increase in broker usage is particularly strong amongst younger SMEs. In 2021, 53% of SMEs under 50 years of age used a broker for their most

recent insurance purchase, an increase from 45% in 2018 (see Figure 1.3). This suggests that younger SMEs are a very important audience for brokers to target.

Figure 1.3: Broker usage (age comparison)

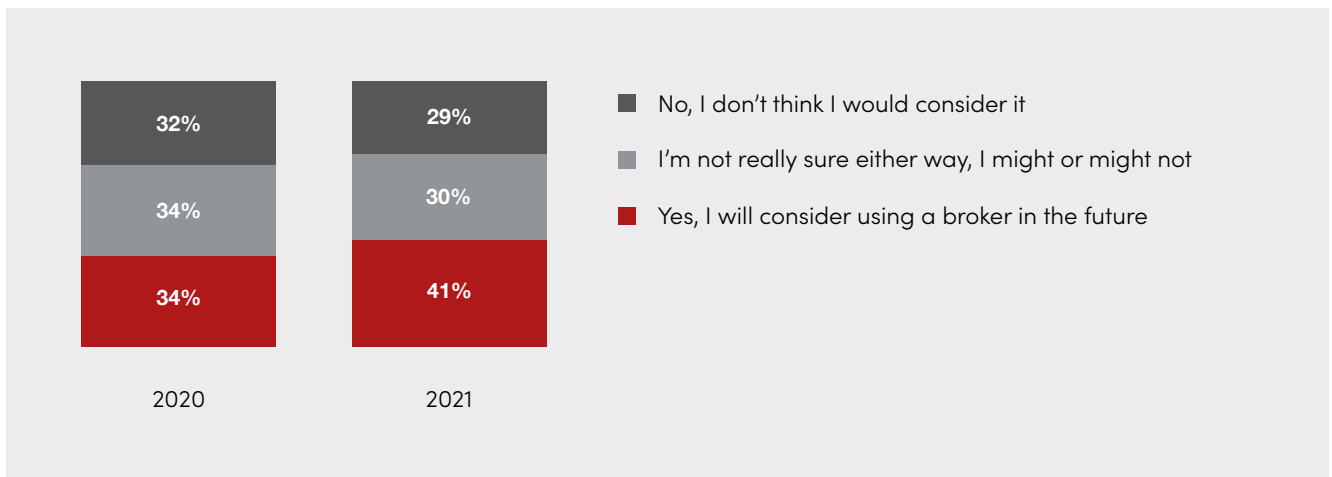


Direct buyers are increasingly considering using brokers and advisers

Not only is current broker usage increasing, but also, in a positive sign for future industry growth, those who buy their insurance direct are increasingly considering using a broker

in the future. Specifically, this year 41% of direct buyers said that they would consider using a broker in the future, up from 34% in 2020 (see Figure 1.4).

Figure 1.4: Broker consideration (amongst direct buyers)



This measure is a very important indicator of future growth of broker usage as it demonstrates that brokers are relevant and of interest to a wider group than those who already use brokers.

An increasing number of New Zealand SMEs are using brokers and advisers or are considering using one in the future, meaning that brokers and advisers have an opportunity to grow their business by demonstrating the benefits they deliver.

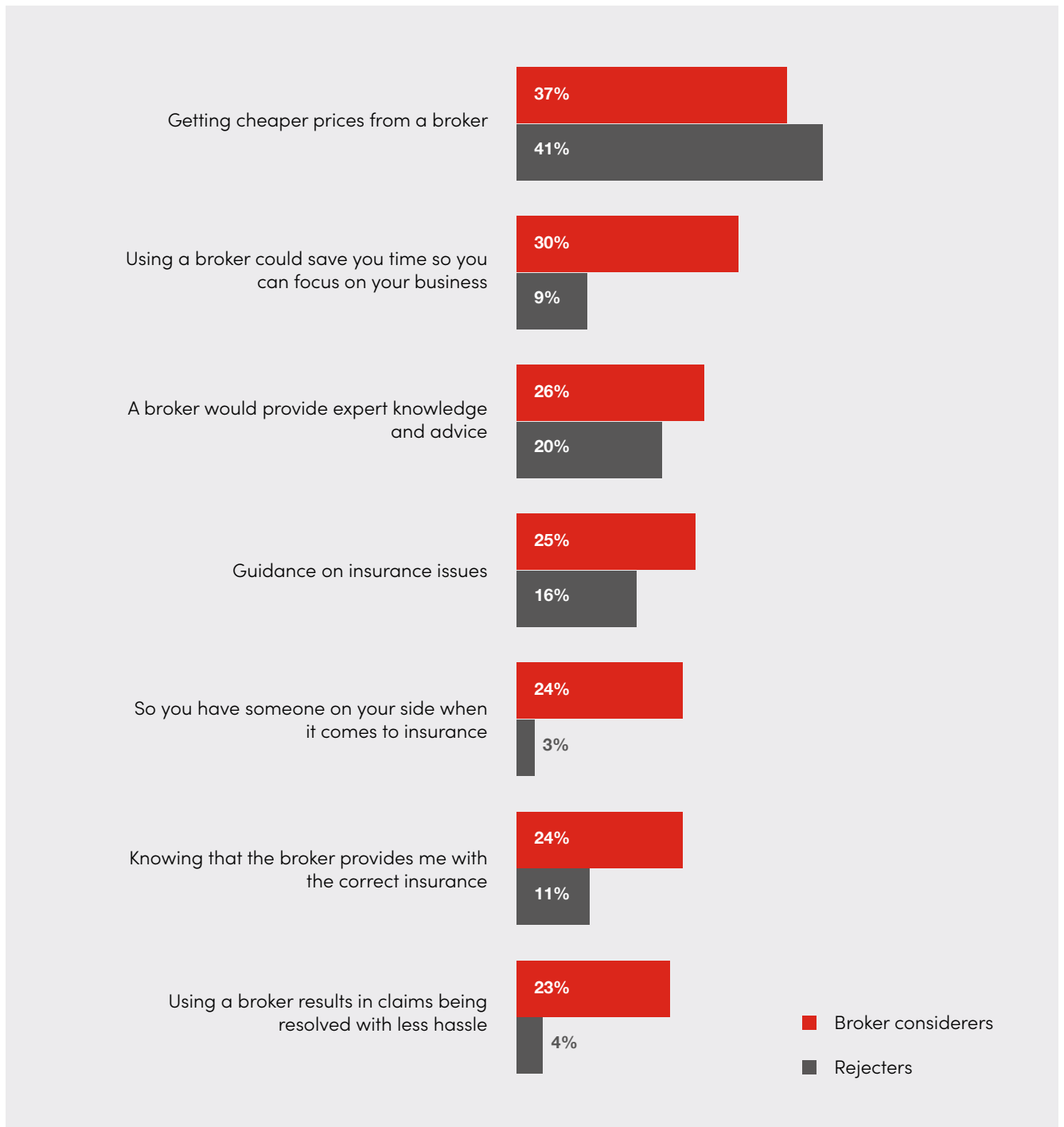


So how can brokers attract this potential audience?

