



The future of small  
business insurance  
Insights on the needs  
and wants of Canadian  
small business owners



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# Preface

We don't have to tell you what a turbulent year 2021 was for businesses around the world—the pandemic wreaked havoc on supply chains, labour shortages took hold, government-mandated shutdowns prevented some businesses from operating, and climate change continued to intensify with increasingly frequent extreme weather events. And that's not all.

The transition to e-commerce continued to rapidly accelerate through closures of traditional shopfronts and restrictions on in-person interactions, creating the need for digital channels for businesses to continue to trade—not as a unique selling proposition but rather as a competitive requirement.

All these factors exposed businesses globally to unforeseen risks and highlighted the value of insurance protection. Small businesses, which account for approximately 98% of the total number of employer businesses in the Canadian economy, were no exception. Many of them continue to struggle.

In this context, insurers need to recognize how the COVID-19 crisis has reshaped small business owners' attitudes toward insurance, from understanding what risks they are most worried about to the services they want from their insurers and intermediaries beyond insurance.

To help provide clarity on the future of small business insurance, Deloitte surveyed 5,300 small business owners in 14 countries in July and August 2021 to gather an international perspective on their insurance needs and purchasing habits.

The Canadian findings outlined in this report are from the 502 small and medium-sized enterprise (SME) owners in this country who responded to Deloitte's global research survey. They represent retail, manufacturing, technology, and professional services, among other sectors. For the purposes of this report, SMEs are defined as businesses with five to 75 full-time employees and are referred to as *small businesses* throughout. The average small business owner who responded has 35 employees (37% had under 29 employees) with a median insurance spend of \$26,000 per year.

Our five key recommendations for insurers to better serve the insurance needs of small business owners:



**Build on the high level of trust with consumers**

Small business owners' trust in their insurers did not waver despite uncertainties introduced by the pandemic. In fact, our survey indicates a surge in the level of trust because of the support and advice business owners received while dealing with the repercussions of public-health-related lockdowns.



**Provide broader risk solutions and offer flexible policy features**

Certain types of coverage, such as for pandemic or business interruption, have risen in popularity. The constantly evolving nature of risk has also fostered a preference for flexible policy features, such as usage-based pricing and adjustable coverage.



**Invest in providing high-quality advice and non-insurance services**

Advice on key risks and associated coverage options will be a key driver of new business. More than a third (36%) of small business owners indicate they would continue to rely on their insurers for advice after COVID-19 eases. Beyond insurance-related products and services, they are also interested in ancillary offerings, such as advice on cybersecurity and finances.



**Proactively reinvent distribution, exploring direct-to-customer and non-traditional channels**

A full 93% of small business owners are ready to buy insurance from a non-traditional insurance provider (banks, retailers, etc.). Customers are also ready to engage directly with their carriers rather than intermediaries, and would be comfortable with carriers engaging them directly as long as they receive the right advice on their purchase journey.



**Develop omnichannel interaction capabilities across the end-to-end value chain**

Ensuring a seamless customer experience throughout the entire customer journey will be critical to the success of those serving the insurance needs of small business owners. Digital offerings have been gaining in popularity, yet current industry capabilities fall short of customers' expectations, highlighting the need for insurers to increase their efforts to create an advice-led digital journey while also seamlessly supporting traditional channels, such as over the phone or in person.

We hope you find this report insightful, and we would be happy to discuss the results in more detail.

**James Colaco**

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# Market context: An increase in demand

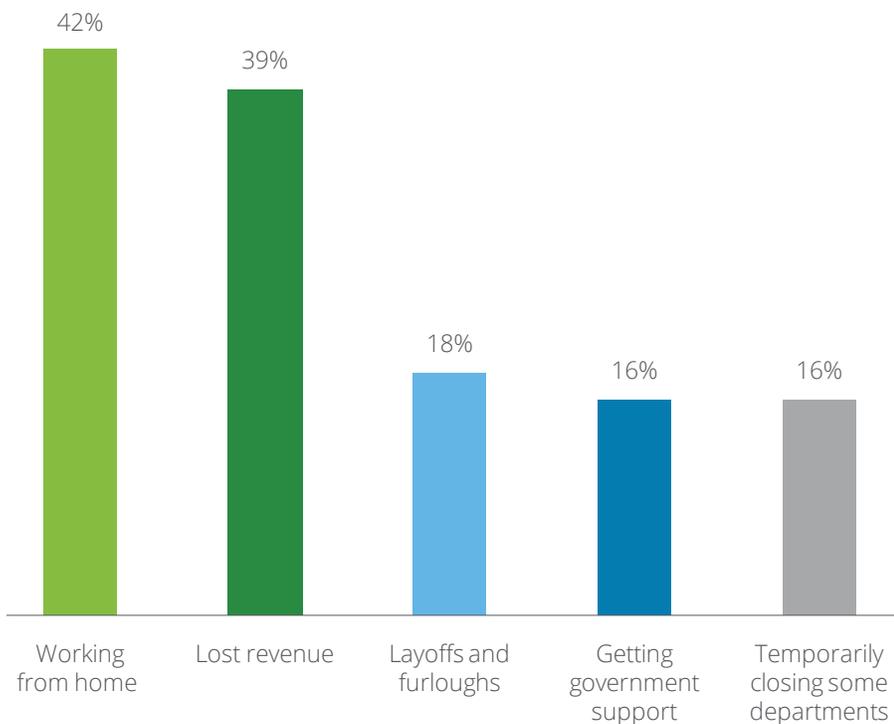
Our survey results clearly indicate a future demand increase, as 48% of Canadian small business owners report they are likely to purchase more or much more insurance.

## Pandemic impact

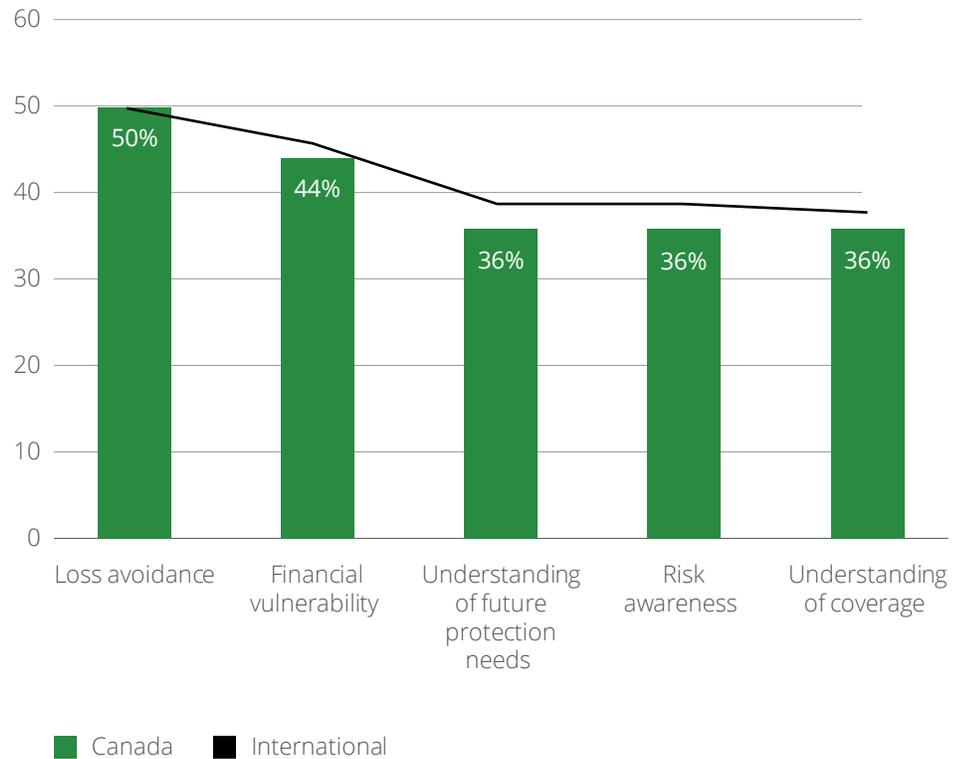
More than 80% of the small businesses surveyed have been affected by the pandemic. The sudden shift to working from home (42%) and lost revenue (39%) are seen as the biggest challenges (see Figure 1)—pushing small business owners to resort to layoffs or temporarily, sometimes permanently, shutting down their businesses.

