The future of small business insurance — what do customers want?
Perspectives from Australia
August 2022
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Australian insights from ‘The future of small business insurance’ global survey

Deloitte leveraged its recent global survey to derive specific insights for the Australian market.

Survey coverage and key focus areas

In late 2021, Deloitte conducted one of the largest global surveys of small businesses to understand their future attitudes and behaviours towards insurance:

- The global survey covered 14 countries and had ~5,300 participants
- Respondents covered a wide mix of industries and company size (5-75 full time employees)

This document is a subset of the global survey and focused on insights from the 400 Australian survey participants.

Within this short report we aim to answer the following key questions:

- **Distribution**: How do SMEs purchase insurance and why?
- **Product**: What are they buying and looking to buy?
- **Policy and Payments**: Which additional features and flexibility do they want?

Perspectives from Australia – breakdown of survey respondents

- **Industry segment**
  - Retail, travel and hospitality: 26%
  - Financial and legal services: 15%
  - Construction and transportation: 14%
  - Medical & health services: 13%
  - Manufacturing: 12%
  - Business or professional services: 10%
  - Technology: 6%
  - Education: 4%

- **Annual revenue (AUD)**
  - 0-0.5m: 16%
  - 0.5-1.0m: 16%
  - 1.0-2.0m: 15%
  - 2.0-4.0m: 15%
  - 4.0-6.0m: 9%
  - 6.0-10.0m: 6%
  - >10.0m: 6%
### Key insights

Insights from the survey emerged around three main areas, suggesting an overall positive outlook for insurers in terms of white spaces around segments and offering.

<table>
<thead>
<tr>
<th>1</th>
<th>How do SMEs purchase insurance and why?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Almost 90% of SMEs in Australia use intermediaries to buy and manage insurance (slightly higher than global peers at 79%), and trend is likely to continue due to increased trust in intermediaries since the COVID-19 outbreak.</td>
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<tr>
<td>• There are varied reasons for using intermediaries, with top reasons being: finding best coverage, access to trusted adviser and convenience (save time).</td>
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<td>• Despite awareness of digital channels, SMEs have strong preference to discuss insurance options with a human (face-to-face or phone).</td>
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<tr>
<td>• Nonetheless, SMEs would consider other channels to buy insurance, with top 3 being banks, price comparison websites and big tech.</td>
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<tr>
<td>• Insurers interested in direct distribution need to build and communicate their strength as providers of customer-centric personalised advice.</td>
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<table>
<thead>
<tr>
<th>2</th>
<th>What are they buying and looking to buy?</th>
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<tbody>
<tr>
<td>• Most SMEs purchase 3-5 types of insurance (~70%), business property, business interruption and public liability being most common.</td>
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<tr>
<td>• The COVID-19 outbreak has driven SMEs to want to purchase additional insurance over the next 3 years (57% indicating their interest in buying more) – mainly driven by wanting to avoid future losses, feeling more financially vulnerable and awareness of the risks they face.</td>
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<tr>
<td>• There is a growing interest in three type of products: working from home cover*, professional indemnity and Directors and officers insurance; surprisingly expected growth for cyber insurance remained quite low in comparison.</td>
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<tr>
<td>• Some SMEs have indicated an interest in purchasing broader services from insurers creating potential avenues for diversification and growth.</td>
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<table>
<thead>
<tr>
<th>3</th>
<th>Which additional features and flexibility do they want?</th>
</tr>
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<tbody>
<tr>
<td>• SMEs want to be able to do more frequent and dynamic updates to their coverage: 81% of surveyed SMEs in Australia want to update their insurance coverage at any point during the year, as opposed to yearly review and update, as is currently standard.</td>
<td></td>
</tr>
<tr>
<td>• SMEs also want to be able to flex how they pay insurance: 8 out of 10 surveyed SMEs in Australia want to pay for insurance via a variable monthly fee depending on asset usage (e.g. miles driven, number of customers, etc.).</td>
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</tbody>
</table>

*Protects staff from the risks of working from home (e.g. hacking, occupational health issues, etc.)
Distribution
How do SMEs purchase insurance and why?
SME insurance is mostly distributed through intermediaries, with usage of intermediaries in Australia above the global average.

The Intermediated Market

Globally, SME insurance is mostly distributed through intermediaries. Of the surveyed markets, 79% of surveyed SMEs use an intermediary to buy and manage insurance.

Australia is above the global average, with 87% of surveyed SME businesses indicating the usage of an intermediary to buy and manage insurance.

Graph 1.1: Relevance of intermediary for SME insurance distribution

“Do you use an insurance intermediary (i.e. a professional who acts on your behalf to buy and manage insurance)?” % of ‘Yes’
Although mostly an intermediated business in Australia, there are variations in usage of intermediaries across different segments.

