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Introduction

Welcome to the 2nd edition of the Vero SME Insurance Index for New Zealand.

Change, as the cliché goes, is one of the few constants in life, and there is no doubt that we are living through times of unprecedented transformation. The astonishing advances we are witnessing in technology are having an impact on all parts of society and business, and insurance is no exception.

The findings of the Vero SME Insurance Index 2018 reflect a commercial insurance environment that is complex and dynamic. The evolving attitudes of small to medium enterprise (SME) business owners and decision-makers present challenges for an industry that needs to progress to stay relevant.

In this complex environment, this year we have found that SMEs are increasingly trying different insurance arrangements and that insurance purchasing is not a simple affair.

While New Zealand is a long way from experiencing the significant declines in broker usage as other developed markets such as Australia, there is clear evidence of shifting behaviours amongst New Zealand SMEs. Importantly, within this changing dynamic, there is an opportunity to better understand the needs and attitudes of this important audience so that brokerages can plan for the future.

While brokers and brokerages know their own clients better than anyone, it is sometimes more challenging for them to see the broader trends and dynamics of the industry. This is why Vero has developed the second edition of the Vero SME Insurance Index.

The research is designed to identify and track insights and illustrate the challenges and opportunities presented by the SME insurance segment. It looks at the attitudes and needs of those who make decisions concerning insurance for SMEs.

We interviewed over 900 small to medium sized business owners and decision makers across New Zealand – a highly diverse and representative mix of businesses from micro to medium, metro and regional, young and old, male and female, and across a large range of industry sectors.

The overriding theme from the businesses we spoke to was change. Change brings both risk and opportunity and the chance for businesses to evolve and grow. The Vero SME Insurance Index 2018 is designed to help brokers understand the dynamics of a changing market, and identify insights, strategies and tools to help the broking industry and emerge strong and well equipped for an exciting future.

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The findings

This launch report of the Vero SME Insurance Index 2018 focusses on the general market landscape, with findings including:

- **Time and having sole responsibility are the most notable challenges mentioned by SMEs.**
- **A third of SMEs use a broker for all of their insurance, while almost half use a mix of broker and direct.**
- **Some SMEs have started to move away from brokers for at least some of their insurance.**
- **Key learnings for New Zealand brokers can be found in the Australian experience.**
- **Most SMEs claim to review their insurance arrangements on a regular basis.**

These findings will be explored in detail in this report.

Later this year, we will publish two further reports centered around the following themes:

1 Online: we delve deeper and look into attitudinal measures to understand SMEs online behaviour and how brokers can leverage this to their benefit.

2 Women decision makers of SMEs: in the research, we noticed different attitudes and behaviours with women decision makers coming through the results. So, we decided to focus on these findings and look closer to understand this segment for the broker's benefit.





CHALLENGES FACED BY NEW ZEALAND SMES

Time and having sole responsibility are the most notable challenges mentioned by SMEs





It is no surprise to hear that owning and running a small business is tough, but which particular concerns are the most significant and what can brokers do to help their clients deal with these challenges?

Overall, time and having sole responsibility are the most notable challenges mentioned by New Zealand SMEs. 35% rate trying to do everything on their own as one of their top challenges, and 34% say that having no time for themselves or their family is also a major challenge. Efficient time management and dealing with administration and compliance are also major challenges (see Figure 1).

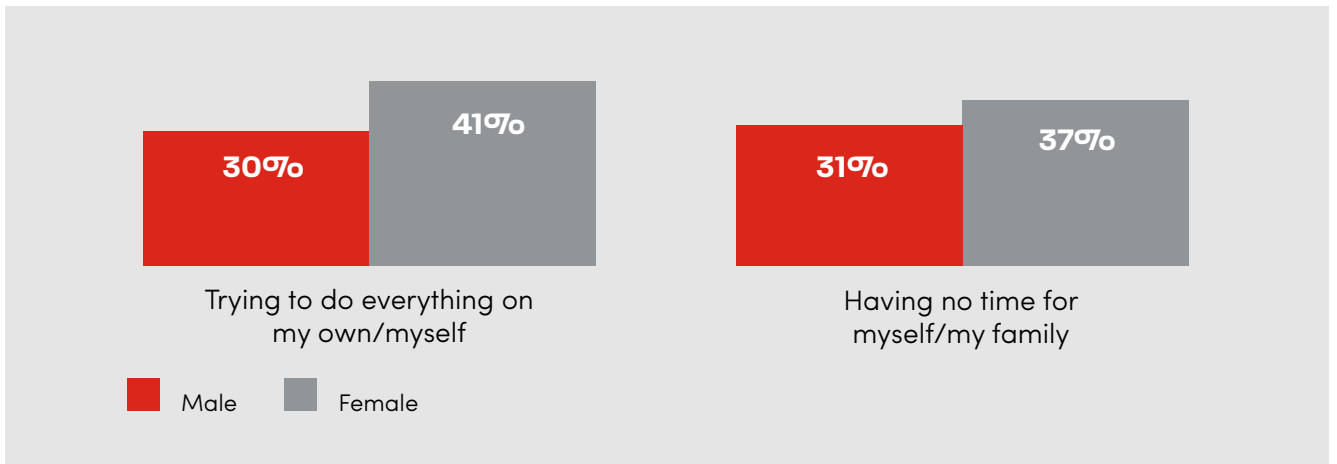
Figure 1: Business challenges



There are some significant differences between groups. For example, females worry more about time than males, with 41% struggling with having to do

everything on their own, and 37% not having enough time for themselves and their family (see Figure 2).

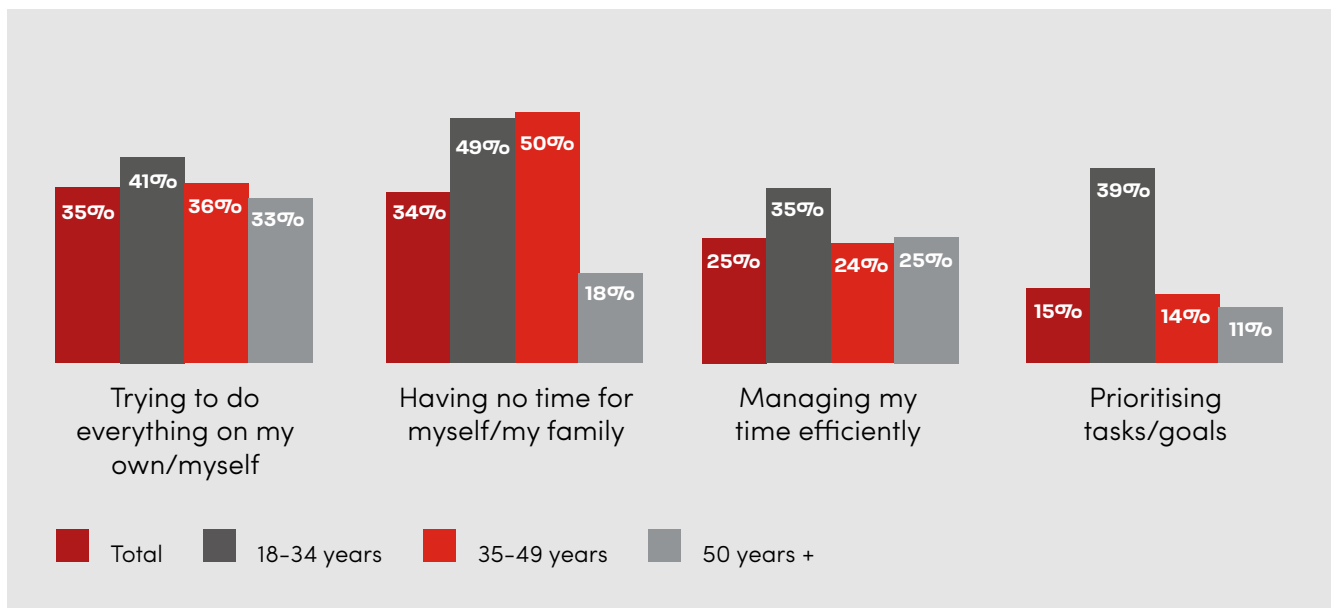
Figure 2: Business challenges by gender



Similarly, time and the elusive work-life balance is a concern for SMEs under 50, the age group most likely to have younger children, with almost half saying that they have no time for themselves or their family. Efficient

time management appears to be a problem for the under 35s, with over a third struggling with managing their time efficiently and almost two in five saying that prioritising tasks and goals is a challenge (see Figure 3).