Canadian small business owners faced tremendous disruptions to their core business operations and are placing more value on protection against challenges they have yet to face. In conjunction with expecting to buy more insurance, 68% expect to spend the same or more on business insurance following the COVID-19 pandemic.

Figure 1: Impacts of pandemic on small businesses



**Figure 2: Driver of purchase decision for small businesses (Canada vs. international)**



Three of the top motivations driving their purchasing behaviour are loss avoidance (50%), financial vulnerability (44%), and understanding of future protection needs (36%). These figures are consistent with the global averages (see Figure 2). While loss avoidance and financial vulnerability can be addressed by having the right product that provides adequate coverage for the specific risks each business faces, the last element—an accurate understanding of the protection needs they may need in the future—presents an opportunity for insurers to provide better advice around clients’ risk needs and product offerings.

The pandemic has opened a gateway for insurers to establish a renewed sense of trust and confidence in their clients by better educating small businesses on the risks they are facing and any associated

gaps in their current insurance coverage, ultimately helping to prepare them for the next major disruption.

International figures are consistent with what we have seen in Canada. China has the greatest increase in likelihood to purchase more business insurance (61%), which could be explained by the strong foundation of trust in insurers and the hardships endured as the first country to be hit by COVID-19.

**Trust dividend**

Canadian small business owners have historically trusted their insurers to provide the right products for their needs and fairly adjudicate their claims. Almost 90% of respondents note they had some degree of trust in their insurers and intermediaries, with 42% and 47%, respectively, trusting their insurers and intermediaries completely.

Insurers might be encouraged by this finding as it indicates there is a fairly insignificant difference between how much small business owners trust intermediaries and insurers. There is an inherent opportunity for insurers to increase their direct interactions with business owners along their customer journey—assuming they can provide the right advice and guidance to clients on their risks and coverage needs through their direct channels—and build on the existing level of trust.

Unlike other industries that may have lost the confidence of their consumers, the pandemic increased the already-high degree of trust in insurers—more than 70% of respondents indicate some increase in the trust they have for insurers, and about a third noted that it has risen significantly.

Figure 3: Small business trust levels in their insurers and intermediaries per country

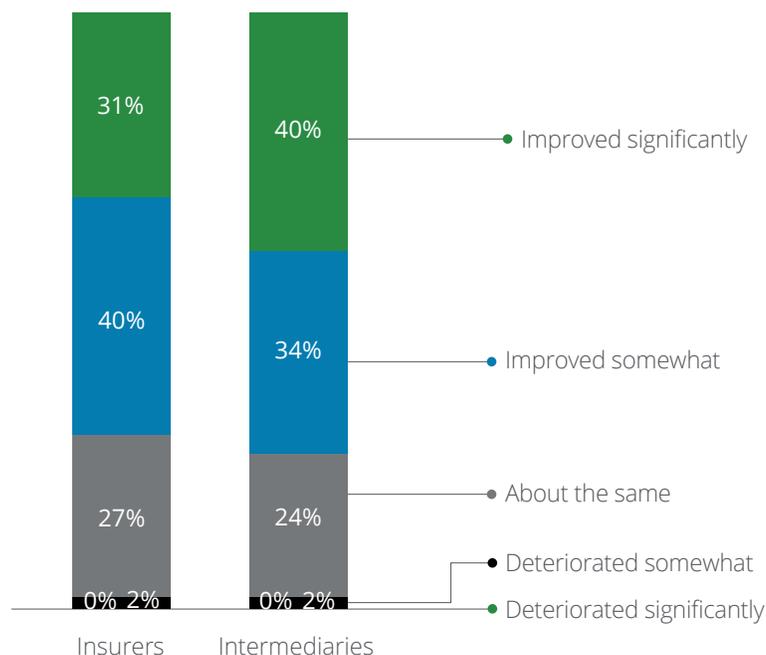
% of small businesses	US	CA	UK	IE	BE	CH	FR	IT	DK	NO	SE	CN	JP	AU
Who trusted their insurer completely or somewhat before the pandemic	95%	89%	91%	91%	91%	89%	85%	96%	96%	64%	93%	99%	89%	92%
Who trusted their intermediary completely or somewhat before the pandemic	99%	90%	93%	90%	89%	92%	88%	97%	99%	64%	93%	98%	88%	94%
Whose trust in their insurer improved significantly or somewhat during the pandemic	53%	71%	44%	82%	81%	87%	64%	57%	58%	52%	76%	82%	74%	76%
Whose trust in their intermediary improved significantly or somewhat during the pandemic	61%	74%	47%	81%	81%	88%	76%	60%	71%	56%	81%	82%	77%	84%

Unsurprisingly, those whose trust in insurers has grown are also more interested in purchasing additional insurance. They expect to spend more on insurance due to both the increase in demand and the expectation of higher premiums in what has widely been perceived as a hard market over the past few years.

The strongest driver of this increase in respondents' trust in their insurers and intermediaries is the advice and support offered by the industry while dealing with the ramifications of the pandemic. This may reflect the role that insurers and intermediaries hold as risk advisors as well as risk takers to small business owners.

Those who trust their insurers slightly more do so because of provisional product-oriented benefits, such as lower rates and quicker claim settlement.

Figure 4: Changes in level of trust Canadian small businesses have in their insurers and intermediaries



This may reflect the role that insurers and intermediaries hold as risk advisors as well as risk takers to small business owners.

**Figure 5: Reasons small business owners' trust levels in insurers and intermediaries have increased during the pandemic**



Overall, insurers should carefully assess the services they are providing along with their insurance policies to ensure they are not only maintaining, but also building on the trust they have earned. Proactively

communicating the services that clients can access, especially in difficult times, could yield substantial benefits for the industry as small business owners evaluate their insurance options for the future.





# Emerging risks and policy features

## Emerging risks

For many small business owners, the pandemic highlighted the fact that there are limits to the resiliency of their businesses and that having appropriate coverage for insurable risks related to large, macro-type events might be more of a necessity than a nice-to-have.

When asked what kind of risks they are not currently insured for but would like to be, their responses centred on avoiding financial losses and reducing financial vulnerability.

Comparing Canadian results to the global average, there are striking similarities. Top of mind for small business owners in a post-COVID-19 economy is protection against business interruption<sup>1</sup> (28% in Canada and 24% globally) and pandemics<sup>2</sup> (26% in Canada and 27% globally). Over the past year, businesses have had to tackle crises that caused both economic and systemic issues. Close to one-third of respondents see protection against business interruption as a top priority—consumers like the peace of mind they get knowing they're safeguarded against future loss events that disrupt their ability to operate their businesses.

