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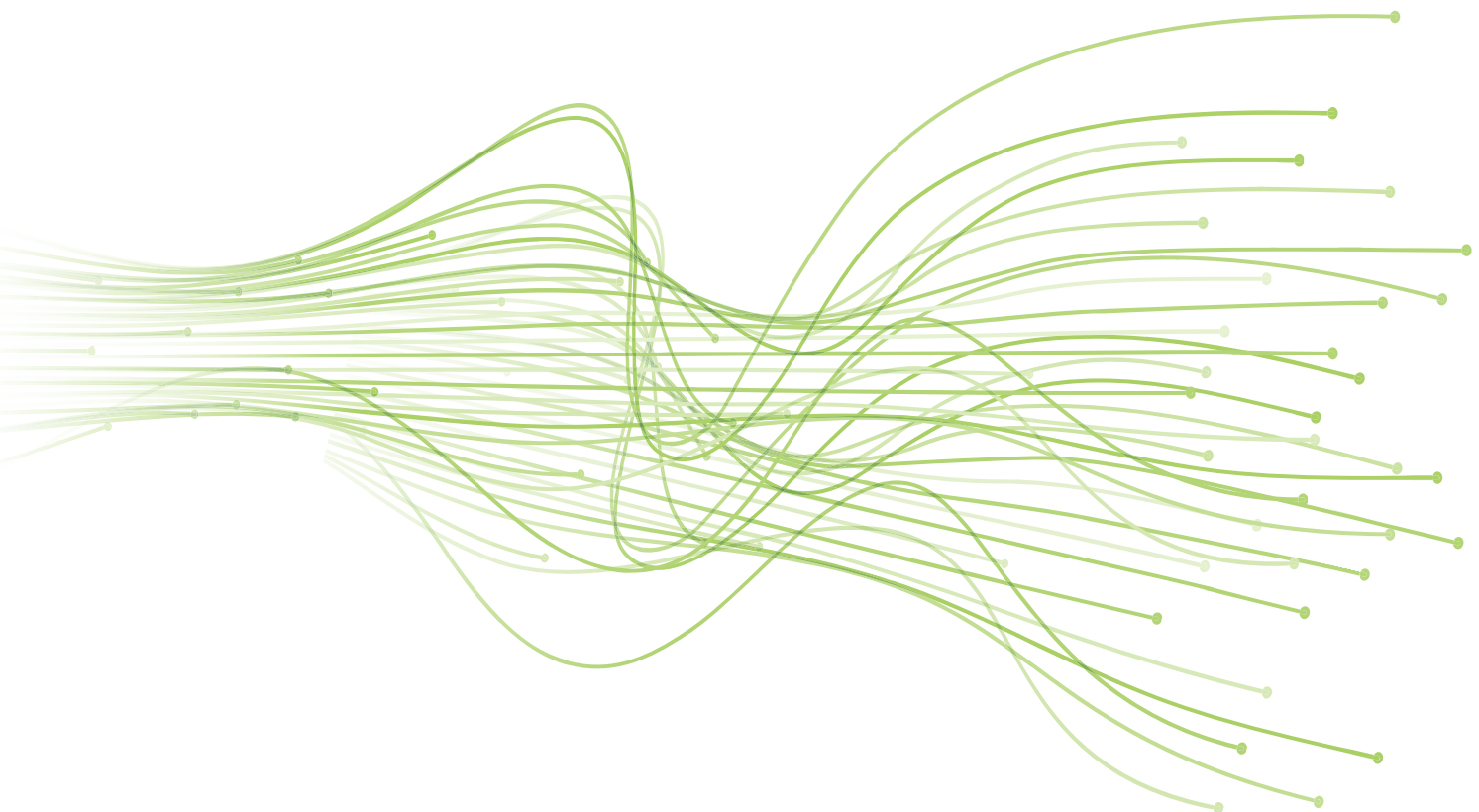
**The future of small business insurance —  
what do customers want?**

Perspectives from Australia

August 2022

## Contents

Introduction.....	3
Key insights .....	4
Distribution   How do SMEs purchase insurance and why?.....	5
Product Offering   What are they buying and looking to buy? .....	13
Policy and Payments   Which additional features and flexibility do they want?.....	18
Contacts.....	21