Figure 3: Business challenges by age

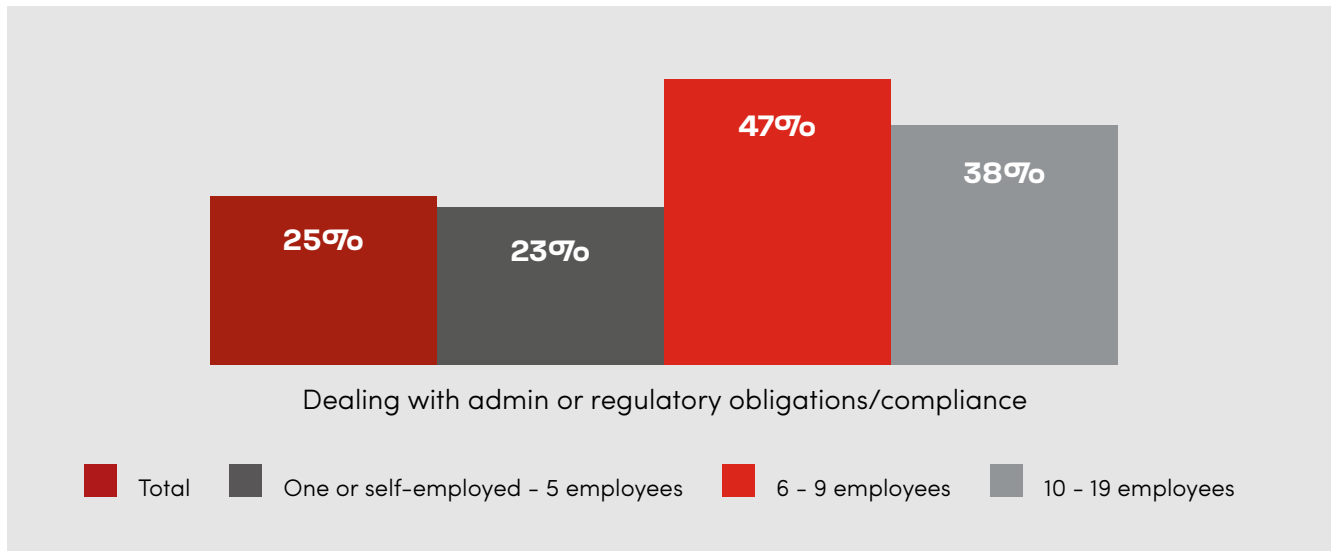


As businesses grow and become more complex, dealing with administration and regulatory requirements becomes increasingly difficult for many business owners. Almost half of all businesses

with six to nine employees say that dealing with administration and compliance is a problem (see Figure 4). In discussions, many SMEs say that it is difficult to keep up with all of their

regulatory obligations and worry that they will miss important details.

Figure 4: Business challenges by size



In a nutshell

- The top challenges facing New Zealand SMEs today are:
 - Trying to do everything on my own
 - Having no time for myself / family
 - Managing my time efficiently
 - Dealing with administration or regulatory obligations

Things for brokers to consider

- Time is the most significant challenge for most SMEs, especially females and those under 50 (the ages most likely to have younger families). Things to consider include:
 - ✓ Demonstrate ways in which brokers save time and make life easier for these busy business owners and decision makers.
- Administration/regulatory compliance issues are important for larger businesses (those with over six employees)
 - ✓ Brokers can help ease the compliance burden and provide confidence for these businesses by keeping clients up to date with regulatory changes that affect them.





THE PURCHASING LANDSCAPE

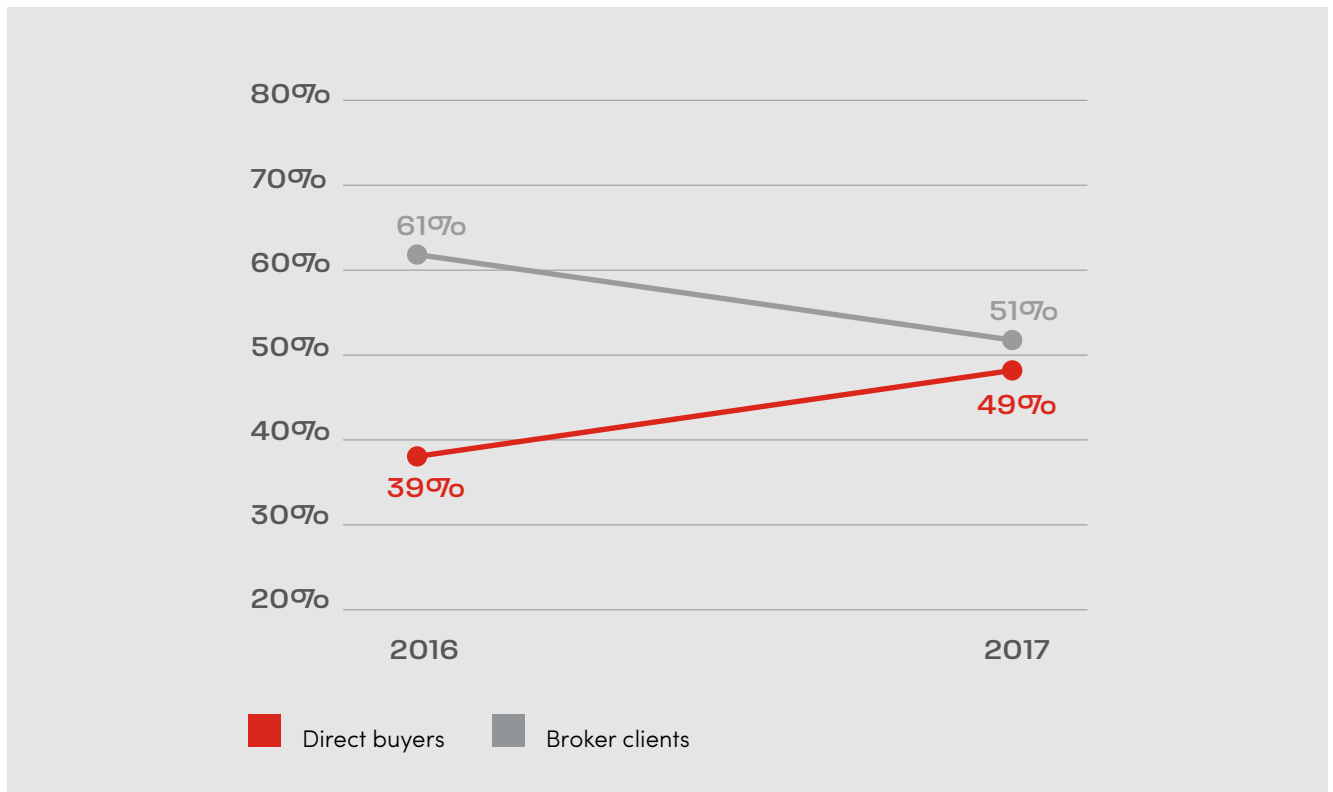
A third of SMEs use a broker for all of their insurance, while almost half use a mix of broker and direct



In New Zealand, broker usage has been considered the norm for SMEs, with a majority of SMEs claiming to use a broker for their business insurance. When we ask SMEs about their last

insurance policy they purchased for their business, just over half of New Zealand SMEs claim to have used a broker, a decline from 61% from the end of 2016 (see Figure 5).

Figure 5: Broker usage



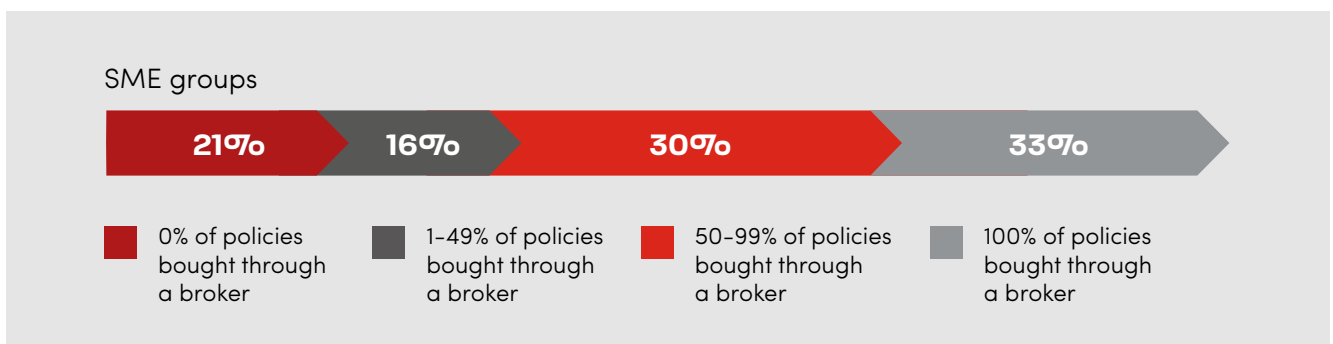
However, this measure suggests that broker use is binary – you either use a broker or you don't. But is this really the case, and does this reflect the reality for most SMEs?

To find out, for this year's findings we asked two new questions aimed at uncovering a more nuanced picture of actual insurance purchase behavior:

1. Of all the insurance policies you have bought or renewed for your business in the last 12 months, approximately what percentage have been bought through a broker?
2. Are you using a broker less than you used to? And if so, why?