When asked what factors might persuade direct buyers to use a broker, a range of reasons emerge. While price is important, those who consider using a broker would also be interested in a range of benefits that more strongly demonstrate the expertise and reassurance that brokers can deliver to their clients. Specifically, 30% of those who would consider using a broker would like a

broker who could save them time, 26% value a brokers' expert knowledge and advice, and 25% would appreciate guidance on insurance issues (see Figure 1.5). Other relevant benefits for this group include having someone on their side, reassurance that they have the right cover and an easier claims experience.

Figure 1.5: Top reasons SMEs might try a broker



This increased consideration represents an opportunity for brokerages to represent their offering in a way that's aligned to what SME's are looking for in order to broaden their client base. Understanding how these considerers would look for a broker provides valuable guidance on how brokerages can attract this potential audience. Word

of mouth is an extremely valuable tool to enable SMEs to find brokers. 34% of direct buyers say that they would ask a business advisor such as an accountant or lawyer, while 33% would turn to a personal contact such as a colleague, friend, or family member (see Figure 1.6).

Figure 1.6: Top 5 places to find a broker



What this means for brokers and advisers

- Business decision makers under 50 years are a key area of opportunity for brokers. Brokerages could consider targeting this audience in marketing activities.
- Those considering a broker are more likely to say they will try a broker because it will save them time or provide guidance and expertise, so brokerages can think about using these as key messages in marketing communications and when talking to prospective clients.
- Those considering using a broker would use recommendations to help them find the right broker, particularly from trusted professional advisors such as accountants. Brokerages could consider building relationships and referral programs with local professional service firms to help win more new business from referrals.



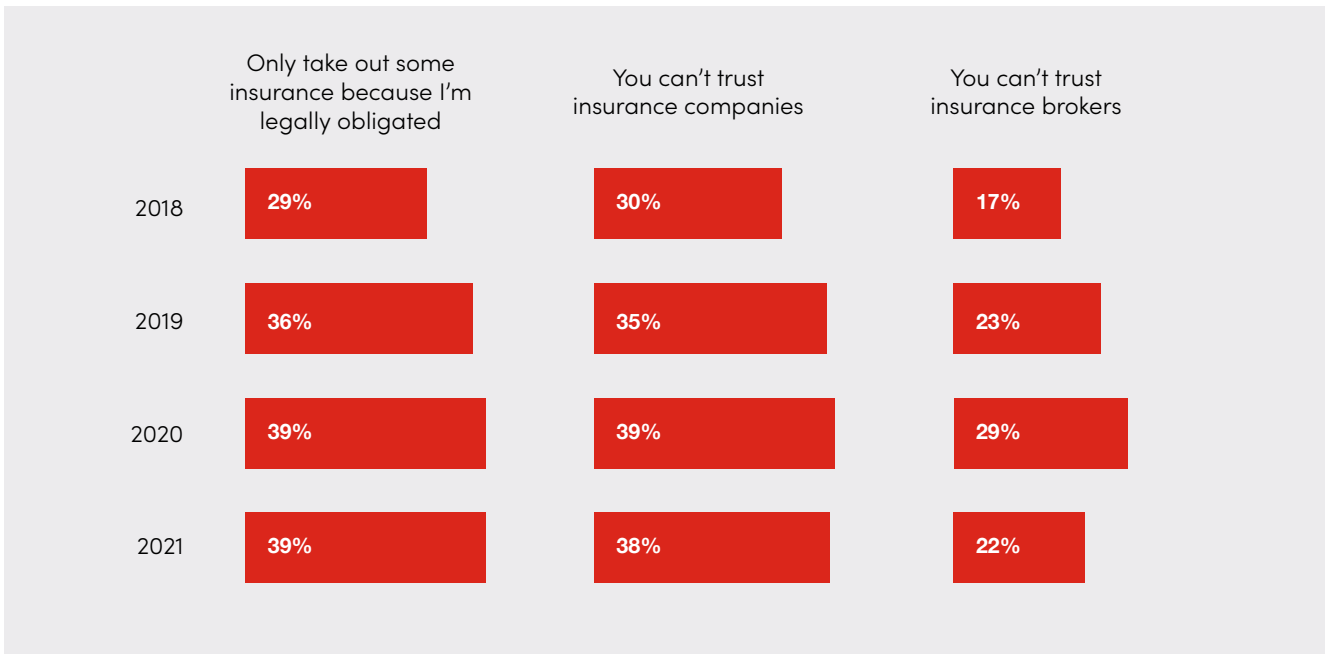
Part 2: The rise of consumer cynicism


SMEs are becoming more mistrusting of insurance

One of the hallmarks of the information era has been a rise in consumer mistrust, demonstrated in many studies such as the annual Edelman Trust Monitor. This trend is widespread across countries and industries, and there are some signs that this mistrust is also present in insurance. An increasing number of SMEs in New Zealand say that they only take out some insurance because of legal obligations, with 39% agreeing with this statement in 2021, up from

29% in 2018 (see Figure 2.1). In addition, an increasing number agree with the statement “you can’t trust insurance companies”. Importantly, this level of mistrust is lower for brokers than for insurance companies, and in fact this year the percentage of mistrust declined by 7% from 2020 for brokers, suggesting that the personal relationships that brokers have with their clients may be fostering higher levels of trust.