**Intermediaries usage outliers**

Most industry segments have higher usage of intermediary for SME insurance, with few exceptions being Medical & health services, Technology and Property.

In terms of size and turnover, lower usage of intermediaries is observed at the lower end of the spectrum for Australian SMEs. Similar trends were observed for Global SMEs.

Indeed smaller SMEs are likely to behave more like retail customers, but also may not receive appropriate attention from intermediaries due to limited scale.

**Graph 1.2: Relevance of intermediary for SME insurance distribution - Australia**

“Do you use an insurance intermediary (i.e. a professional who acts on your behalf to buy and manage insurance)?” % of ‘Yes’
There are varied reasons why SMEs prefer to use intermediaries to buy and manage insurance.

**Varied reasons for using intermediaries**

There are different reasons why SMEs use intermediaries to buy and manage insurance. Ability to find the best coverage was the main reason for using an intermediary, but only 4p.p above the least selected reason (contact for claims).

However, the main reason differ amongst industry segments. While coverage is the most important reason for business, professional services, convenience is the top reason for SMEs in the construction, manufacturing and technology segments. Price is main reason for hospitality, while medical & health ranked advice on risk management the top reason to use an intermediary.

**Graph 1.3: Reasons for using an intermediary – Australia**

“"You said that you use an insurance intermediary (i.e. a professional who acts on your behalf to buy and manage insurance). What are the most important reasons for this? Please select up to three”

- To find the best coverage to match the needs of my business: 45%
- To have a trusted adviser: 44%
- To save time spent on buying and managing insurance: 43%
- To find the best deal on price: 42%
- For advice on risk management: 42%
- To have someone to contact if I need to make a claim: 41%

**Similar ranking was observed globally**

**Top reason for using intermediary, by industry segment**

<table>
<thead>
<tr>
<th>Industry Segment</th>
<th>Top reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business, professional, scientific or technical services</td>
<td>Coverage</td>
</tr>
<tr>
<td>Construction and transportation (including logistics and distribution)</td>
<td>Save time (convenience)</td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td></td>
</tr>
<tr>
<td>Media, marketing, advertising, PR</td>
<td></td>
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<tr>
<td>Retail, food services, restaurants, hotels, leisure and entertainment</td>
<td>Price</td>
</tr>
<tr>
<td>Education (school, university, tutoring, childcare services, etc.)</td>
<td>Contact for claim</td>
</tr>
<tr>
<td>Financial and legal services</td>
<td>Trusted adviser</td>
</tr>
<tr>
<td>Medical &amp; health services</td>
<td>Advice on risk management</td>
</tr>
</tbody>
</table>
We believe the trend on intermediated distribution will continue, driven by relationship and loyalty, and an increased trust in insurers and intermediaries since the COVID-19 outbreak.

**Relationship and loyalty**

There is high level of loyalty and repeated business between SMEs and their intermediaries.

**Graph 1.4: Loyalty towards intermediaries**

"You said that you use an insurance intermediary. For how many years have you used this intermediary?"

83% of respondents have been using the same intermediary for 4 years of more
Increased trust post COVID

The pandemic experience and the initiatives taken by insurers have led to an increased trust in insurers, but even more so in intermediaries.

Graph 1.5: Impact on trust due to COVID-19

“And how did that level of trust change, if at all, since the COVID-19 outbreak?” %

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Improved significantly</th>
<th>Improved somewhat</th>
<th>About the same</th>
<th>Deteriorated somewhat</th>
<th>Deteriorated significantly</th>
</tr>
</thead>
<tbody>
<tr>
<td>38%</td>
<td>38%</td>
<td>23%</td>
<td>1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Intermediary</th>
<th>Improved significantly</th>
<th>Improved somewhat</th>
<th>About the same</th>
<th>Deteriorated somewhat</th>
<th>Deteriorated significantly</th>
</tr>
</thead>
<tbody>
<tr>
<td>41%</td>
<td>43%</td>
<td>15%</td>
<td>1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Top reasons for improved trust were, in %:

01. Additional services to support dealing with difficulties (e.g. financial advice) – 68%
02. Accelerating the payment of claims – 63%
03. Premium discount – 54%

Trust in intermediaries increased more in Australia than global average (84% vs. 73%) and far more than in the US (61%) and UK (47%)

Trust in insurers increased more in Australia than global average (76% vs. 69%) and far more than in the US (53%) and UK (44%).