## 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:

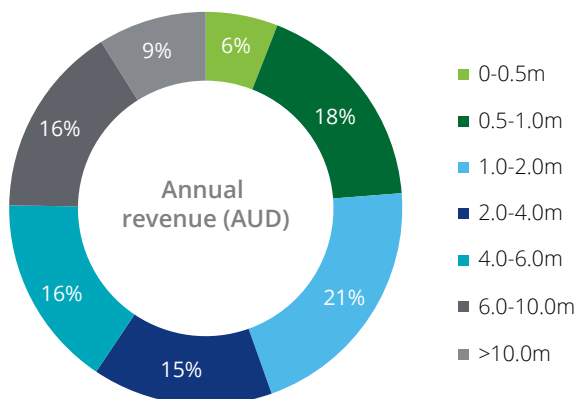
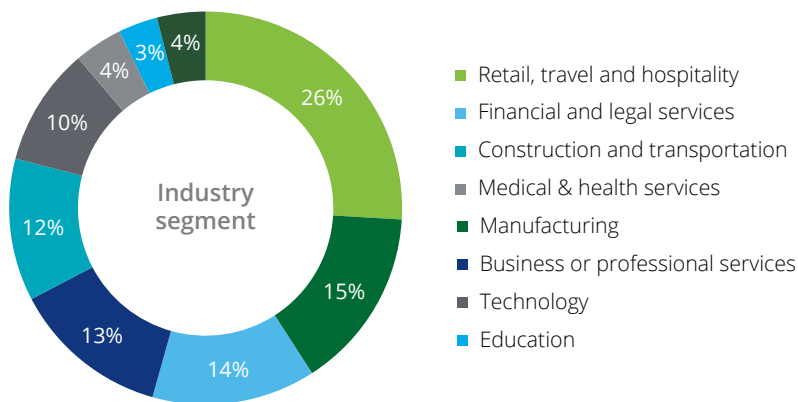
- The global survey covered 14 countries and had ~5,300 participants
- Respondents covered a wide mix of industries and company size (5-75 full time employees)

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



## 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.

<p><b>1</b></p>	<p><b>How do SMEs purchase insurance and why?</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• There are varied reasons for using intermediaries, with top reasons being: finding best coverage, access to trusted adviser and convenience (save time).</li> <li>• Despite awareness of digital channels, SMEs have strong preference to discuss insurance options with a human (face-to-face or phone).</li> <li>• Nonetheless, SMEs would consider other channels to buy insurance, with top 3 being banks, price comparison websites and big tech.</li> <li>• Insurers interested in direct distribution need to build and communicate their strength as providers of customer-centric personalised advice.</li> </ul>
<p><b>2</b></p>	<p><b>What are they buying and looking to buy?</b></p>	<ul style="list-style-type: none"> <li>• Most SMEs purchase 3-5 types of insurance (~70%), business property, business interruption and public liability being most common.</li> <li>• 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.</li> <li>• 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.</li> <li>• Some SMEs have indicated an interest in purchasing broader services from insurers creating potential avenues for diversification and growth.</li> </ul>
<p><b>3</b></p>	<p><b>Which additional features and flexibility do they want?</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.).</li> </ul>

\*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.

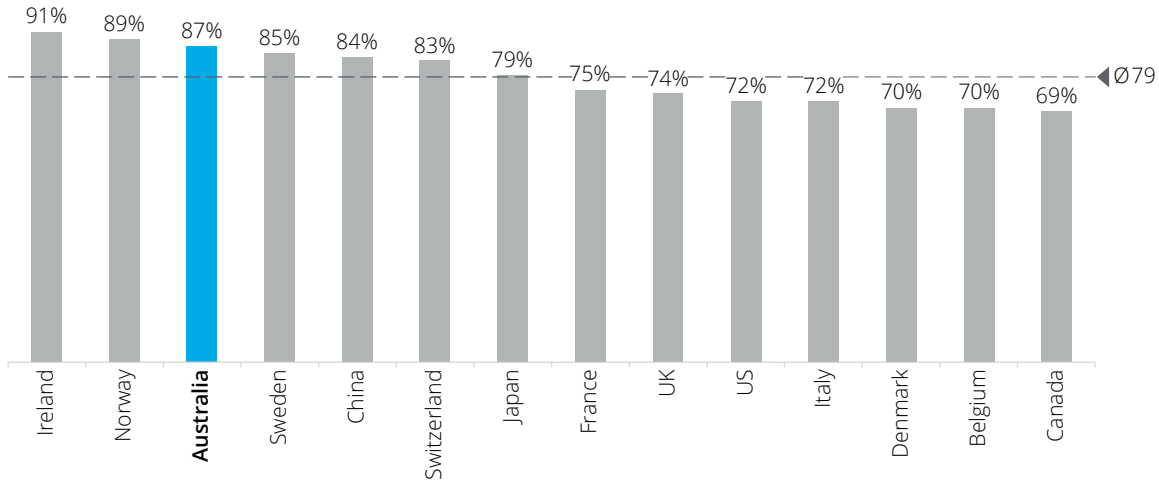
Australia is above the global average, with 87% of surveyed SME businesses indicating the usage of an intermediary to buy and manage insurance.

87%  
of surveyed SMEs  
in Australia use an  
intermediary for  
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.