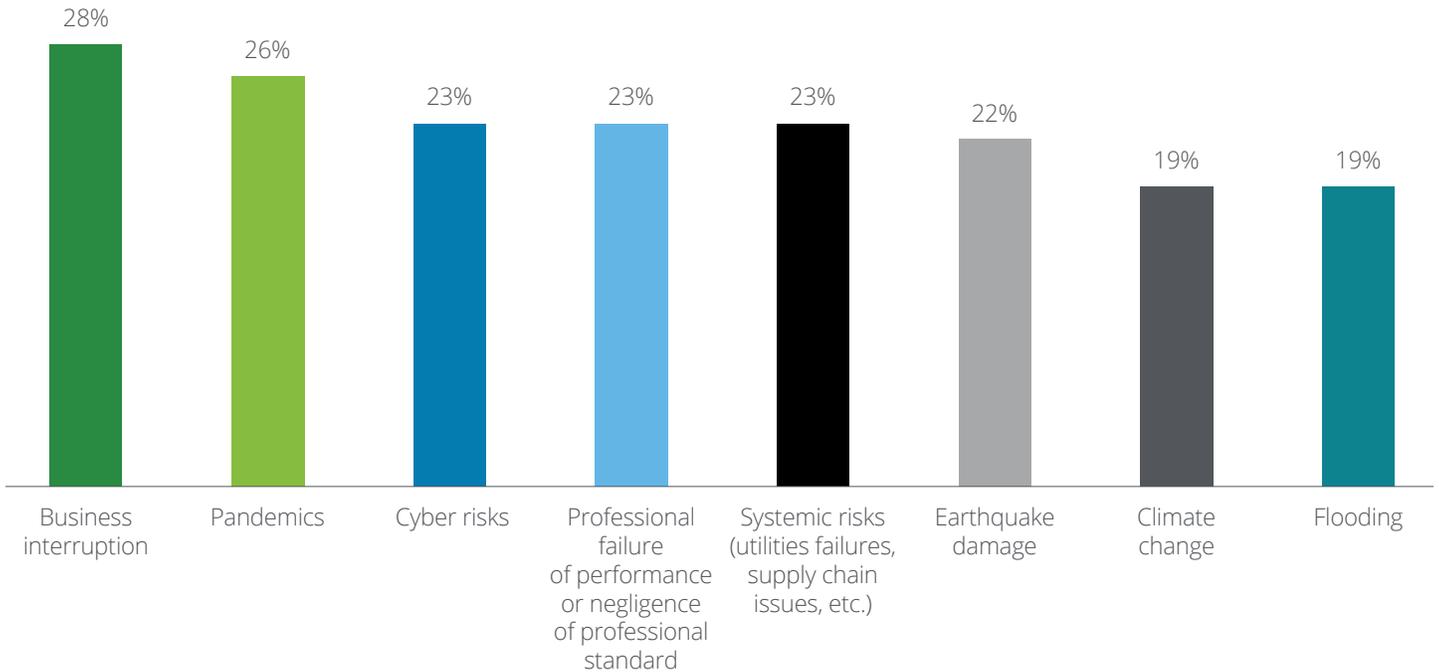
Systemic risks, cyber risks, and professional failures<sup>3</sup> all tied for third place, with 23% of Canadian respondents indicating they would like coverage for such risks.

The evolving nature of commerce and the disruption caused by the pandemic have created a demand for emerging and evolving risk products from small business owners looking to ensure that their financial future is not vulnerable to unprotected losses. It is, however, important for insurers to be aware that not all risk products are valued in the same way and rather than being used to generate premiums on their own, they could be used as additional policy benefits to make the sale or close the deal.

We also asked what they would be willing to pay in addition to their current premium to expand their coverage to include emerging

risks. Price sensitivity for different risks varies widely, with some small business owners expecting these covers to be added without charge and others willing to pay half or more of their current insurance spend. Understandably, certain emerging risks that are in low demand (damage to reputation, damage to intangible assets, etc.) have a correspondingly low willingness to pay for them. However, those who would like to add cover for pandemics and cyber risks are not willing to pay as much for that cover as they are for the other high-demand emerging risks (11% of current insurance spend compared to 29% for other emerging risks). Insurers should therefore consider the risk/reward trade-offs for introducing new types of coverage with new, potentially less understood, liabilities that clients may want but are unwilling to pay for.

**Figure 6: Risks that small business owners are not currently insured for but want protection against**



**Figure 7: Percentage of current insurance spend small businesses are willing to pay to cover different emerging risks**

Emerging risk categories	Business interruption, professional failure, systemic risks, earthquake damage, climate change, and flooding	Pandemics and cyber risks
Percentage of current insurance spend respondents would spend on emerging risk cover	29%	11%

**Flexible and usage-based policy features**

Similar to personal-insurance customers, small business owners are increasingly demanding flexible solutions that meet their specific needs. Business insurance products with usage-based and adjustable policy features are therefore becoming attractive to them.

Nearly 70% of all Canadian survey respondents would like to pay a variable premium each month based on the amount they use their assets (for example, kilometres driven). Those using an insurance intermediary are more eager to buy variably priced insurance than those who currently buy through an insurer (71% and 64% respectively).

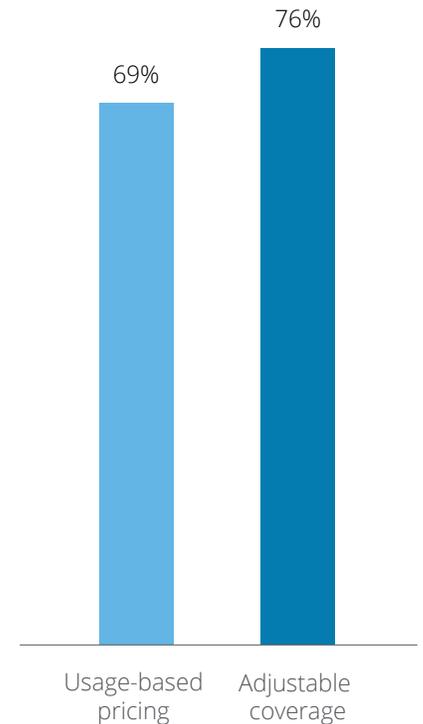
Of the 76% who want adjustable policy features (increasing or decreasing coverage limits based on business revenue, number

of employees, etc.), more than half (53%) feel it would allow them to get coverage better suited to their needs and 45% feel it would help them avoid the risk of not being covered.

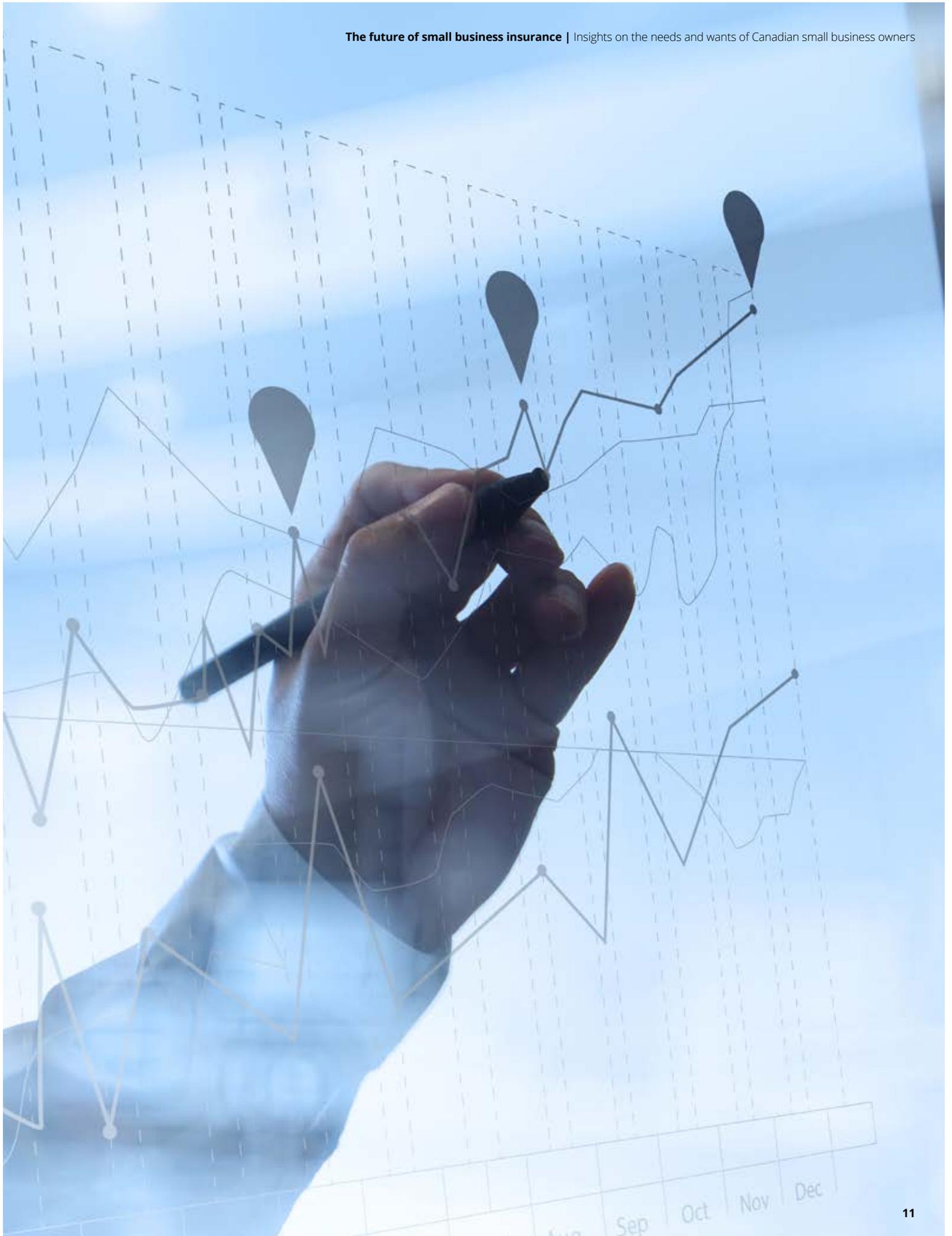
An opportunity exists for insurers to meet the interest of small business owners for holistic protection, not only through increasing the spectrum of risks covered, but also with policy features that match their needs as their businesses evolve.