*Top reasons cited by respondents that mentioned that their level of trust in insurer or intermediary improved since the COVID-19 outbreak
In terms of engagement model, human contact (whether phone or face-to-face) is still the preferred channel for SMEs.

Importance of human contact for SMEs

A vast majority of SMEs (73%) continue to prefer to purchase insurance through channels involving direct human contact rather than using digital channels:

- Face-to-face: 41%
- Phone: 32%
- Digital: 27%

This is likely due to the need for advice on how to best insure their risks which are typically more complex than for personal lines.

Intermediaries will continue to remain the main preferred channel for most SMEs (~70%).

Graph 1.6: Preferred channel for future insurance purchases

“Thinking about how you would like to purchase business insurance in the future, which of the following best describes your preferred method? Please select one.”
SMEs tend to stick with their intermediaries.

The Direct Opportunity

Although most of acquisition occurs through intermediary, SMEs that would consider purchasing directly from the insurer listed cost and convenience as the key reasons that would lead them to buy directly from the insurer.

43% of those considering buying directly from insurer believe they would obtain some financial benefit by dealing with the insurer directly.

Only 22% mentioned they wouldn’t trust an intermediary.

Graph 1.7: Reasons to buy directly from insurer

“Look at the graph and answer the question below.

- To make it more convenient to purchase and manage my insurance
- To save on the cost of my insurance
- To have more control over what I buy
- To get advice
- Don’t need an intermediary
- Don’t trust an intermediary

You said that you would purchase business insurance directly from an insurance company. For which of the following reasons would you purchase directly from an insurer? Please select all that apply.”

43% 40% 33% 31% 24% 22%

* ~30% of AU respondents said they would buy directly from an insurance company
Product Offering
What are they buying and looking to buy?
Most SMEs purchase 3-5 types of insurance (~70%), business property, business interruption and public liability being the most commonly used.

**Varied insurance portfolio**

The majority of Australian SMEs are covered by 3-5 insurance types. This is consistent throughout industries.

The most commonly used insurance types (excluding those required by law) are business property insurance, business interruption insurance, business owner’s policy.*

This varies quite significantly for each industry. For instance, construction and transport companies are much more likely to be covered for public liability (58%) and car and van fleet insurance (44%) while technology companies are more likely to be covered for Cyber insurance (44%), Key-person insurance (38%) and working from home insurance (36%).

**Graph 1.8: Current type of insurance cover**

“Excluding Employee Health Insurance, Group Life Insurance and Pensions, which of the following types of insurance does your business currently have? Please select all that apply”

<table>
<thead>
<tr>
<th>Number of type of insurance selected</th>
<th>Types of insurance most used by SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business property insurance 61%</td>
</tr>
<tr>
<td>2</td>
<td>Business interruption insurance 49%</td>
</tr>
<tr>
<td>3</td>
<td>Business Owner’s Policy (1) 49%</td>
</tr>
<tr>
<td>4</td>
<td>Public liability insurance 41%</td>
</tr>
<tr>
<td>5</td>
<td>Professional indemnity insurance 37%</td>
</tr>
<tr>
<td>6</td>
<td>Product liability insurance 30%</td>
</tr>
<tr>
<td>7</td>
<td>Car, Van or Fleet insurance 28%</td>
</tr>
<tr>
<td>8+</td>
<td>Working from home coverage 28%</td>
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<tr>
<td></td>
<td>Other liability insurance 25%</td>
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<tr>
<td></td>
<td>Directors and Officers insurance 25%</td>
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<tr>
<td></td>
<td>Cyber insurance 25%</td>
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<tr>
<td></td>
<td>Key-person insurance 22%</td>
</tr>
<tr>
<td></td>
<td>Credit risk insurance 22%</td>
</tr>
</tbody>
</table>

(1) Bundled product including business property and business liability insurance

* Business Owner’s Policy - combines business property and business liability insurance into one business insurance policy.
The COVID-19 outbreak has driven SMEs to want to purchase more insurance (57% indicating an interest in buying more) – driven by wanting to avoid future losses, feeling more financially vulnerable and awareness of the risks they face.

**COVID-19 made apparent key unmitigated risks**

The COVID-19 crisis has had a significant impact on SME's interest in purchasing additional insurance – 57% of respondents indicating that they would like to buy more over the next 3 years – especially in the Education (85%), Financial and legal (65%) and Tech (67%) sectors.

There are 3 main reasons for SMEs to want to buy additional insurance – Avoiding future losses (52%), feeling more financially vulnerable (48%) and increasing awareness of risks (45%).

Interestingly SMEs in the UK and US felt differently as only 30% and 35% respectively indicated a likeliness to purchase more insurance.