Figure 2.1: Mistrust - insurance attitudes



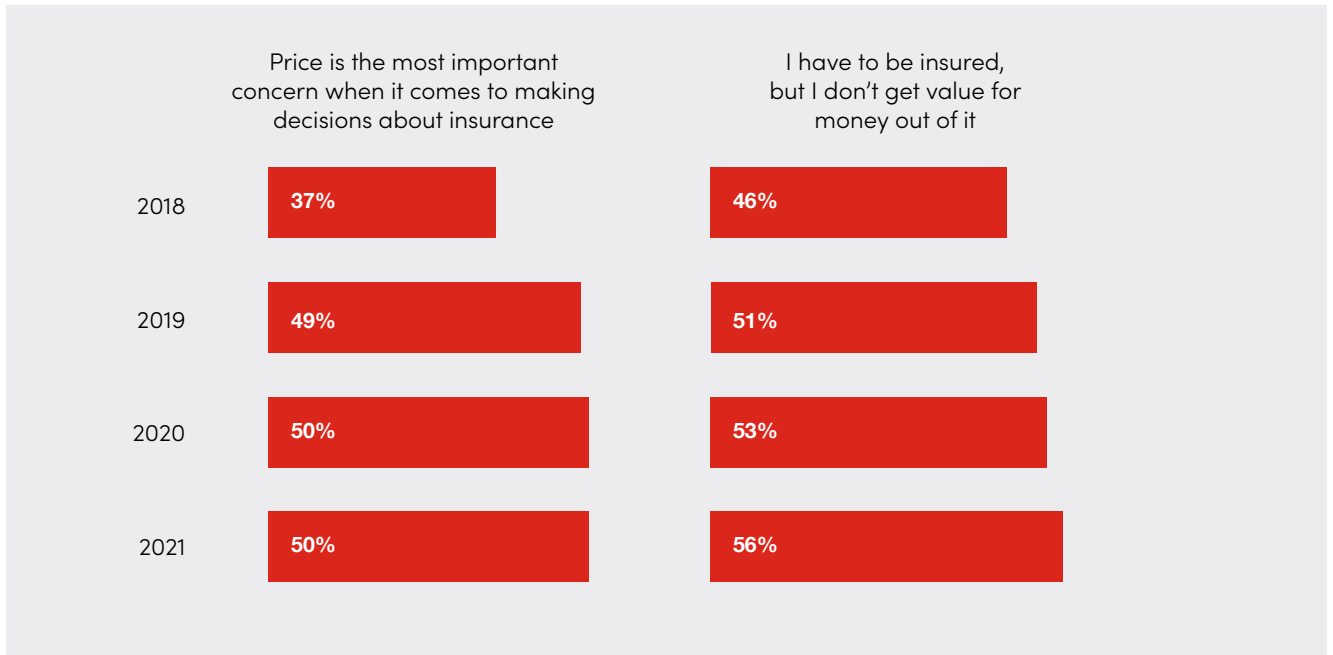


Brokers and advisers can build satisfied, sustainable relationships by working collaboratively with their clients, even once the relationship is established.

These higher levels of mistrust are accompanied by an increase in price-driven attitudes towards insurance. Half of SMEs say that price is the most important concern when making decisions about insurance, which is steady over

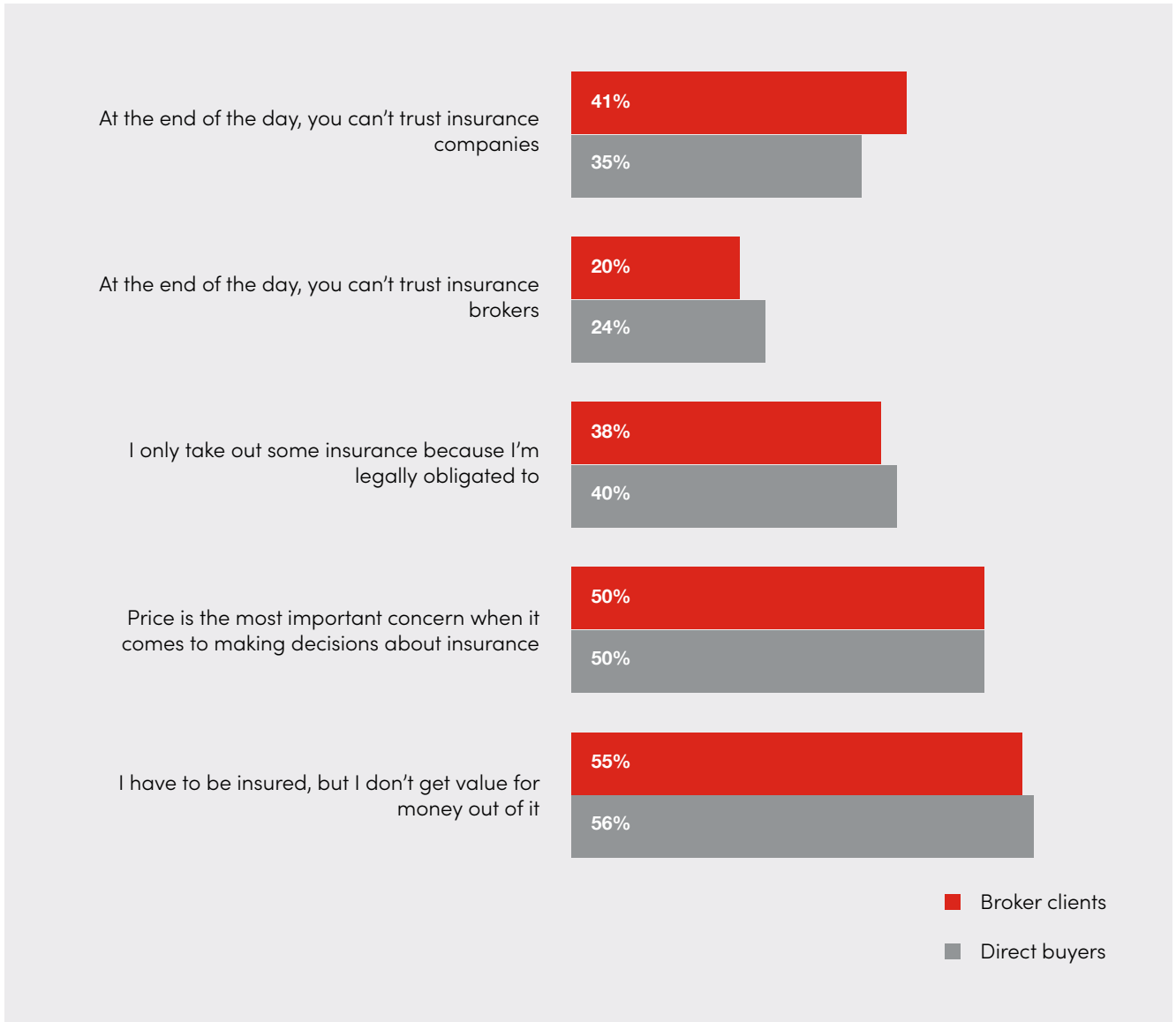
the last few years but up from 37% in 2018, and 56% believe they don't get value for money from their insurance, up from 46% in 2018 and 53% in 2020 (see Figure 2.2).