These questions have highlighted the complexity of insurance purchasing. Around a third of SMEs claim to use a broker for all their insurance, while around one in five say they don't use a broker at all. Significantly, almost half claim to use a broker for some, but not all, of their policies (see Figure 6).

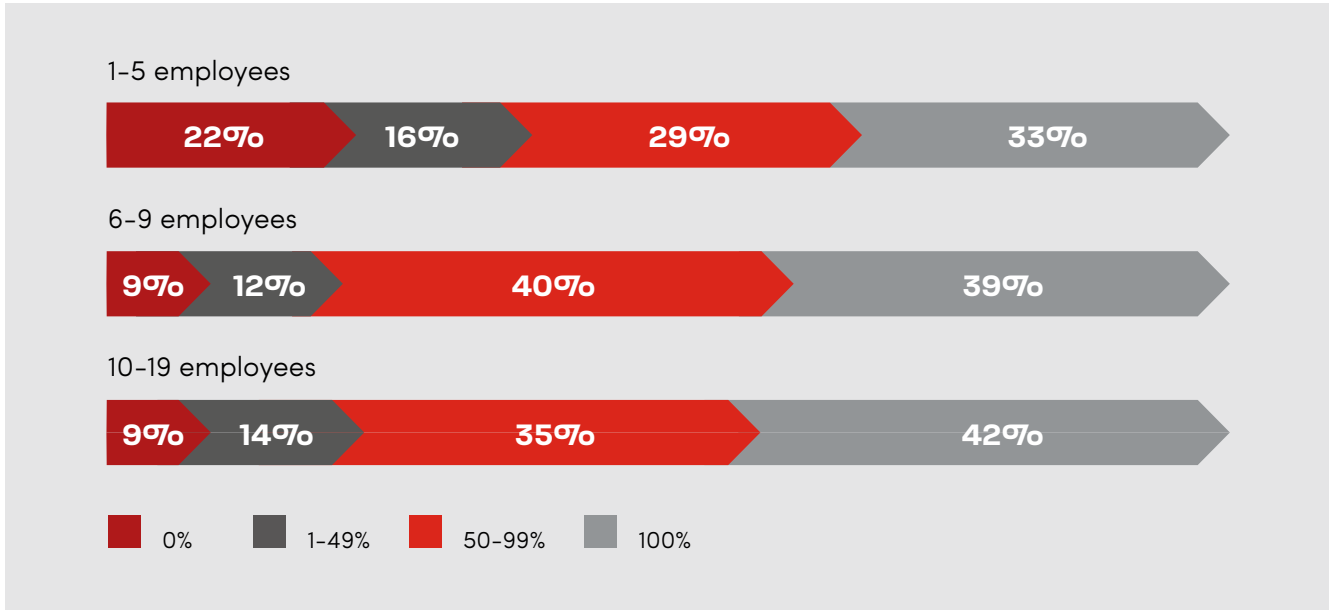
Figure 6: Percentage of policies bought through broker



Business size has some impact on behaviour. Smaller businesses are far more likely to buy all of their insurance direct, while larger businesses are more likely to buy all of their insurance

through a broker. However, the trend towards mixed usage (direct and through a broker) is similar across all business sizes (see Figure 7).

Figure 7: Percentage of policies bought through broker by business size



This suggests that a number of SMEs are considering alternatives for their insurance which highlights potential risks to future broker usage in New Zealand. Other developed countries, including Australia, have seen a large decline in broker usage in recent years and the New Zealand broking profession could be at risk of experiencing a similar trend. (We explore learnings from the Australian experience later in this report.)

In line with this trend, just under one in five of New Zealand SMEs say that they are using a broker less than they used to (see Figure 8).

There are a range of reasons for this, but ease and convenience is dominant (see Figure 9). This suggests that it is very important for brokerages to consider how they can make the insurance experience as easy as possible for SMEs.

Figure 8: Using a broker less

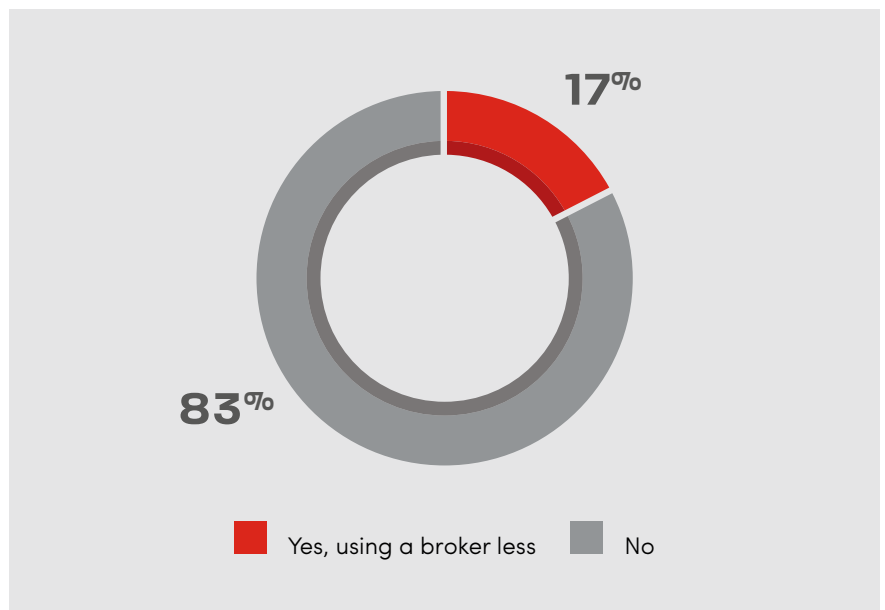


Figure 9: Main reasons for using a broker less

EASE AND CONVENIENCE	74%
The policies I need are now available direct	38%
Easy enough to organise my insurance myself	35%
Opportunity to bundle my covers together	12%
PRICE	36%
Thought I could get business insurance cheaper	24%
Too much commission/fees	16%
ONLINE PREFERENCE	32%
I prefer to use online channels	28%
They were slow to respond compared to online	19%
UNDER-SERVICED	27%
Couldn't see what value they added	19%
Poor customer service	11%
Advice wasn't good	7%

Please note this question was multiple response so total responses >100%.

In a nutshell

- A third of New Zealand SMEs use a broker for all of their insurance, while almost half use a mix of broker and direct.
- Smaller businesses are more likely to be buying all of their insurance direct.
- Larger SMEs are mostly still buying their insurance through a broker potentially due to more complex insurance needs.
- 17% of SMEs claim to be using a broker less than they used to.
- Ease and convenience are the main reasons for SMEs to buy direct.

Things for brokers to consider

- There are signs that SMEs are increasingly likely to turn to alternative purchase channels for at least some of their business insurance.
- Note that smaller businesses are the most likely to buy direct, and for businesses with simple insurance needs this may be more appropriate. Businesses with over six employees are still more likely to use brokers and therefore would look to be an important focus for brokerages.
- Now is the time for brokerages to review their strategies to ensure that they retain as much business as possible. Things to consider include:
 - ✓ Focus on driving high client satisfaction, as less satisfied clients are more likely to consider other options
 - ✓ Make it as easy as possible for clients to deal with you across a range of platforms (e.g. face-to-face, phone, online – through your website or social media platforms)
 - ✓ Ensure that clients understand the benefits and value of using a broker by reiterating what matters most to clients (e.g. time savings, expert advice, assurance in the right cover).





UNDERSTANDING MIXED BROKER USAGE

Some SMEs have started to move away from brokers for at least some of their insurance