For insurers to implement usage-based pricing and adjustable cover with speed and at scale, they will need to invest in their digital and data capabilities, reimagine product design, offer a simple and engaging customer experience that builds the confidence in consumers that they have the right coverage, and enable the flexibility customers are asking for.

**Figure 8: Small businesses that would include adjustable and usage-based policy features in their insurance policy**



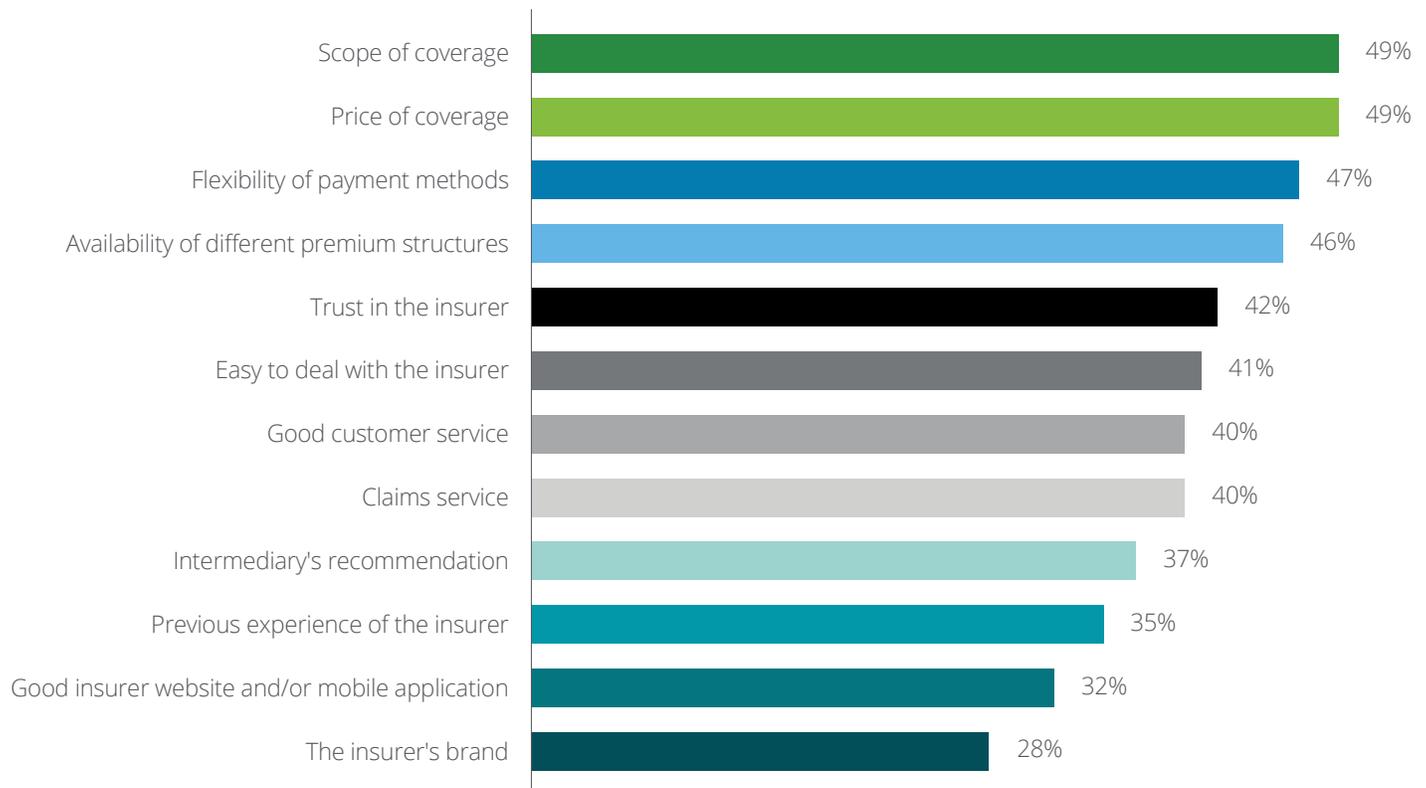
Business insurance products with usage-based and adjustable policy features are therefore becoming attractive to small business owners.



# Focus on advice and non-insurance services

Among the Canadian respondents to our survey of small business owners, the scope and price of coverage are the most important considerations in choosing an insurer (49% for both). There is, however, also an indication that—in alignment with the average global survey respondent—they are less sensitive to price than personal-line consumers. While price is an important element, it is considered in aggregate with the flexibility of payment methods (47%), availability of different premium structures (46%), and perceived trust in the insurer (42%).

**Figure 9: Most important considerations to small businesses when buying business insurance**



Building trust and confidence in customers so they know they have the right coverage to match their specific exposures is vital for insurers seeking to compete for small business insurance customers. Price competitiveness has become a fundamental requirement in the industry more broadly. What will distinguish winning insurers and intermediaries in the market is how they build confidence in their customers with simple-to-understand, engaging “advice journeys” and how they ensure customers feel adequately covered for the risks their businesses are facing.

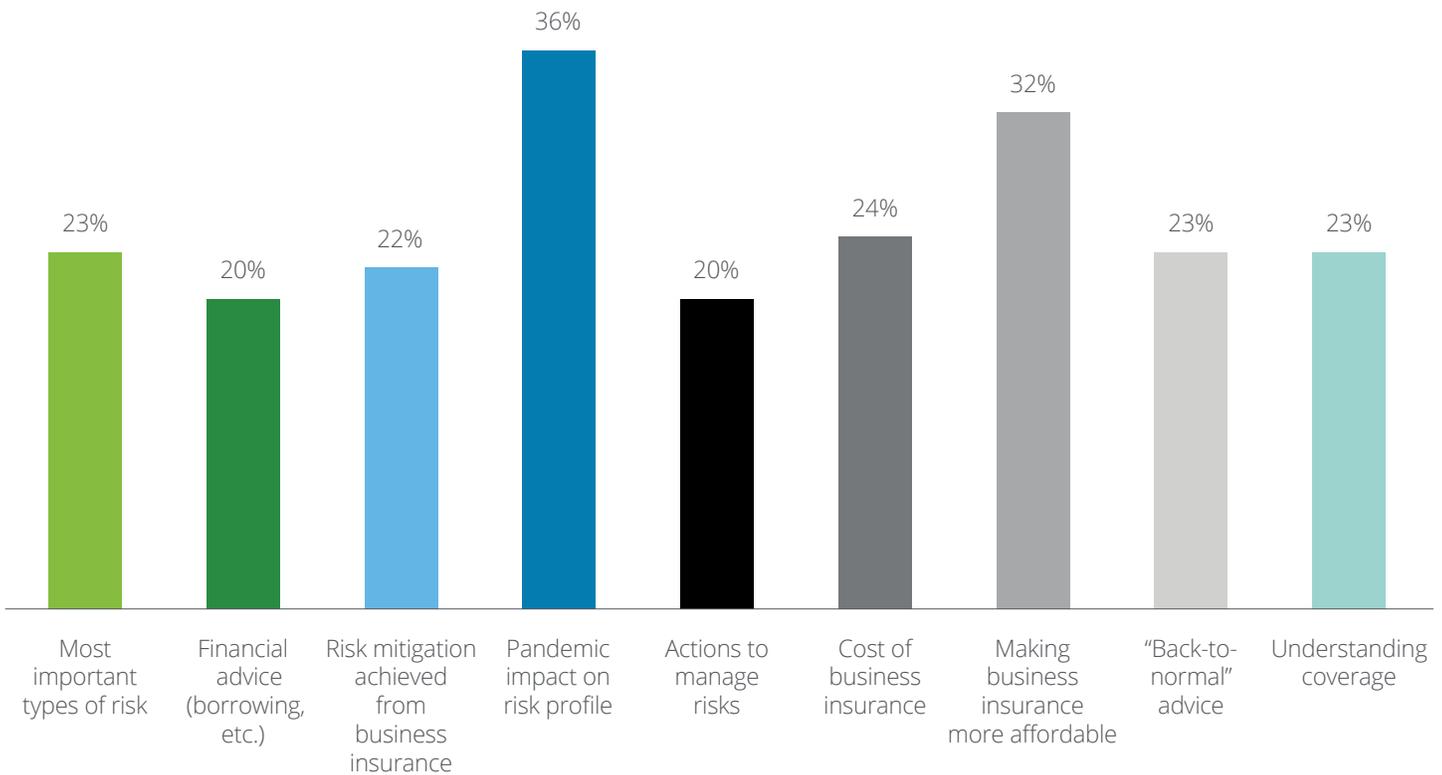
As insurers focus on building trust with and earning the loyalty of small business owners, it’s important to recognize the types of advice and additional services that customers would value if they were to be offered. Our research explores this through two lenses:

- What advice did small business owners use during the pandemic and what advice do they want now?
- What additional services do they want?

Small business owners looked to their insurers during the pandemic for advice on how to deal with the changing nature of the risks they were facing—and more than 36% will continue to rely on their insurers for guidance on how to navigate the post-pandemic environment.

While advice on reducing the cost of insurance naturally scored high, there is also a keen desire for more education to understand the risks their businesses faces and the coverage options they have or could have for those risks. This indicates that their current needs in this aspect are not being met.

**Figure 10: Types of insurance-related advice small business owners want from insurers and intermediaries**



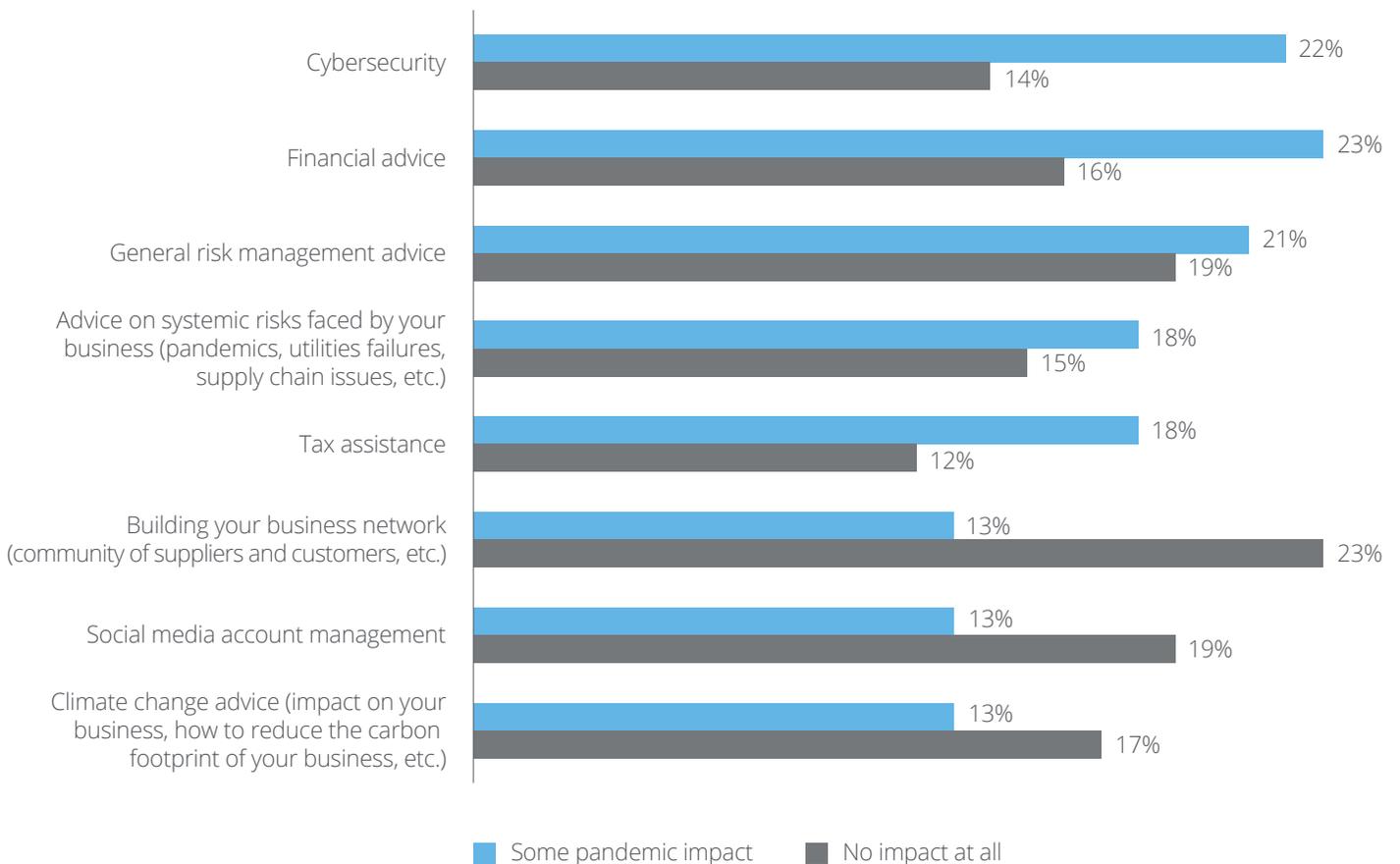


In terms of ancillary, value-add advice and offerings beyond insurance, our research indicates that cybersecurity and financial advice would see the highest take-up if offered by insurers. Interestingly, there is a correlation between the type of advice business owners are asking for and the degree of damage the pandemic has had on their business. Owners whose small businesses were heavily affected tend to be more interested in risk mitigation and securing their financial future, whereas owners of businesses that were less affected are also looking at non-risk-related

topics, such as support to expand their current business network, and even advice on managing their social media accounts.

Small business owners are looking to their insurers to provide services beyond protection, more than what the industry has traditionally provided. This creates an opportunity for insurers and intermediaries—especially those who understand the degree to which the pandemic has affected small businesses—to capitalize on this demand.

**Figure 11: Services that small business owners would use if offered by their insurer**



# Engaging with non-traditional distributors

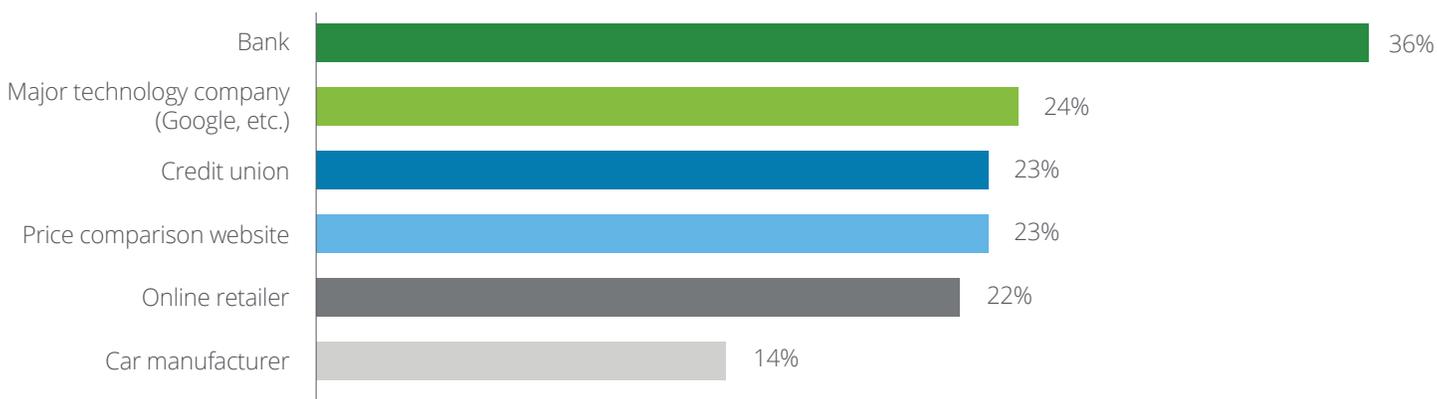
One area we set out to understand with our survey was whether small businesses would be willing to look outside of traditional insurance providers for their next insurance purchase. The answer was a resounding yes—93% of respondents would consider buying their next insurance product from a provider who was not an insurer or intermediary.