Figure 2.2: Price driven insurance attitudes



Disappointingly, even though insurance brokers have higher levels of trust than insurance companies, broker clients are only marginally less mistrusting than direct buyers (see Figure 2.3).

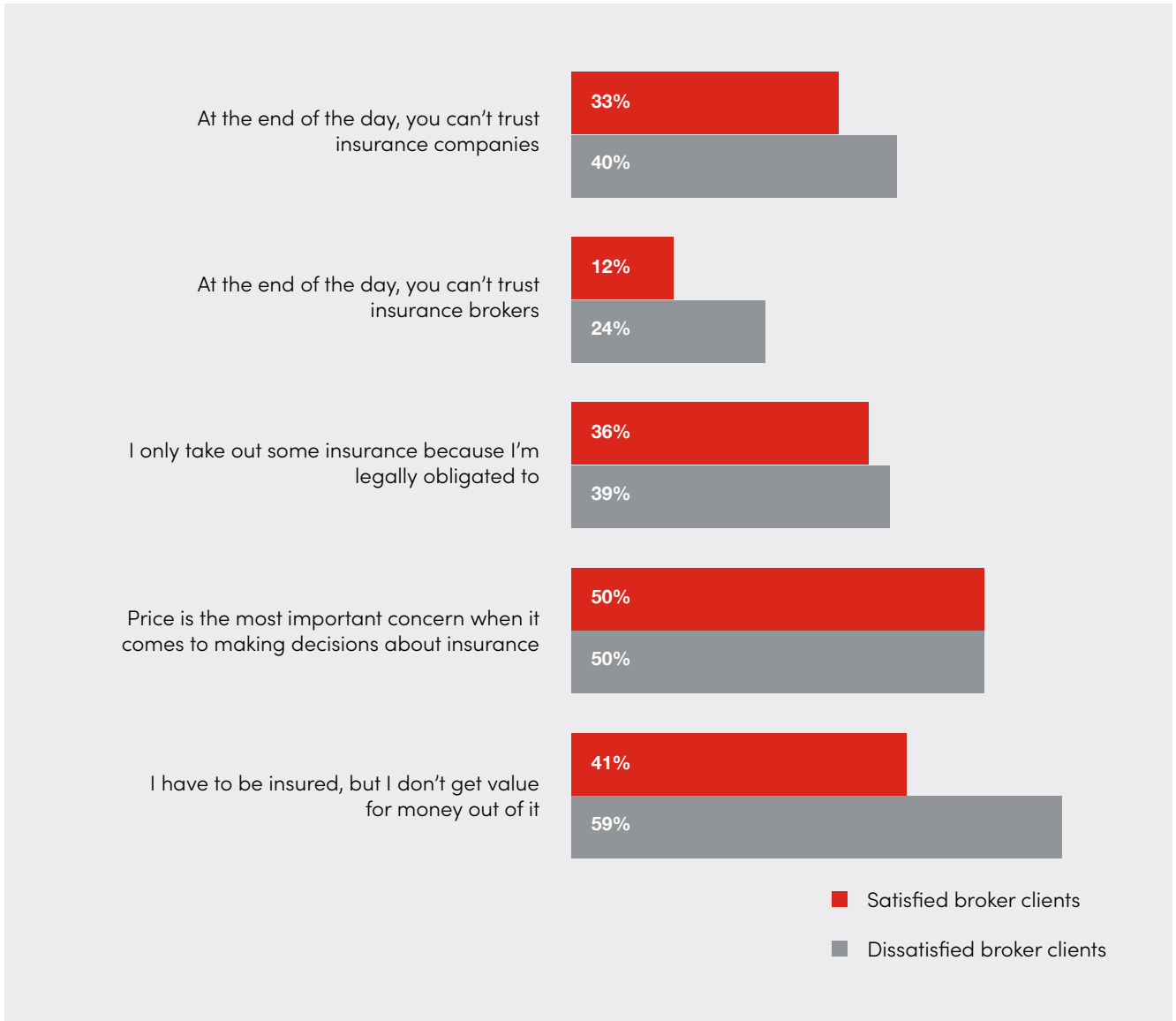
Figure 2.3: Insurance Attitudes (purchase channel comparison)



However, levels of satisfaction have a marked impact on mistrust. Satisfied broker clients are more trusting of insurance in general and brokers in particular, with only 12% saying that they don't trust brokers compared to 24% of dissatisfied clients (see Figure 2.4). They are also significantly more likely to appreciate their insurance, with

only 41% questioning the value they get from insurance, compared to 59% of dissatisfied clients. This suggests that, while mistrust is a society-wide trend, brokers can counteract its impact by developing strong, close, and effective relationships with clients.