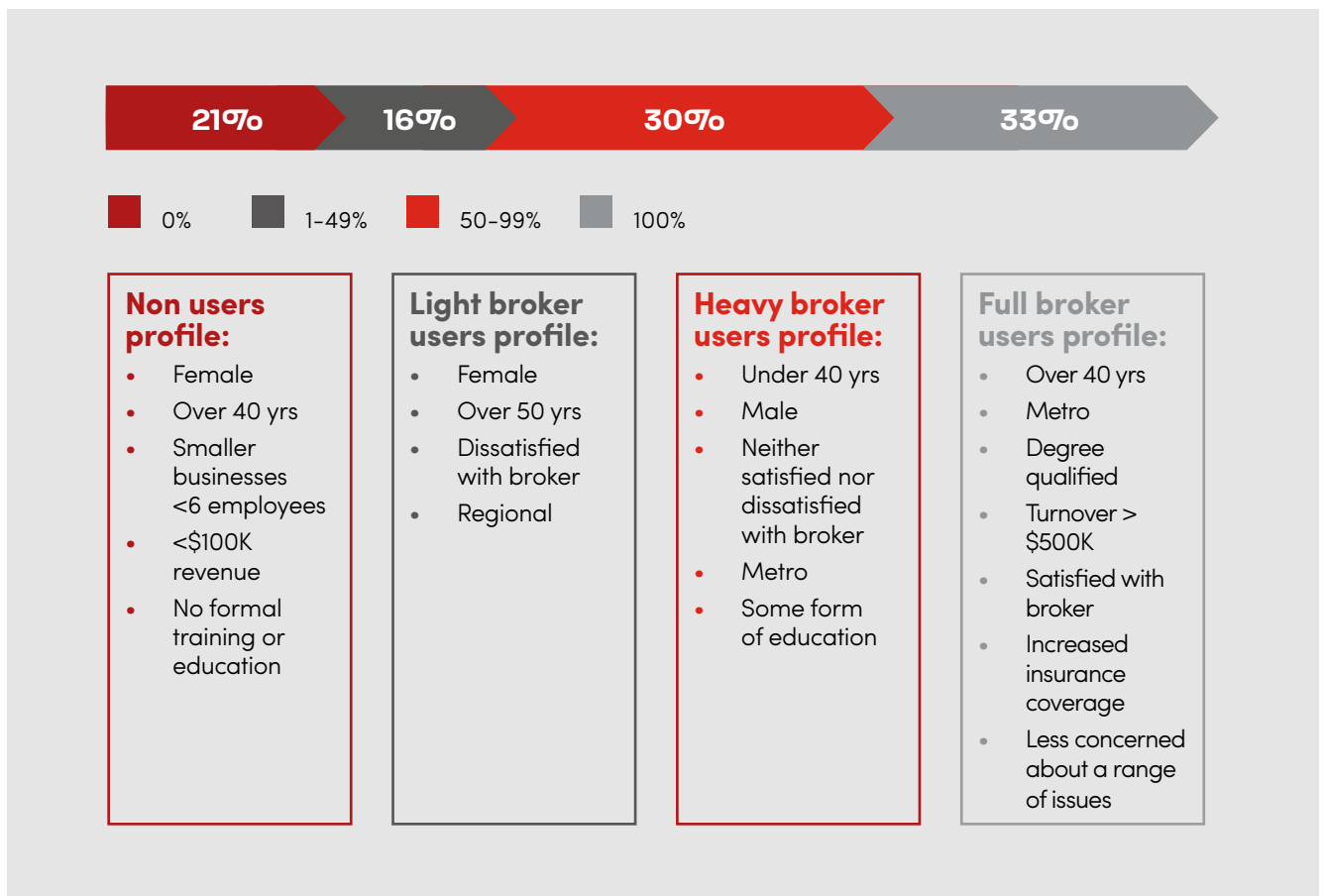
We know there are many highly loyal broker users within the SME market, but how do we shore up our industry against the threat of direct buying?

The shift to direct can be gradual, starting with just one or two policies as SMEs test how it works. Therefore, we decided to take a closer look at

those who have already "dipped their toe in the water" - we call this group *heavy broker users* - those who claim to purchase 50-99% of their policies through a broker. We will delve deeper to see what drives this particular group and what implications this has for brokers.

Looking at these *heavy broker users*, some clear trends emerge (see Figure 10). These users are more likely to be aged under 40, male, educated and in a metropolitan location.

Figure 10: Percentage of policies bought through broker profiles

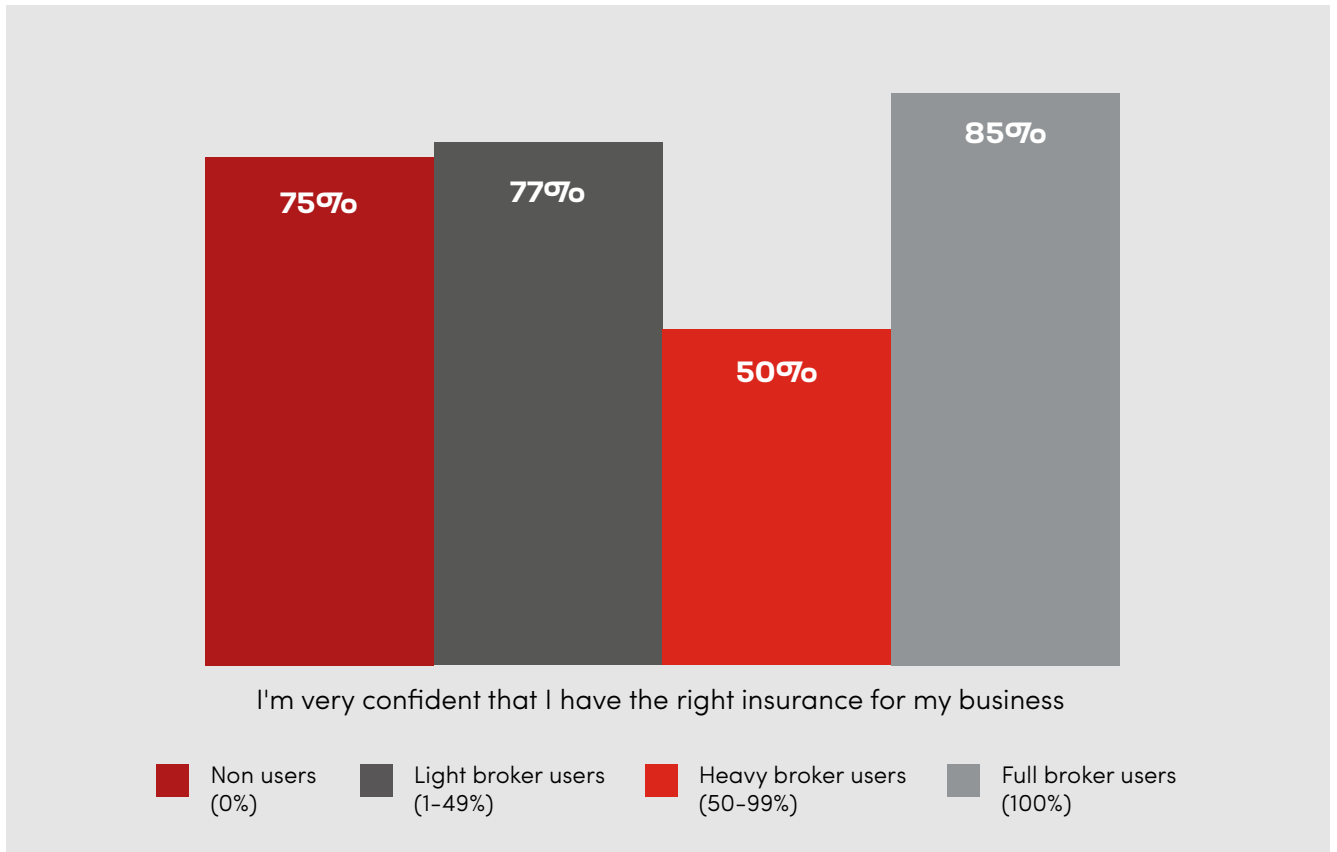


Heavy broker users are less confident than all other groups (see Figure 11), with only half of this group saying that they feel very confident that they have the right insurance for their business.

This is a key consideration for brokers – how can they help these clients feel more comfortable with their insurance? This could be through sharing more information and analysis, deeper

conversations explaining why or demonstrating greater understanding of their businesses.

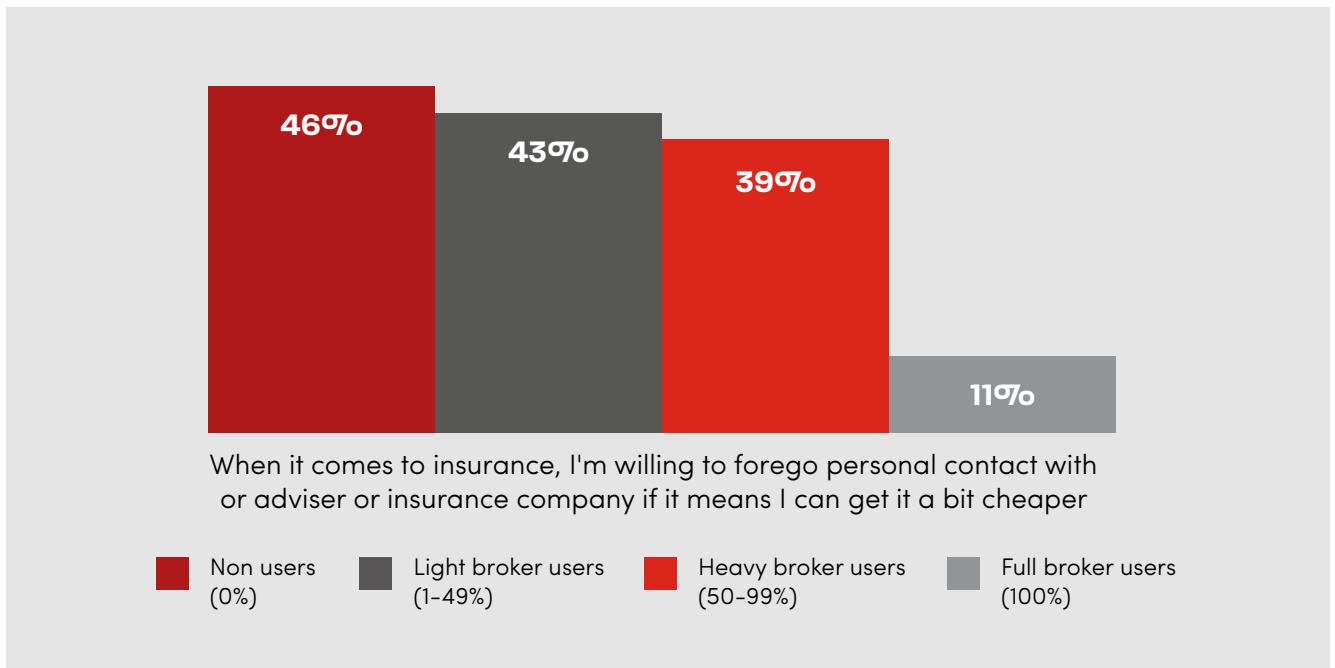
Figure 11: Attitudes to insurance – confidence levels



Compared to *full broker users* (buying 100% through a broker), this group is far more likely to say that they're willing to forego personal contact to get cheaper insurance (see Figure 12).