**Graph 1.9: Impact of COVID-19 on intent to purchase insurance**

"How has the impact of COVID-19 changed your attitude toward purchasing business insurance?"

"Why are you more likely to buy business insurance? Please select up to three reasons" % of respondents more likely to buy insurance

- I want to avoid any future losses that the business has suffered due to the pandemic: 52%
- My business is more financially vulnerable to damage and losses (e.g. because it has lower levels of surplus cash, revenue, etc.): 48%
- I am more aware of the risks that my business faces: 45%
- I better understand the risks that my business needs protection from: 42%
- I understand better what is covered and what is not covered under my current business insurance: 38%
SMEs want to increase coverage in three types of products: working from home cover, professional indemnity and Directors and officers insurance.

Three product types seem to be most likely to grow over the next 3 years
Over the next three years SMEs indicated that they are most interested in increasing their coverages in the following areas:
- Working from home (20% penetration increase) – especially for education* sector
- Professional indemnity (20% penetration increase) – across all sectors
- Director and officers insurance (18% penetration increase) – especially education*, professional services and media* sectors

Providing such types of insurance products could present growth opportunities for insurance players
- Should insurers diversify their portfolio to include these products?
- How to best target the industries more likely to purchase these products?

Graph 2.1: Type of insurance SME’s intend to buy

*Thinking about your business in the next three years (2022 to 2024), which types of insurance would you purchase for your business that it does not already have (excluding insurance that is required by law)? Please select up to three*
Some SMEs have indicated an interest in purchasing broader services from their insurers creating potential avenues for diversification and growth.

SMEs open to services beyond insurance

Some SMEs seem to be open to get broader services from their insurers to help them manage their risks. They have indicated that they would be most interested in:

- Cybersecurity (22%) – particularly for medical services* (50%) & technology companies (33%)
- Advice on systemic risks (19%) – particularly for education* (46%) & medical services* (31%) companies
- Climate change advice (19%)
- Physical property protection (18%)
- General risk management advice (18%)

These new services could provide insurers the opportunity to diversify, create new revenue streams and potentially lower claims by going:

- Should insurers seek to include services beyond insurance into their offering?
- If so, as a standalone or bundled?

Graph 2.2: Insurer’s services beyond insurance

* Limited statistical significance
Policy and Payments

Which additional features and flexibility do they want?
SMEs want to be able to do more frequent and dynamic updates to their policy coverage.

Coverage flexibility and personalisation

SME clients have become more aware of their policies, coverage and cost, and want to have the flexibility to tailor these to better balance the risk they are exposed to with how much they are being charged to be insured.

They want to be able to update insurance coverage at any point during the year (e.g., increase or decrease coverage based on changes in revenue, number of employees, number of customers, or other unexpected business changes), as opposed to being able to review and update it once per year, as is currently standard.

81% of surveyed SMEs in Australia want to be able to update their insurance coverage at any point during the year, as opposed to being able to review and update it once per year, as is currently standard.

Insights & Reflections

There is clearly a need to provide more flexibility and advice to SMEs regarding their policies, driven by the need of SMEs to have more insurance coverage, rather than less.

Intermediaries and insurers could help SMEs meet this need by distributing more flexible products (providing ability to dial up or down the coverage) and/or by sharing a point of reference to customers on what similar SMEs typically consume (adopting “customers like yourself”).

Graph 2.3: Reasons for policy flexibility needs

“Which of the following describes why you would like to be able to update insurance coverage for your business at any point during the year? Please select all that apply”

- Get coverage better suited to current needs: 58%
- To avoid the risk of not being covered: 55%
- To add coverage I wasn’t aware I needed: 49%
- To pay less: 30%
SMEs want to be able to link payment to usage (e.g. variable payment linked to asset or usage).

**Payment flexibility and personalisation**

Globally, policyholders have a desire for flexible payment options. This tends to resonate even more with Australian policyholders where 8 out of 10 surveyed SMEs want to pay for insurance via a variable monthly fee depending on asset usage (e.g. miles driven, number of customers, etc.).

Pay as you go or usage based insurance are most commonly seen in the motor insurance field but this concept can be adapted to business insurance products too.

An insurer looking to expand their footprint in business insurance may want to consider creating products with such features (Payment or coverage flexibility).

**Graph 2.4: Interest in usage-based monthly premium payments**

“Are you interested in paying for insurance via a variable monthly fee (based on usage)?”

![Graph showing interest in usage-based monthly premium payments.]

**Insights & Reflections**

Just like personal insurance products, monthly usage based premiums are a more desirable payment structure for SMEs.

To enable a wide scale adoption, insurers need to consider risks of cash flow uncertainty and impact on financial stability.
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