Figure 2.4: Insurance Attitudes (broker satisfaction comparison)

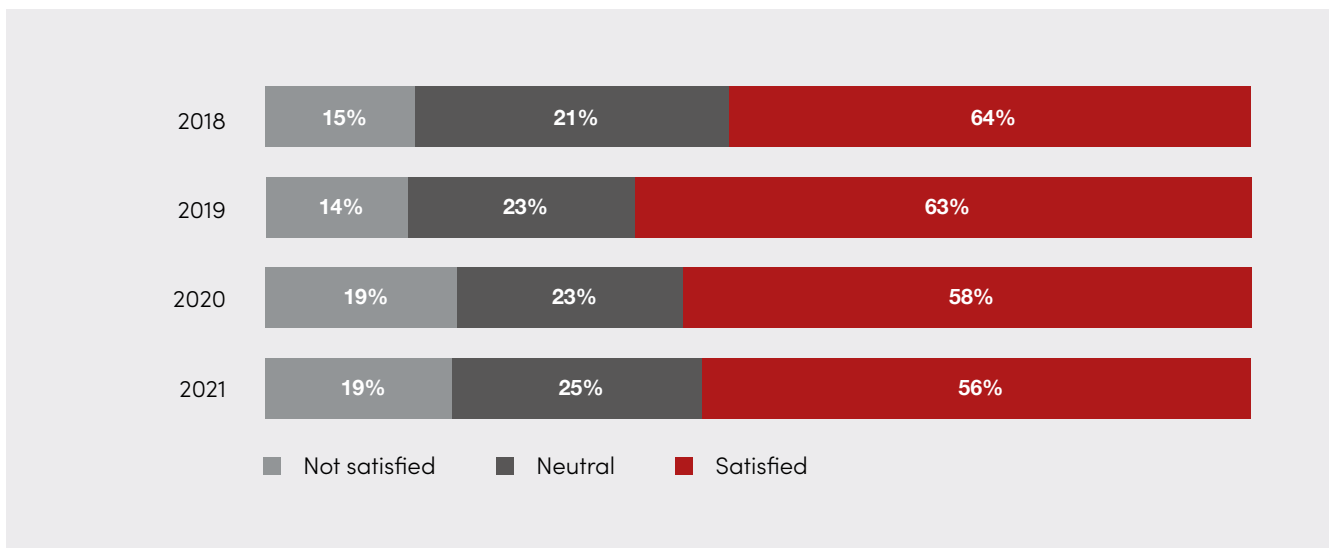


SME satisfaction with brokers and advisers continues downward trend

In service professions, customer satisfaction is a critical measure of how well needs are being met. While broker usage trends are very positive, unfortunately there has been a slow decline in the number of SME broker clients who say they are satisfied with their broker. This year, 56% of broker clients score their broker at least 8 out of 10, down from 64% in 2018 (see Figure 2.5). While this

decline is disappointing, it is important to view this in the broader societal context, in which trust is declining (as seen in the annual Edelman Trust Barometer) and customer expectations of service providers are increasing. The opportunity for brokers is to work out how to deliver to SME clients in this challenging context.

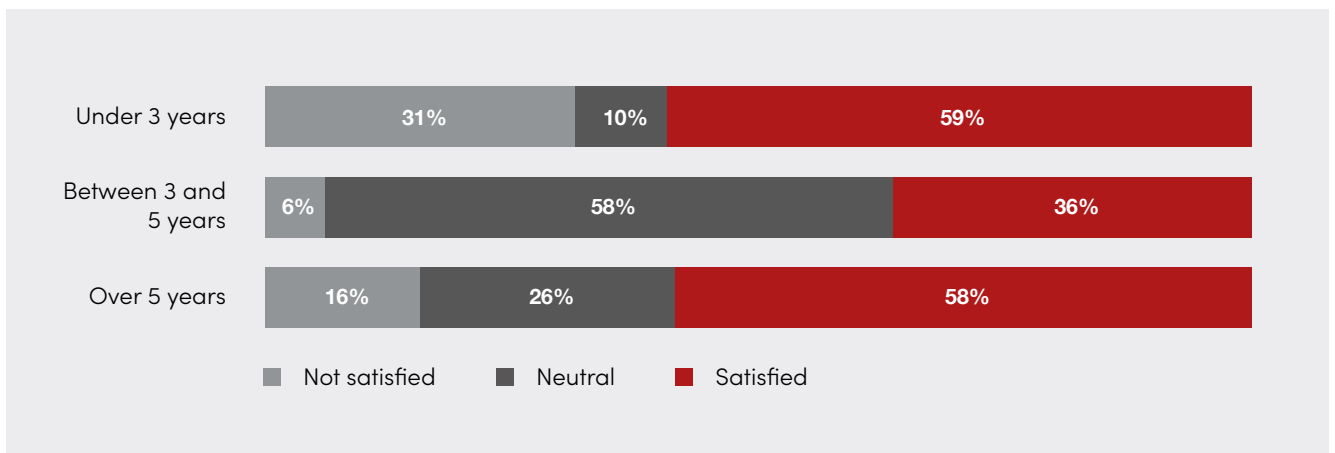
Figure 2.5: Broker satisfaction



By understanding why clients are dissatisfied and which clients are most dissatisfied, brokers can ensure that their service meets customer needs and subsequently combat declining satisfaction levels.

Looking first at which clients are most dissatisfied, more detailed analysis of the data finds that satisfaction scores are generally uniform across demographics. However, satisfaction is markedly lower amongst one key group, namely those who have been working with their broker for between 3 and 5 years (see Figure 2.6).

Figure 2.6: Broker satisfaction (Length of use comparison)