Brokers need to ensure they build deeper personal relationships based on a strong understanding of their clients' businesses to reassure and make clients more committed to their broker.

Figure 12: Attitudes to insurance – price vs personal contact



The quality of broker relationships varies significantly between full and heavy broker users.

Reason for broker use:

- Full broker users are far more likely to say that they use a broker for their expertise and service and to save time, while heavy broker users are more influenced by price (see Figure 13).

Type of relationship:

- Heavy broker users are far more likely to have a distant relationship with their broker than full broker users (see Figure 14).

Broker satisfaction:

- Heavy brokers users are significantly less satisfied with their broker than full broker users (see Figure 15).

Figure 13: Reasons to work with current broker

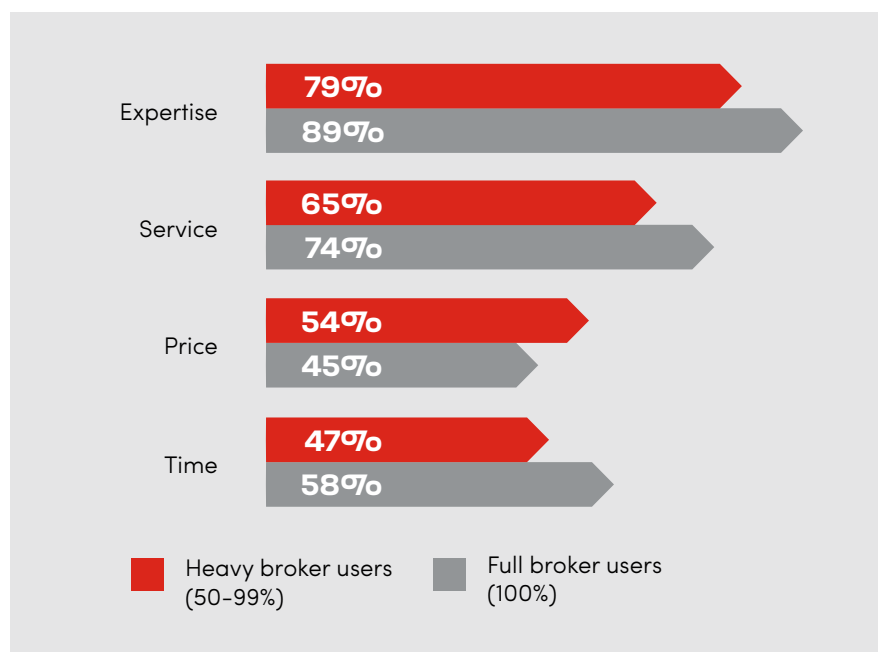


Figure 14: Type of relationship

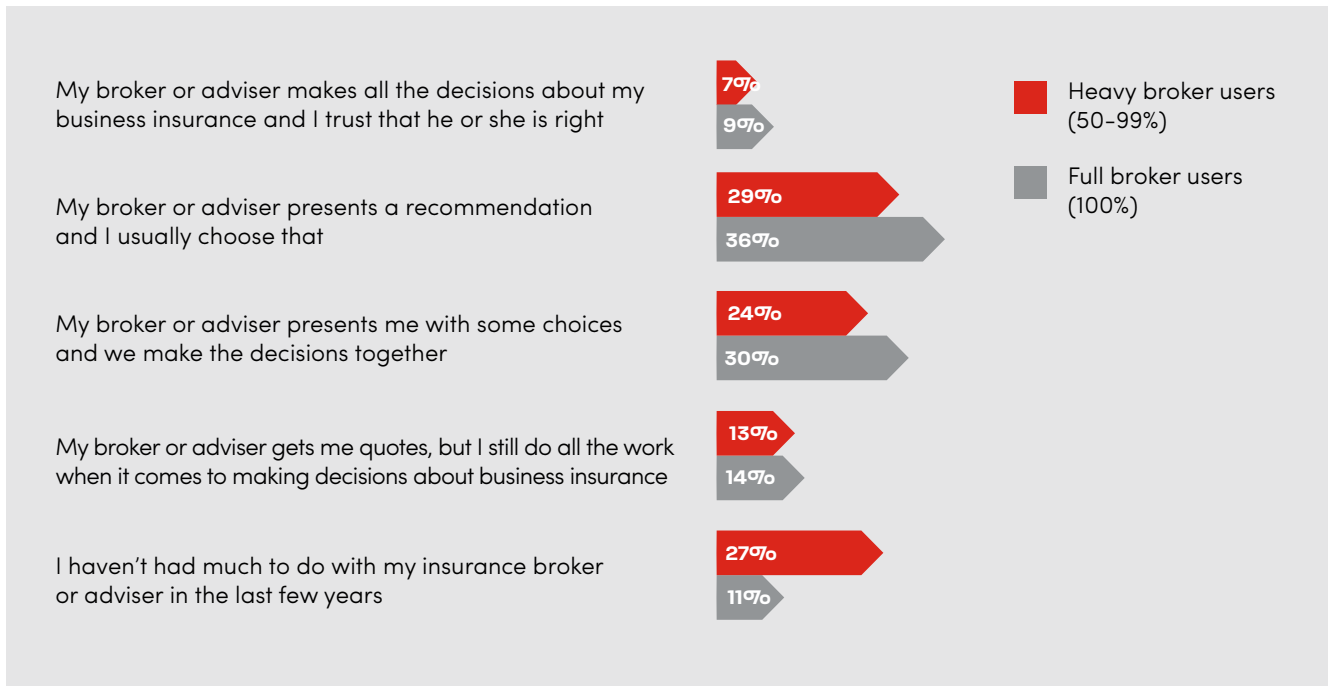
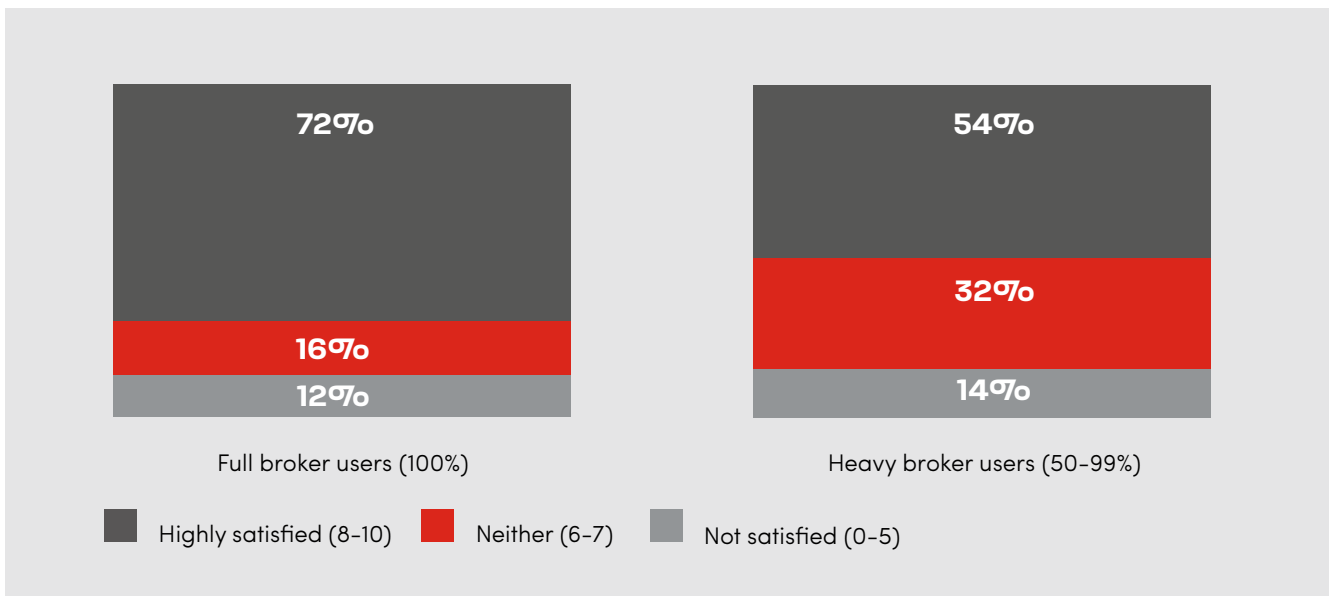