Clear potential alternatives to insurers and intermediaries are financial institutions, technology companies, and online retailers. The combination of the increase in e-commerce purchases, the significant growth of technology companies, and the response of Canadian banks to the pandemic may have contributed to the openness of small

business owners to purchasing insurance from a non-traditional player.

Canadian small business owners show similarities to their international peers, with small businesses in every country surveyed (except Switzerland) choosing banks as their preferred alternative provider for insurance.

**Figure 12: Types of companies small business owners would buy insurance from other than an insurer or intermediary**



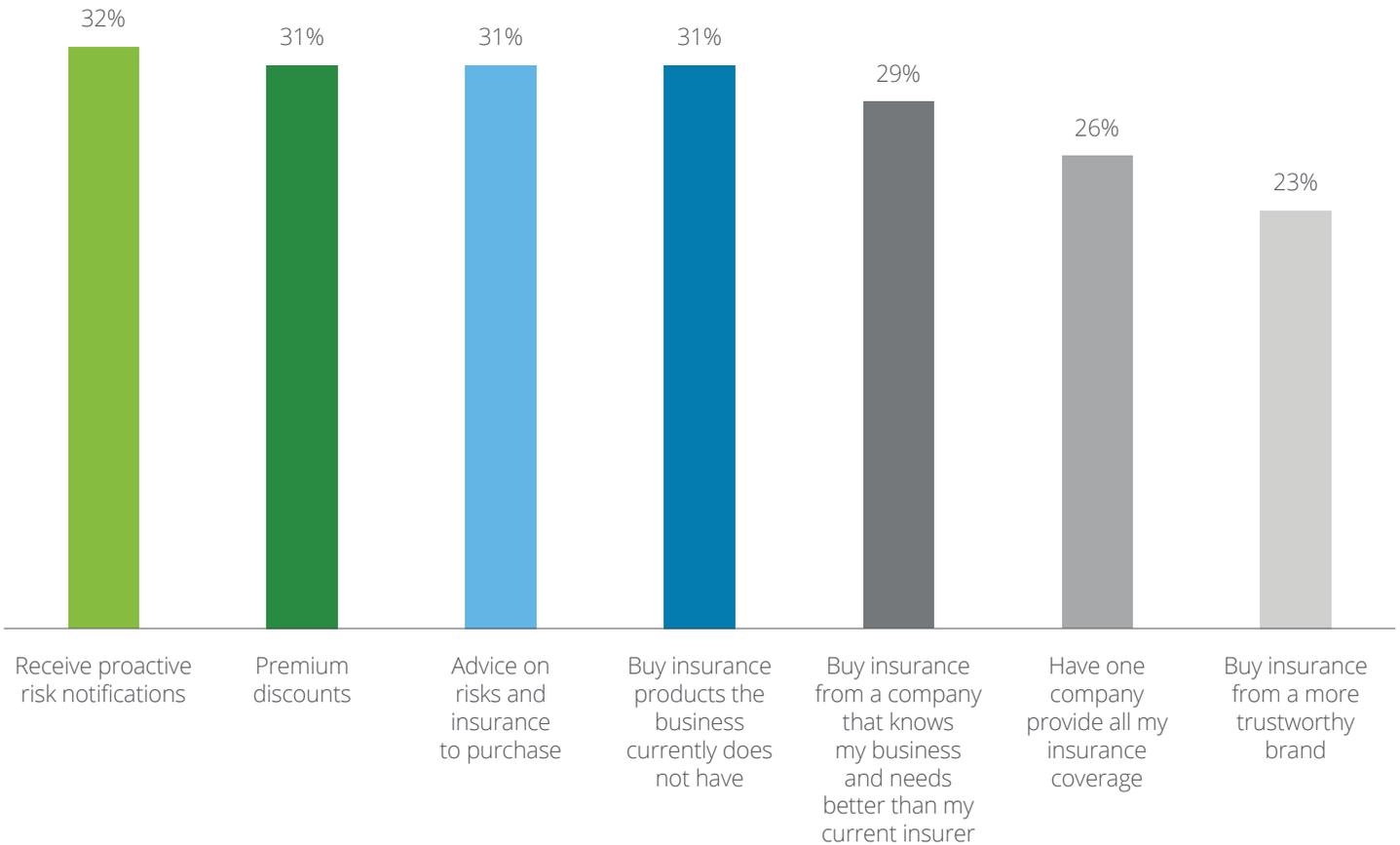
When asked why they would consider accessing insurance from non-traditional providers, personalization, affordability, and advice featured highly. Approximately a quarter (26%) of Canadian respondents believe a non-traditional provider would also allow them to bundle all their insurance products in one place. They also expect to get effective nudges when they need to cover themselves against risk events, discounted premiums relative to insurers, and advice on the risks they face and what they should do about them.

Insurers should note the research's confirmation that small business owners

view their banks as desirable providers of insurance products. Whether it is the close relationships between banks and their customers or the more intimate knowledge banks would have of the businesses, banks are well positioned to offer and distribute protection solutions in the future (within what is permissible in Canada's Bank Act).

Overall, small business owners show a willingness to explore non-traditional providers as long as their risks are more actively managed, prices are competitive, and adequate advice is given for them to be confident that they have the right coverage.