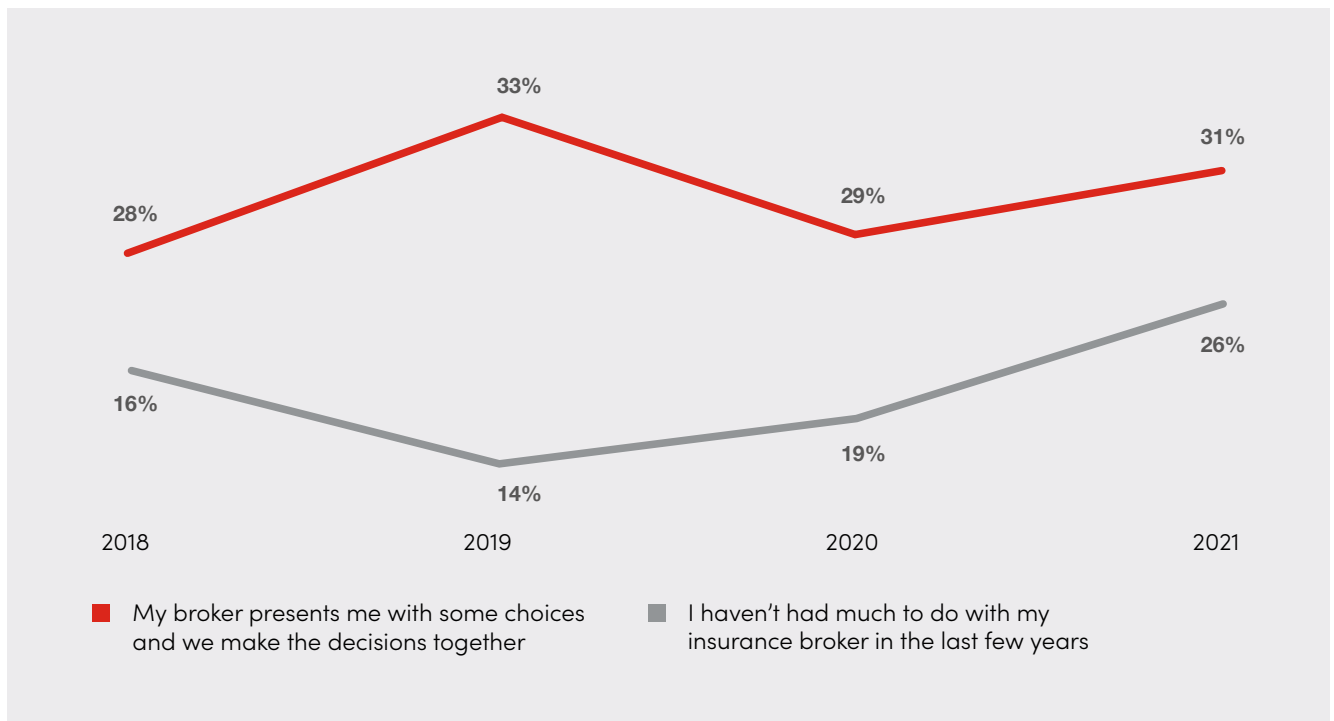


This suggests that there may be a “honeymoon” effect in broker relationships, in which clients and brokers have strong early relationships, where brokers are able to demonstrate their value, but complacency may creep in once the relationship is well established. This also suggests that brokers are doing an excellent job at attracting and on-boarding new clients (thus the increase in broker usage as described earlier) but may be devoting less time and attention as the relationship becomes more established. This complacency may also exist with clients who are happy to “set and forget” their insurance once the relationship is established, and therefore may not realise the ongoing benefits they could be gaining through regular discussions with their broker. The implication is that brokers could

continue to focus on building relationships throughout the customer lifecycle and remind clients of the value of regular conversations and reviews of their insurance.

Turning to the reasons clients become dissatisfied, the data demonstrates a clear correlation between satisfaction and the type of relationship brokers have with their clients. Over the last several years, there has been a significant increase in the numbers of broker clients who say that they haven't had much to do with their broker, up from 16% in 2018 to 26% this year (see Figure 2.7). At the same time, the number of SMEs who have a more collaborative relationship with their broker has stayed steady at an average of 30% over the past 4 years.

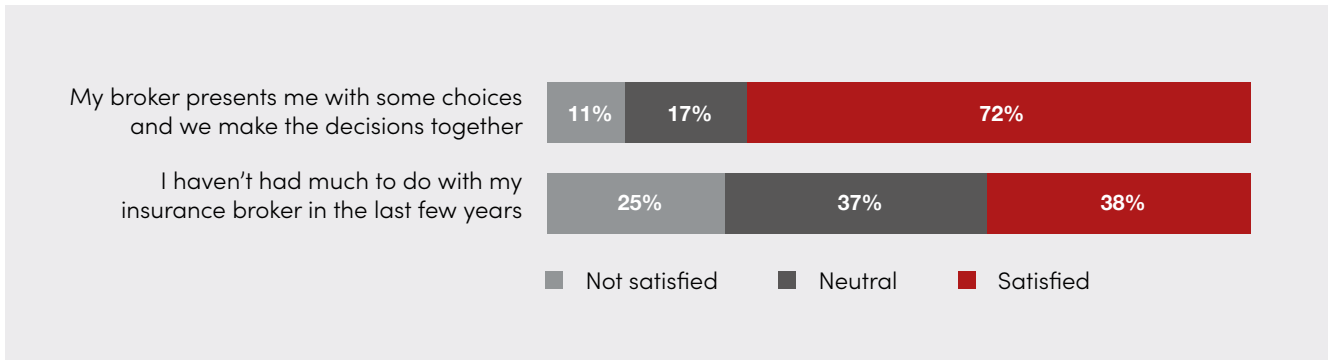
Figure 2.7: Broker relationship



This increase in more distant relationships has a significant link to satisfaction rates. Only 38% of those who haven't had much to do with their broker are satisfied, compared to 72% of those who have a collaborative relationship (see Figure 2.8). As we reported last year, there are a number of activities that brokers can undertake that help build

collaborative relationships, such as conducting in-depth risk analysis and taking the time to understand businesses and their needs. But overall, the message for brokers is clear: cultivating strong partnerships in which they work closely with their clients is a proven way to build satisfaction and thereby ensure long-term, sustainable relationships.

Figure 2.8: Broker satisfaction



Interestingly, the data demonstrates a connection between the type of relationship brokers have with their clients and the time they have worked together, with relationships of between 3 and 5 years most likely to be distant (see Figure 2.9). This points to a tendency for relationships to become more distant once they are established and supports the

theory that there is a "honeymoon" effect in place for many broking relationships. It also provides strong guidance for brokers that by maintaining regular contact and engaged relationships, they can overcome the risk of clients becoming disenchanted after a few years.

Figure 2.9: Distant relationship with broker (Length of use comparison)



What this means for brokers and advisers

- As the trend in consumer cynicism grows, brokers can use their relationships and position of trust to educate SMEs and actively demonstrate the expertise, value and time saving that they can deliver to their clients.
- Brokers could look to present engaging and reliable content in the form of blogs on their websites or social media pages to increase the level of trust their clients have in them.
- There is an opportunity for brokers in establishing collaborative relationships with their clients to help increase client satisfaction levels – this includes staying in contact more regularly and having more involved discussions with clients.
- Those SMEs who have been with their broker for 3–5 years are less likely to be satisfied with their broker, suggesting that there is a “honeymoon” effect with new client relationships. Brokers could consider implementing procedures that ensure ongoing relationships and contact (e.g. 90-day touch) to translate initial satisfaction to long-term effective relationships. It’s also useful for brokers to ask regularly about changes clients may have experienced that may impact their insurance needs (i.e. more or less employees, working from home, new equipment purchases).