Figure 15: Broker satisfaction

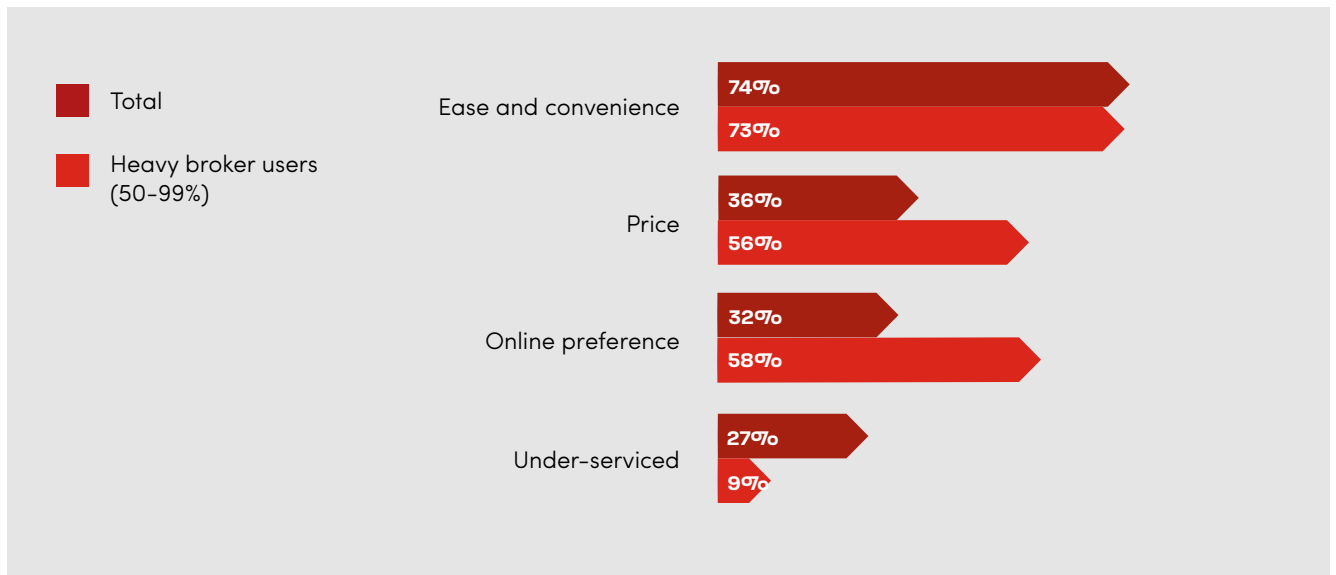


So why are *heavy broker users* using brokers less? The main reasons are ease and convenience, price and a preference for using online.

This indicates that brokers should consider online platforms for some of their more digitally comfortable clients, to make the experience as

contemporary and easy as possible (see Figure 16).

Figure 16: Main reasons for using a broker less by usage rates

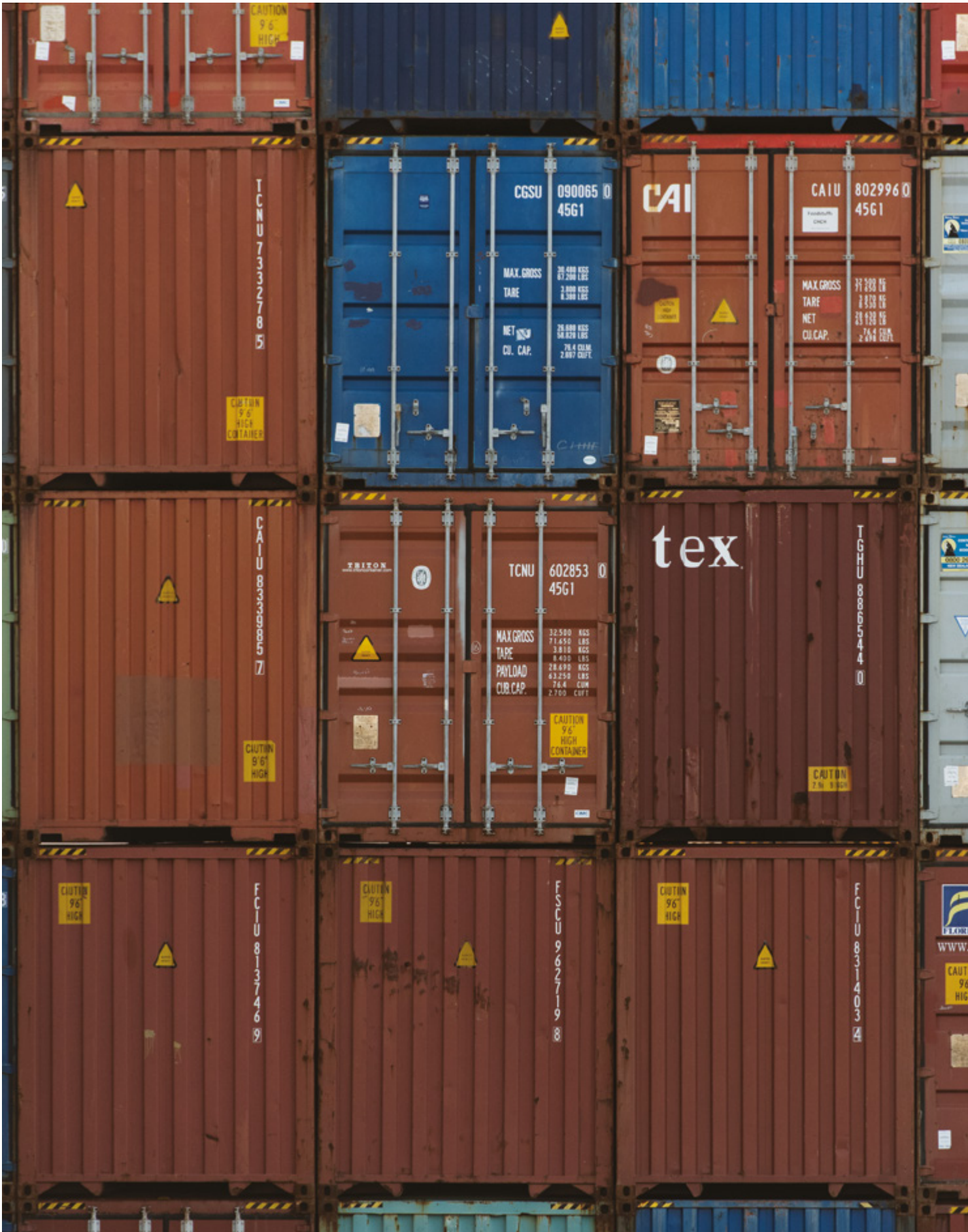


In a nutshell

- *Heavy broker users* are more likely to be younger, male, educated and in metropolitan areas.
- They are less confident about their insurance and willing to forego personal contact.
- They tend to have less positive relationships with their brokers and are less satisfied.

Things for brokers to consider

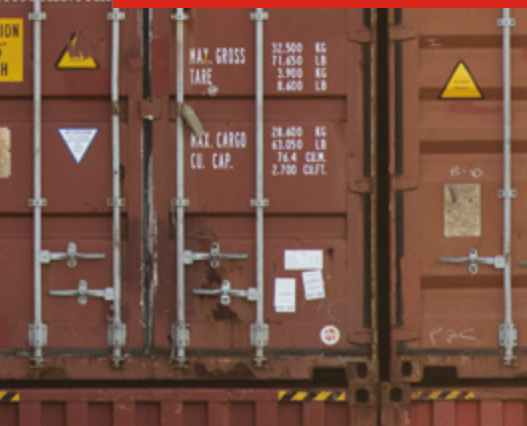
- *Heavy broker users* have already started to move away from brokers for at least some of their insurance, and it is therefore useful to understand this group to identify some appropriate preventative strategies for brokerages. Key things to consider include:
 - ✓ Help clients feel **more confident** that they have the right cover, through sharing information and talking through your decision process
 - ✓ **Deepen relationships** and stay in regular contact
 - ✓ Implement strategies to build **client satisfaction** through a greater focus, not just on what insurance they need, but how they prefer to work with you
- ✓ Make the client experience as **easy and convenient** as possible by asking them details about their insurable assets that they may not have had the time to think through
- ✓ Consider **online platforms** like a website for forms and processes so that they have information they need whenever they may need it
- ✓ Reassure on **expertise** and **value for money** through discussing correct coverage levels and the details of what a policy covers instead of just having the cheapest policy available.