**Figure 13: Reasons for purchasing business insurance from a company other than an insurer or intermediary**





# Entrenched omnichannel consumers

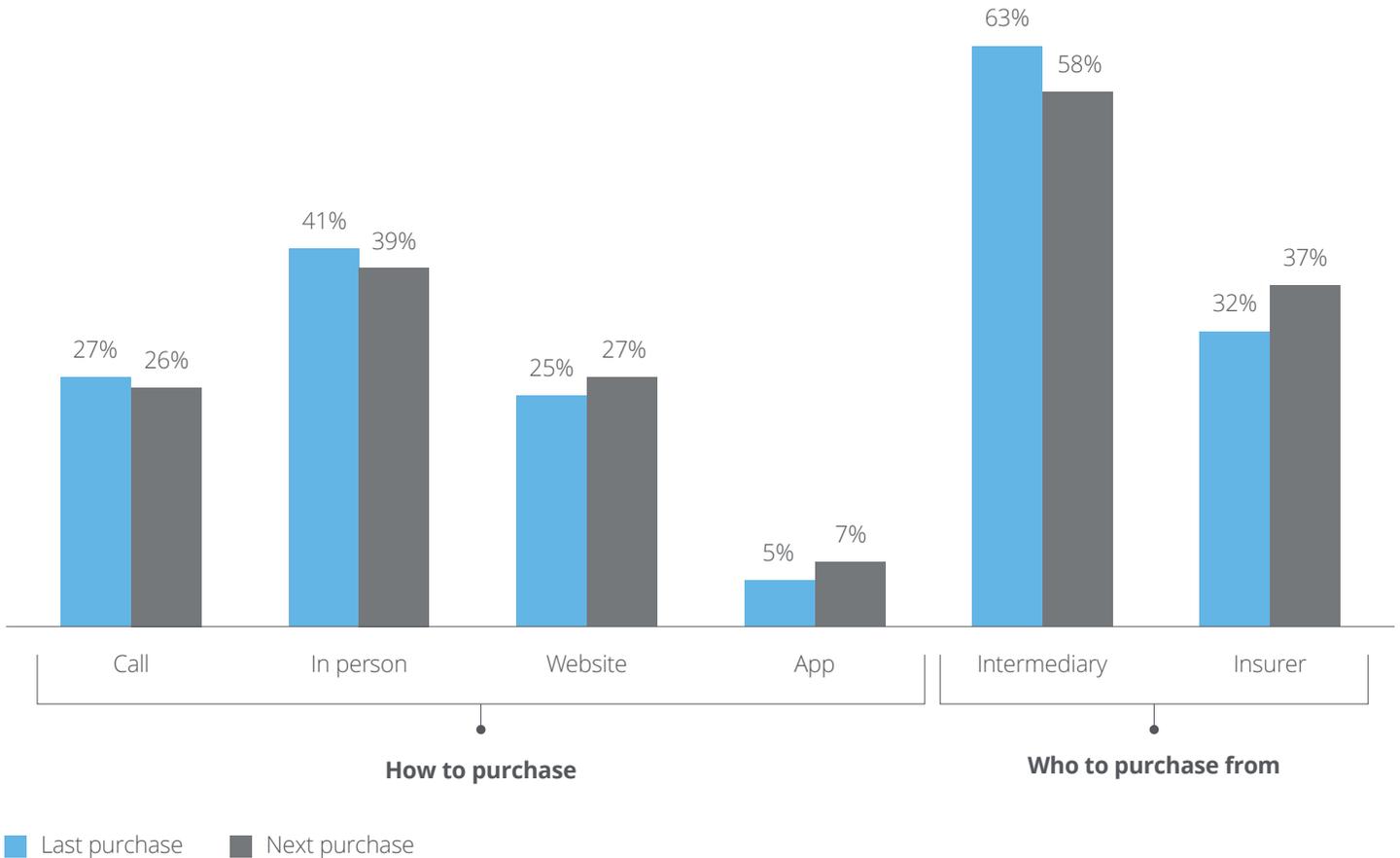
While the pandemic has normalized e-commerce and broadened the spectrum of items that can be purchased online, Canadian small business owners have held steady on their channel preferences for purchasing business insurance. In-person visits remain the predominant method of purchasing an insurance product, with some growth being seen in websites and apps.

Interestingly, there is a shift in where they would consider purchasing insurance products—37% of respondents might get their next policy directly from an insurer, which would take 5% away from intermediaries. Those who indicate that they would purchase their next policy from an insurer attribute it most to the control over their policy (41%) and the potential cost savings (40%).

A noteworthy factor that is constraining the purchase of insurance products online is the lack of options within the market today. The small change in preference from human-led to digital we see in Figure 14 could accelerate as the supply and sophistication of online offerings increase.



**Figure 14: Method and provider of small business owners' last business insurance purchase vs. their next purchase\***



\* Numbers may not round perfectly to 100% as not all variables are reflected.

The appetite for digital channels in Canada is stronger than in the US and the UK, where nearly half of all insurance purchases are made over the phone in the UK and in person in the US. Across these three markets, an intermediary is the preferred provider of choice, but there is gradual movement toward insurers, with the exception of the UK, where intermediaries continue to gain in popularity.

Analyzing how clients want to interact with insurance providers shows that many of them are truly omnichannel consumers with

a willingness to switch channels to interact with their insurers—if insurers make it a seamless experience.

We inquired about small business owners' preferred interaction channels for the purchase of insurance, receiving service, and processing claims. A key finding is that they tend to favour the same interaction channel used to purchase their policies for any future communication. However, it is also clear that a good portion of customers who used one channel for purchasing insurance would like the availability of other

channels for servicing or claims interactions. For example, even of the customers who prefer a human element on their purchasing journey—in person or on the phone—20% to 30% would prefer digital channels for future interactions.

An important distinction in the analysis is that the interplay between human-led and digital-led experiences also reflects the demand for policy accessibility, where small business owners want to be able to access their insurance policies even when humans may not be available.

**Figure 15: Small business owners' future channel preferences for servicing and claims**

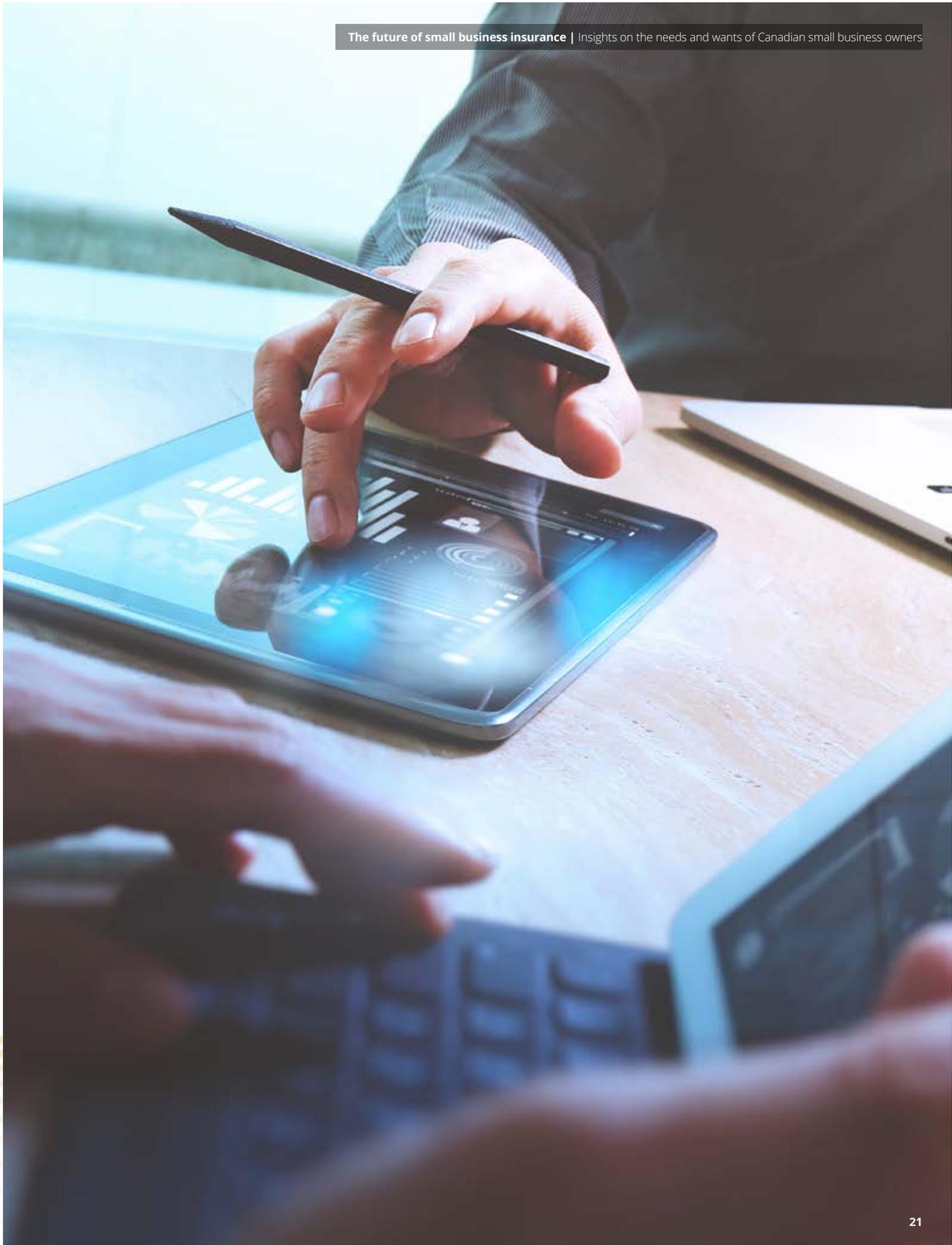
Future channel preferences for those who would purchase their next policy via <b>AN APP</b>			Future channel preferences for those who would purchase their next policy via <b>A CALL</b>			Future channel preferences for those who would purchase their next policy <b>IN PERSON</b>			Future channel preferences for those who would purchase their next policy via <b>A WEBSITE</b>		
	SERVICED	CLAIMED		SERVICED	CLAIMED		SERVICED	CLAIMED		SERVICED	CLAIMED
<b>APP</b>	<b>74%</b>	<b>66%</b>	APP	2%	2%	APP	3%	2%	APP	4%	7%
CALL	6%	3%	<b>CALL</b>	<b>53%</b>	<b>64%</b>	CALL	29%	30%	CALL	23%	18%
IN PERSON	11%	9%	IN PERSON	22%	16%	<b>IN PERSON</b>	<b>47%</b>	<b>41%</b>	IN PERSON	21%	24%
WEBSITE	9%	23%	WEBSITE	22%	17%	WEBSITE	21%	27%	<b>WEBSITE</b>	<b>52%</b>	<b>52%</b>

One part of the customer journey where digital has been effectively harnessed by insurance providers is claims tracking, with 44% and 31% of clients who made a claim in the last year using a website or mobile app, respectively, to track its progress.