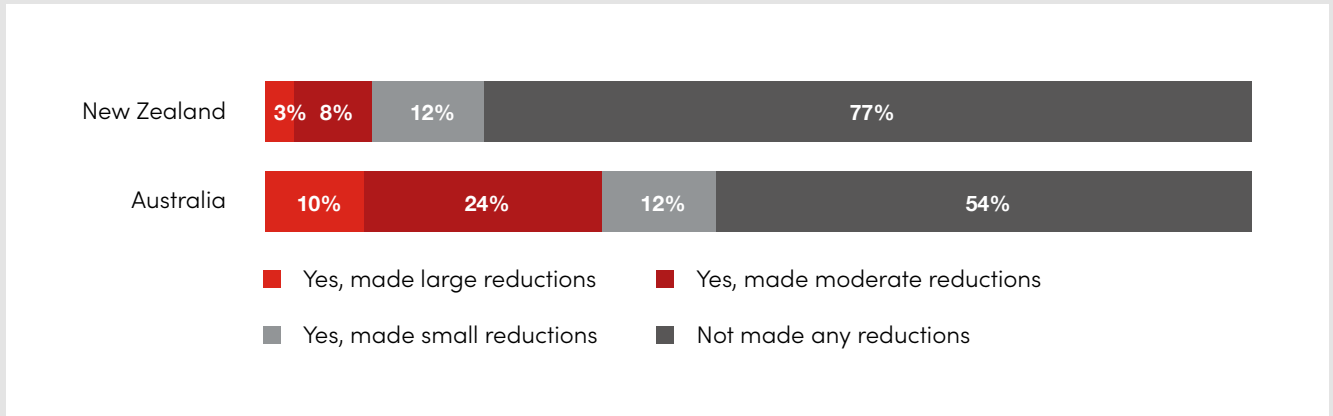
Vero shares blog articles on their Vero Voice Blog (vero.co.nz/vero-voice) which brokers and advisers are welcome to use. Simply copy the content and include a source credit to Vero Insurance New Zealand.

Some SMEs have reduced their insurance cover during COVID

The COVID-19 pandemic and associated restrictions have had an impact on many businesses. When this research was completed in November 2020 it showed that around 1 in 5 New Zealand small businesses have had to

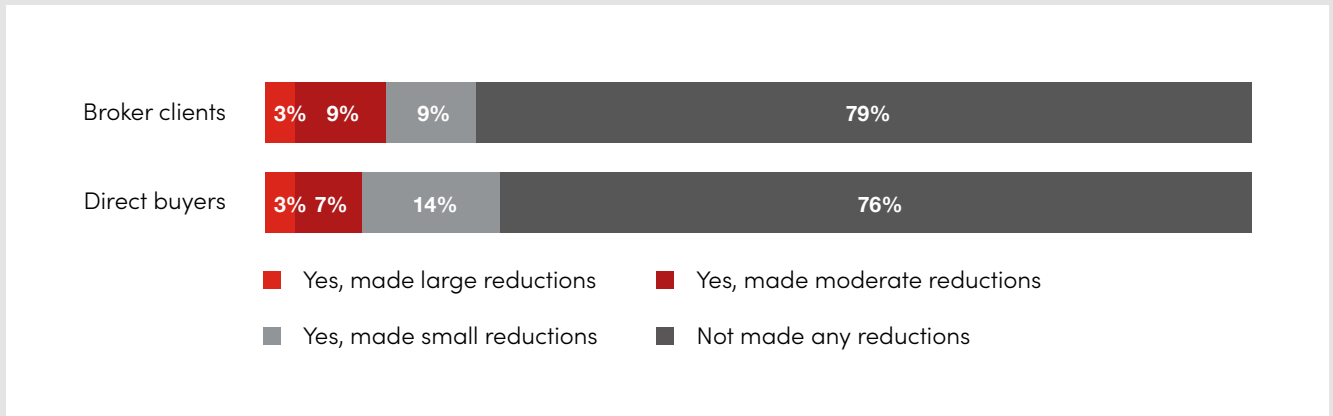
reduce their insurance as a result (see Figure 2.10). While concerning, this figure is well below that seen in Australia, where just under half of businesses reported making some form of reduction to their insurance.

Figure 2.10: Reduced insurance last 6 months



There is no difference in this rate of reduction between broker clients and direct buyers, with both groups equally as likely to have reduced their insurance (see Figure 2.11).

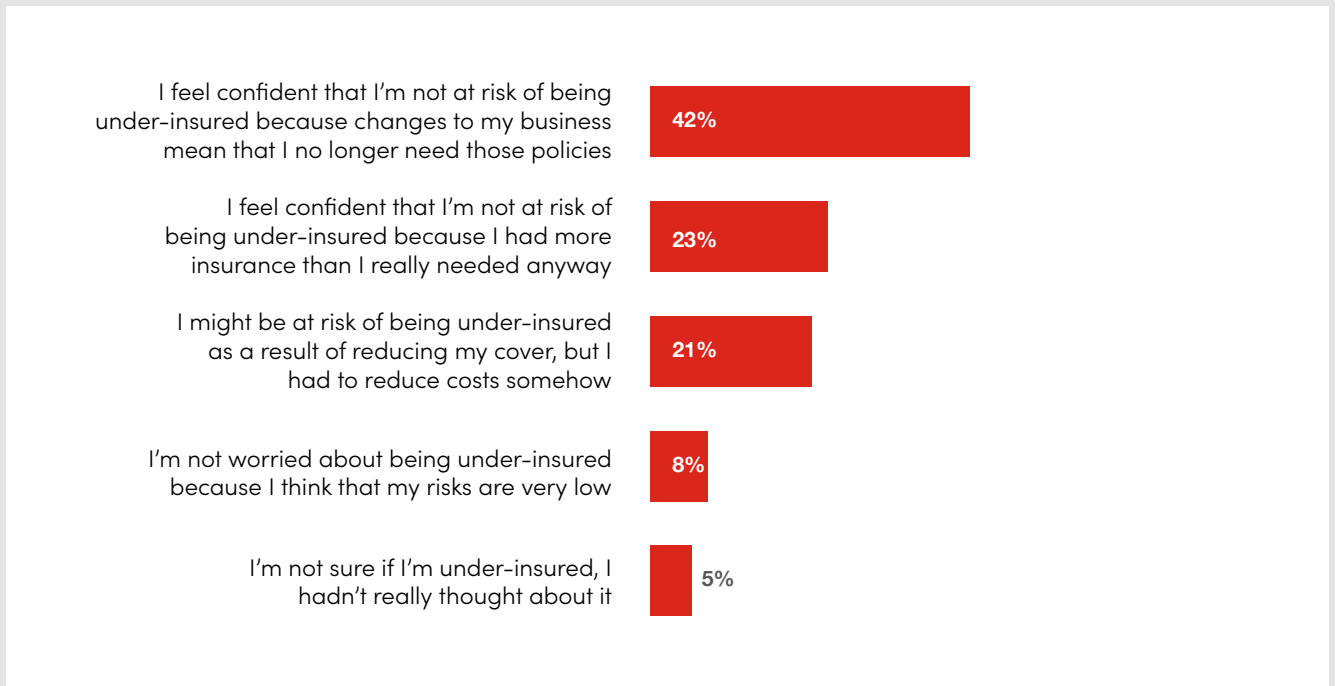
Figure 2.11: Reduced insurance last 6 months (purchase channel comparison)