A COMPARISON WITH AUSTRALIAN BROKER USAGE TRENDS

Key learnings for New Zealand brokers to be found in the Australian experience

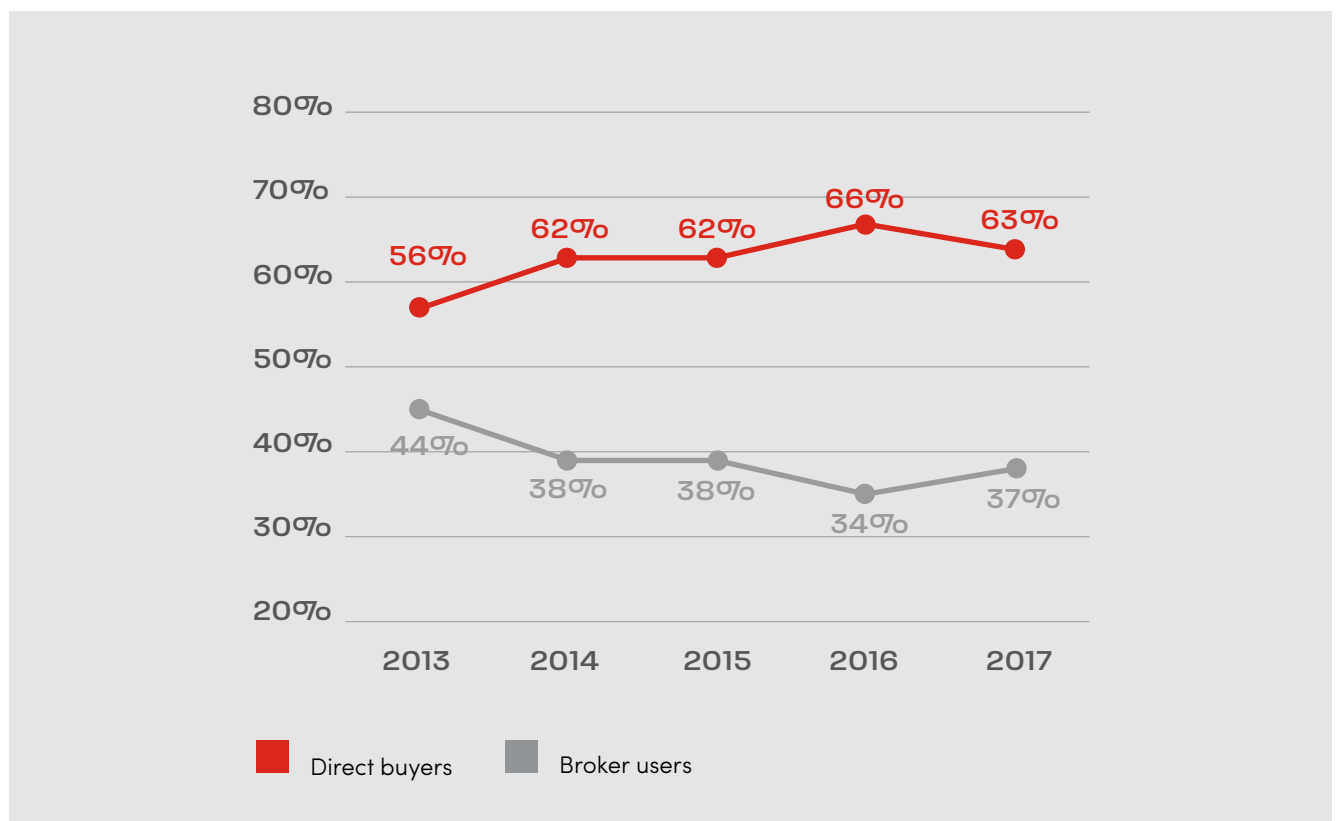




Australia and New Zealand are different markets with a range of different circumstances influencing insurance behaviour. However, SME insurance purchasing behaviour in Australia has undergone significant change over the last few years and there are some key learnings and opportunities for New Zealand brokers to be found in the Australian experience.

Since 2013, there has been a significant softening in SME broker usage in Australia. In 2013, 44% of SMEs claimed to have purchased their last insurance policy through a broker. This has fallen to 37% in 2017 (see Figure 17). Contrary to expectations, this decline has been seen across all business sizes, with the decline in broker usage being even more marked among medium sized business (those with between 19 and 200 employees), who would traditionally be viewed as the brokers' core target audience.

Figure 17: Australian broker usage trends

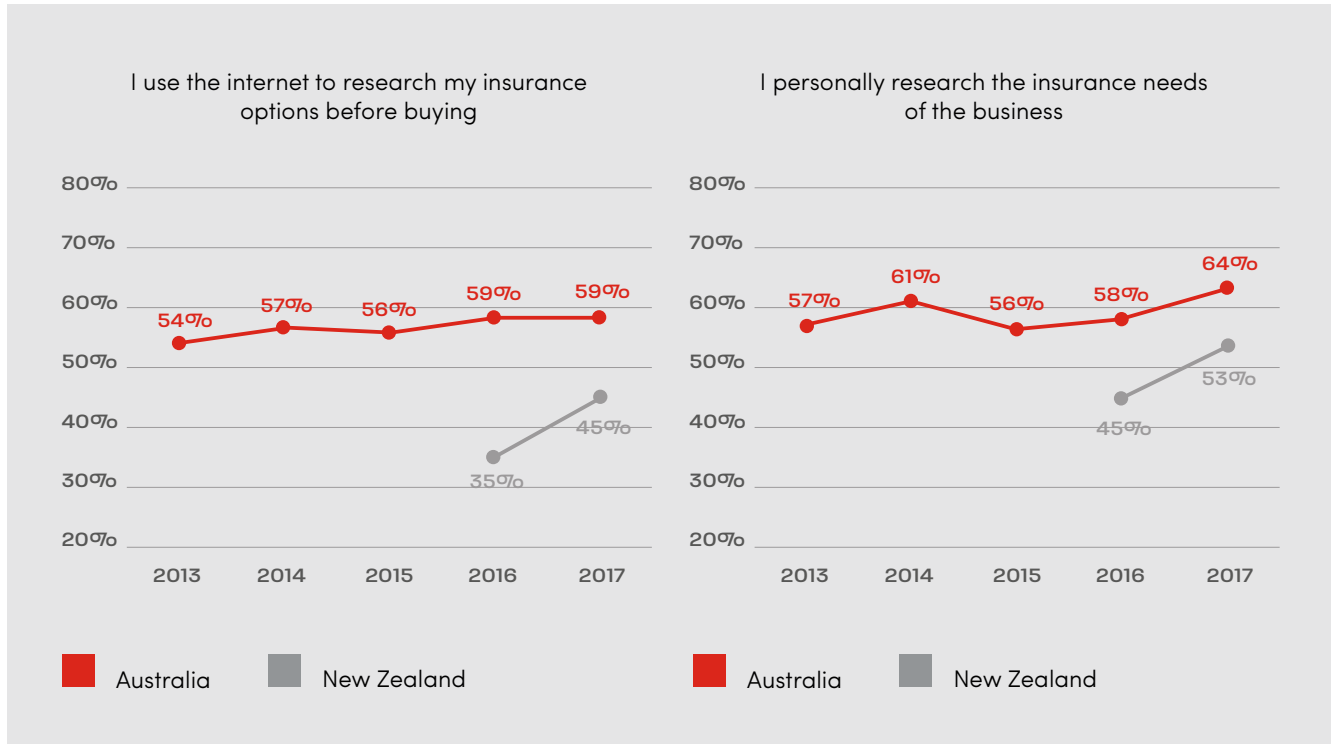


A key trend in Australia has been an increased willingness of SMEs to be involved in the insurance process, facilitated by the use of the internet for research (see Figure 18). A large

portion of Australian SMEs like to be involved and value the feeling of being in control of their insurance arrangements. While New Zealand SMEs are currently less inclined to do

their own research, this is increasing since last year and is an important trend for brokers to be aware of and take advantage of in terms of providing useful information online.

Figure 18: Comparison of willingness to research



So why are Australian SMEs moving away from brokers? There are a range of reasons with ease and convenience being paramount. Significantly, ease has been a more important factor than price (see

Figure 19). Busy Australian SMEs are frequently deciding that it is easy enough for them to look after their own insurance arrangements, rather than benefit from the potential time-saving benefits that brokers can offer.

Figure 19: Reasons why not using a broker

	Australia	New Zealand
I can do it easily enough myself	53%	58%
I don't want to deal with a middleman / rather do it directly	35%	24%
I don't see the benefit in using a broker	35%	15%
I don't trust them to offer me the best policy for my business	16%	15%
I think they are more likely to recommend a policy that offers them the biggest commission	25%	14%

A key feature of the changing insurance purchasing landscape in Australia has been the increased usage of online purchasing channels. Does this mean that Australians are more comfortable arranging insurance online than New Zealanders?

Our data suggests that Australians tend to be slightly more comfortable undertaking a range of insurance tasks online. This means that brokers have more scope to reinforce the benefits of having a personal, one-on-one insurance expert in New Zealand.