Insurers will need to make the necessary investments in front- and back-end digital applications across the value chain to enable this experience for consumers as the industry moves to more customer-centric offerings.

Despite the nascent online purchasing capabilities in the Canadian small business insurance market, it is important for insurers to note that digital touchpoints throughout the customer journey are vital—the insurers who succeed at identifying and providing the right channel for the right touchpoint will have a differentiating value proposition.

A key finding is that they tend to favour the same interaction channel used to purchase their policies for any future communication.



# Conclusion

For Canadian insurers and intermediaries to keep pace with the ever-evolving expectations of Canadian small business owners and stay top of mind as their risk partners of choice, the following findings from the survey should offer food for thought:

- **Trust remains high and will continue to be a driver of purchase decisions**  
Nurturing trust with small business owners with fit-for-purpose protection solutions and ancillary services like financial advice will build on existing levels of consumer trust in the industry, and provides opportunity for industry players to create loyal partnerships with their clients. Maintaining a certain level of trust with the insured will be a fundamental requirement. Elevating trust in an industry that enjoys an already relatively high degree of it requires true, differentiating elements in offerings (insurance and beyond) and the way those offerings are delivered.
- **Demand for broader coverage against evolving risks is waiting to be met**  
Small business owners, facing greater uncertainty in rapidly changing environments, want insurers to provide a variety of risk products and policy features that ensure they are always covered against the risks their businesses face. As risks evolve, product innovation and ensuring that coverage options meet emerging client needs will be key for the industry to serve as the trusted advisor of choice. Flexible, needs-based solutions will help bridge the gap between the need to protect the business and controlling insurance spend, especially in times of economic uncertainty.
- **Growing importance of advice and non-insurance services might be a game-changer**  
Small businesses want and are starting to expect their insurers to provide them with advice and services that help their businesses endure and even flourish. Digitalization along the value chain is essential to offer that advice at scale in cost-effective ways. Providing the right advice to customers and creating the perception of tailored recommendations based on their industry and segment will be crucial to build the confidence in small business owners that insurers understand their risks and are providing them with the right coverage to address those risks.
- **Non-traditional distributors represent an opportunity for the industry**  
Interest in purchasing insurance from non-traditional distributors is strong. Small business owners are open to organizations they interact with in other areas of their operations to help mitigate their risks while receiving cost-effective coverage. This provides an opportunity for incumbents to partner with non-traditional providers of small business insurance products and meet customers in distribution channels that they have come to understand and are loyal to.
- **Seamless interaction channels will be key to win**  
Small business owners want to be able to switch between human-led and digital-led channels without any friction to access their insurance cover, be it a purchase, service, or claim. Insurers need to develop an omnichannel mindset to ensure no segment of their customer base is left unserved. Digitalization of the front and back ends will enable insurers and intermediaries to provide more holistic, advice-based solutions at scale. However, many of today's small business owners still want to be able to rely on human interactions along the customer journey and will continue to do so, especially as their risk profiles evolve and coverage needs change. Meeting customers in their channel of choice and integrating across those channels will be key to creating differentiated, winning experiences for the insured.

# Endnotes

1. Business interruption insurance covers the fixed operating expenses of a business that has been affected by physical damage to property (for example, by a fire) and is therefore unable to operate normally. Business interruption insurance would not typically cover pandemic-related losses.
2. Pandemic insurance would provide cover for the fixed operating costs of small businesses where the peril causing the closure of a business is a health emergency at a declared pandemic level.
3. Professional failure coverage would broadly offer protection against losses similar to those in professional indemnity policies.

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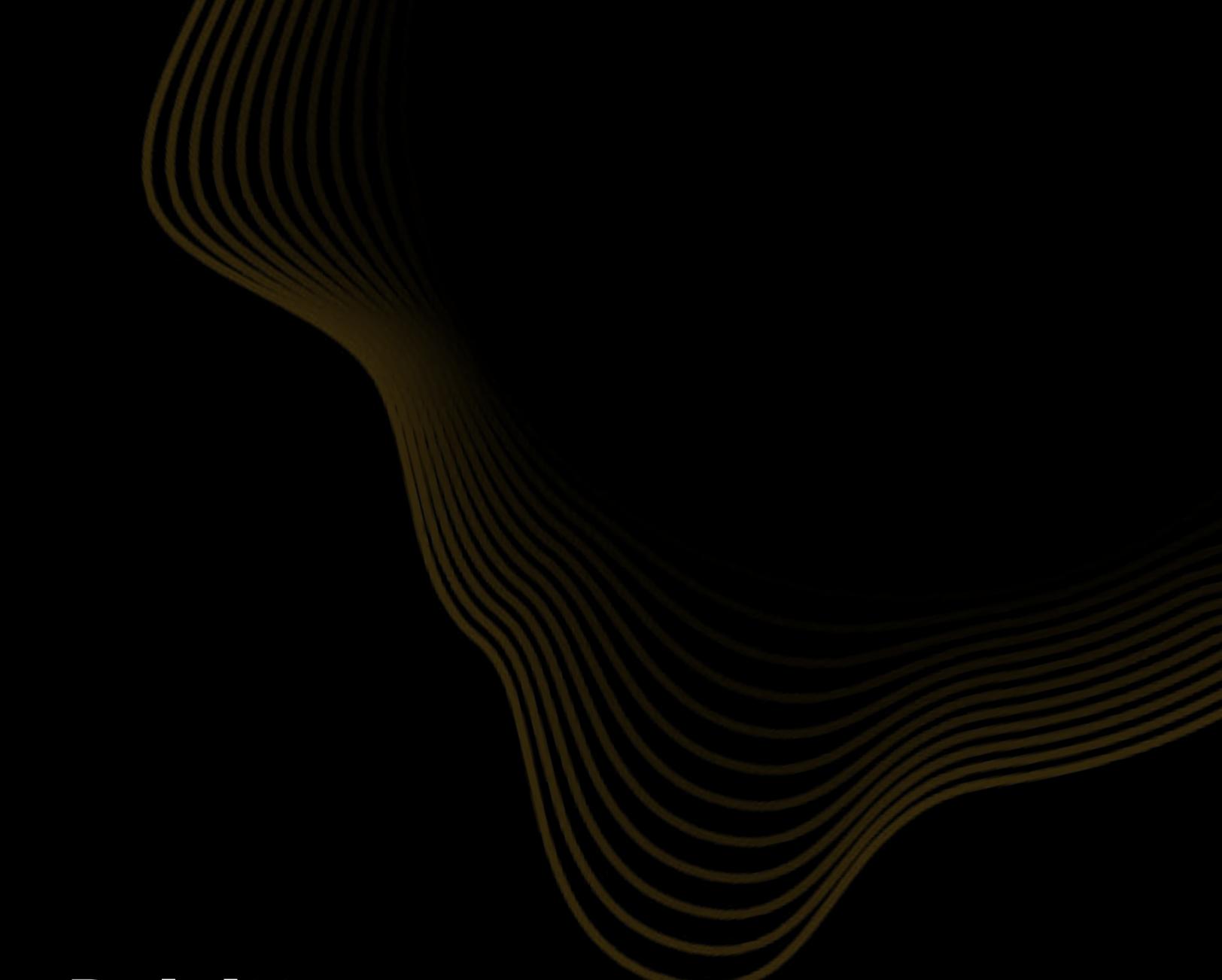
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