Despite making reductions to their insurance, most of these SMEs report feeling comfortable about their decision, with only 1 in 5 worrying that they may be under-insured (see Figure 2.12). Almost two thirds say that they feel confident they aren't under-insured, either because they believe that they no longer need that insurance or because they think they had more insurance than they needed anyway. While large numbers of those who have reduced their

insurance feel confident, is this confidence warranted? It is possible that many of these SMEs do not fully understand the risks they face and the potential impacts of reducing their insurance cover. This means that brokers have an opportunity to provide valuable expertise and support to their clients by providing education and advice about the risks of under-insurance.

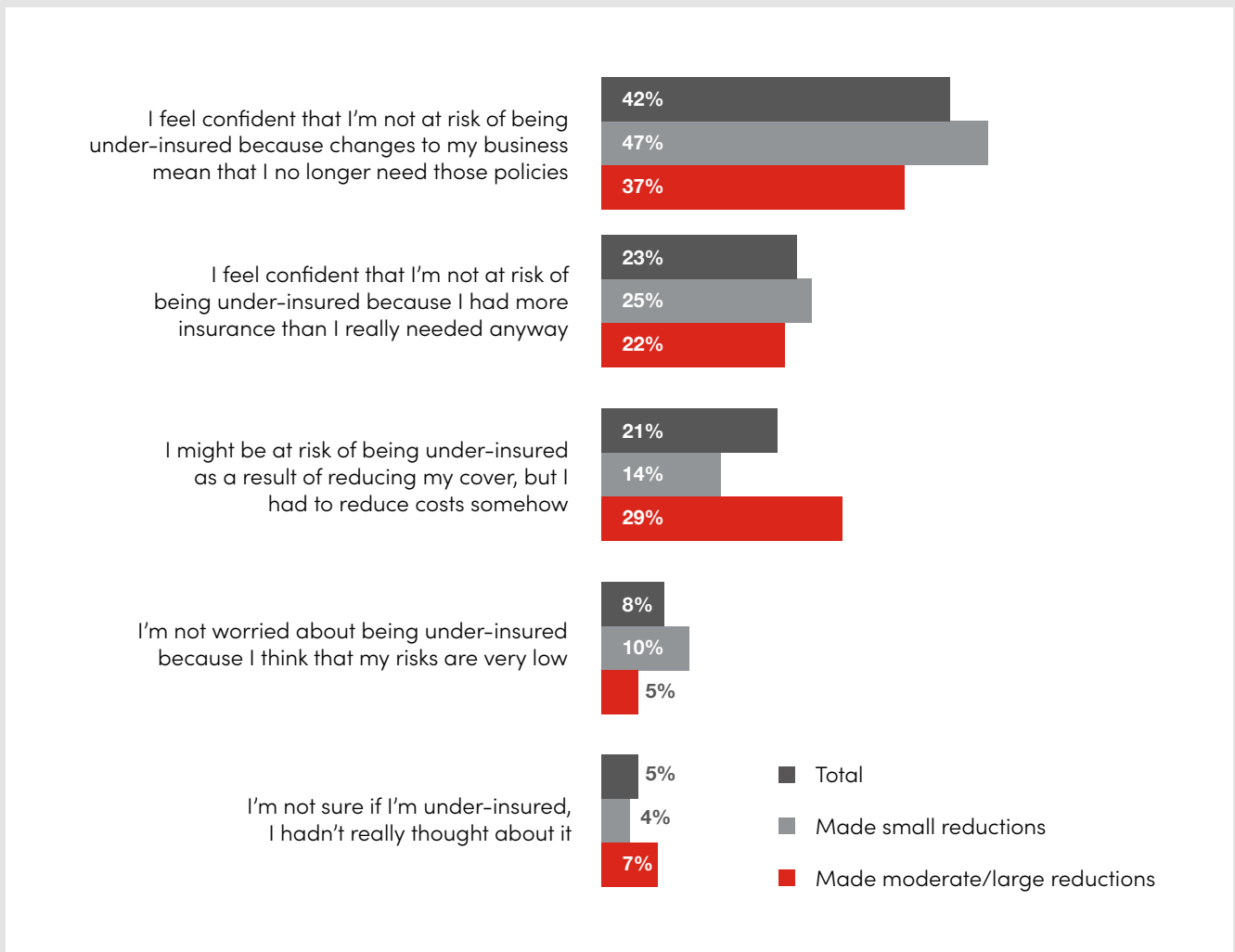
Figure 2.12: Mindset when reducing insurance



Those who are most aware of the risk of under-insurance are most likely to have made larger reductions to their insurance, while those who are more confident are more likely to have made small reductions (see Figure 2.13).

If clients are struggling financially and needing to make reductions, brokers could consider providing support and advice on the best way to make these reductions whilst minimising risks of under-insurance.

Figure 2.13: Mindset when reducing insurance (reduction amount comparison)



What this means for brokers and advisers

- Brokers could consider discussing the business impacts of making reductions to insurance cover to help SMEs understand the potential risks of under-insurance. If brokers know they have clients who are in difficult financial circumstances, brokers could consider working with them to find alternatives to reducing their insurance cover.

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 November 2020 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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