However, it is important to note that online comfort levels amongst New Zealand SMEs are still very high, and that online platforms may become a very attractive offering in the near future.

In a nutshell

- Broker usage by Australian SMEs has declined significantly over the last five years.
- This trend is consistent amongst all businesses, even those with over 20 employees.
- Some of the key factors in this change have been an increased desire to be involved and feel in control, the attractiveness of online channels and a sense that it is easy enough to manage on their own.

Things for brokers to consider

- What can New Zealand brokers learn from Australia to protect their business?
 - ✓ Almost 2/3 of Australian SMEs claim to personally research insurance, suggesting an increased desire to be in control – can New Zealand brokers provide more information, options and analysis to help clients feel involved and in control of their insurance decisions?
- ✓ In general, Australian SMEs appear to be more comfortable online. However, this may be because digital insurance options have been available for longer and are more familiar. New Zealand SMEs are still relatively comfortable undertaking a range of insurance tasks online, and therefore brokerages should consider online platforms as part of their offer.





REVIEWING INSURANCE ARRANGEMENTS

Most SMEs claim to review their insurance arrangements on a regular basis

Industry folklore suggests that insurance is a grudge purchase for many SMEs; important to get right, but something they avoid thinking about.

But how often do SMEs really think about their insurance? And more specifically, what prompts them to review their insurance policies and arrangements? This year we wanted to understand how often SMEs really think about their insurance and why. So, we asked about the things that trigger them to think about their insurance because, by understanding this, brokers can tap into the best times to build existing relationships and create new ones.

There are several typical triggers to reviewing insurance, and while brokers no doubt witness these behaviours in their clients, for the first time we have asked SMEs about their specific triggers to get a quantified view (see Figure 20):

- **Set and forget:** The good news is that less than one in five SMEs claim to simply “set and forget” their insurance.
- **Standard review:** Almost 60% claim to have some sort of standard review in place, whether that’s a regular annual check or a review prompted by a broker, accountant or other adviser.

- **Insurance changes or events** are an obvious reason for SMEs to look at their insurance arrangements, with a third saying that a major claim or a change in insurance premiums cause them to review their insurance.

- **Business change:** Around one in five SMEs claim to review their insurance arrangements when they go through a significant business change such as a large purchase, taking on new staff or upgrading IT systems.

Figure 20: Insurance review triggers

STANDARD REVIEW	58%
Regular review (e.g. once a year)	45%
When my broker, accountant or other adviser recommends me to	20%
INSURANCE EVENTS	33%
When there is a change in insurance premiums	29%
When I’ve experienced a significant insurance event (e.g. had to make a major claim)	10%
BUSINESS CHANGES	18%
When making a large business purchase	14%
When transitioning to a different business model or type	7%
When upgrading IT systems	1%
When there are significant changes to staffing levels	0%
SET AND FORGET	16%
I couldn't say	10%
I haven't reviewed my insurance since starting my business	6%

Please note this question was multiple response so total responses >100%.

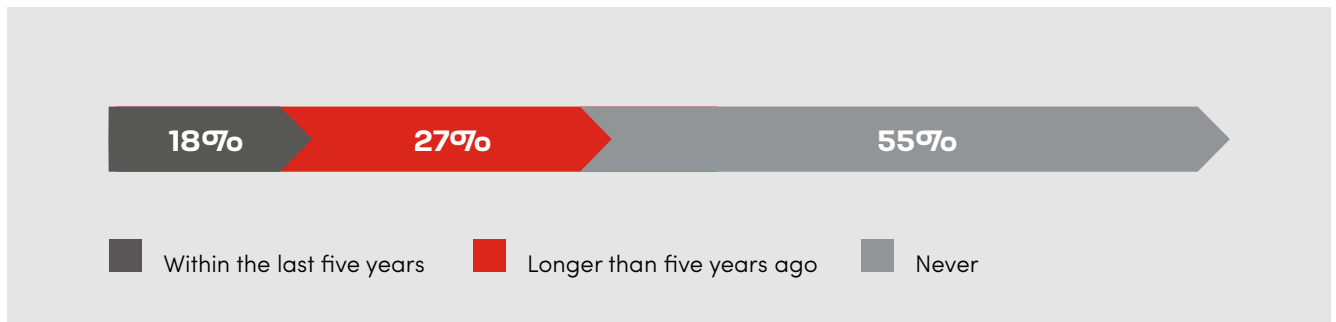
Given that New Zealand SMEs look at their insurance on a regular basis, brokers should stay in touch and be a part of this process. There is also scope for brokers to check in regularly

with clients to understand when business changes are taking place.

Changing insurance arrangements can include changing brokers, and while over half of our sample are

very loyal and claim never to have changed broker, almost one in five have changed brokers in the last five years (see Figure 21).

Figure 21: When did they last change brokers

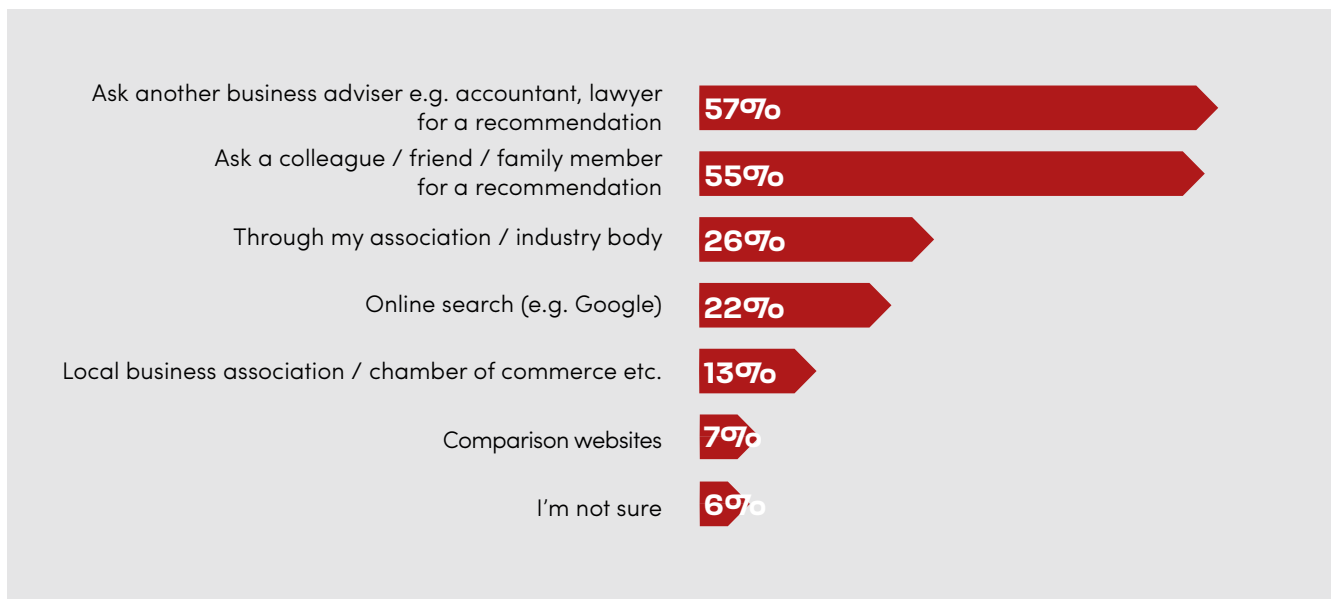


Understanding how SMEs look for a broker is vital so that brokerages can ensure that they can easily be found by potential clients. Word of mouth is overwhelmingly important, with over

half of SMEs claiming that they would either ask a business adviser such as an accountant or lawyer, or else a colleague, friend or family member (see Figure 22).

There is a clear need for brokerages to develop referral strategies to ensure that they can leverage the recommendations of satisfied clients and influential partners.

Figure 22: Where they would find a new broker



In a nutshell

- Almost 60% of SMEs claim to review their insurance arrangements on a regular basis, typically once a year.
- Almost a fifth of SMEs have changed brokers in the last five years, and are likely to use word of mouth recommendations when looking for a new broker.

Things for brokers to consider

- Many SMEs review their insurance arrangements on a regular basis (eg annually) so it is important for brokers to know their clients review time and be in regular contact so they are “top of mind” when these reviews are taking place.
- Those looking for a new broker would overwhelmingly turn to word of mouth sources, such as accountants, lawyers, colleagues and friends for advice, which means that brokerage can strongly benefit from referral strategies to leverage recommendations from their satisfied clients and partners.
- Look out for Vero’s upcoming toolkit on **Building Effective Referral Strategies**.

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 in two stages:

Stage One – Quantitative Survey

A survey of 901 business owners and insurance decision makers was conducted, covering a range of business types, locations and sizes. The survey was conducted during November 2017 and the data was weighted by region 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 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

Stage Two – In-Depth Qualitative

Eight interviews were conducted with 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 2018.

* This research was conducted by BrandMatters. See www.brandmatters.com.au

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