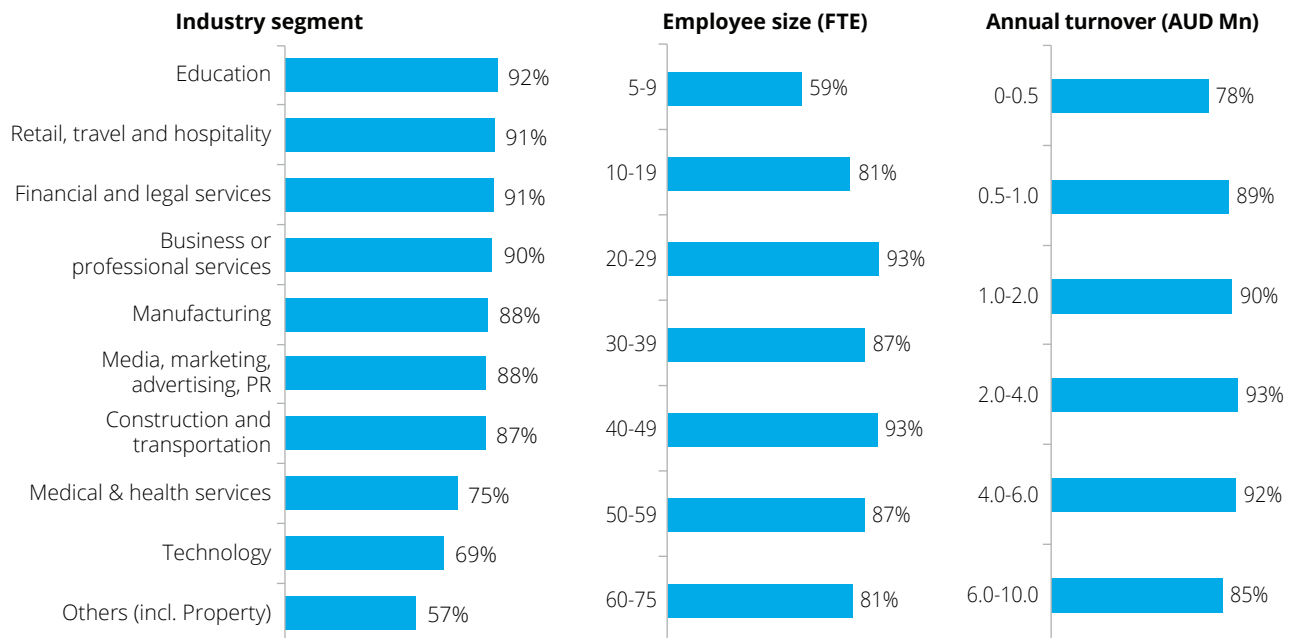
In terms of size and turnover, lower usage of intermediaries is observed at the lower end of the spectrum for Australian SMEs. Similar trends were observed for Global SMEs.

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’



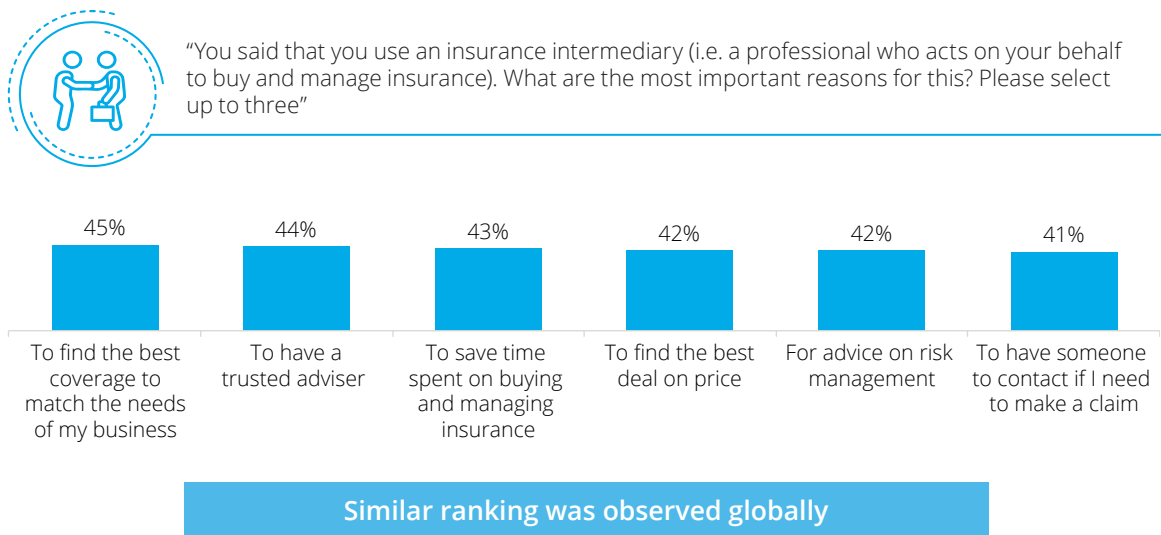
## There are varied reasons why SMEs prefer to use intermediaries to buy and manage insurance.

### 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



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

	Top reason
Business, professional, scientific or technical services	Coverage
Construction and transportation (including logistics and distribution)	Save time (convenience)
Manufacturing	
Technology	Price
Media, marketing, advertising, PR	
Retail, food services, restaurants, hotels, leisure and entertainment	Contact for claim
Education (school, university, tutoring, childcare services, etc.)	
Financial and legal services	Trusted adviser
Medical & health services	Advice on risk management

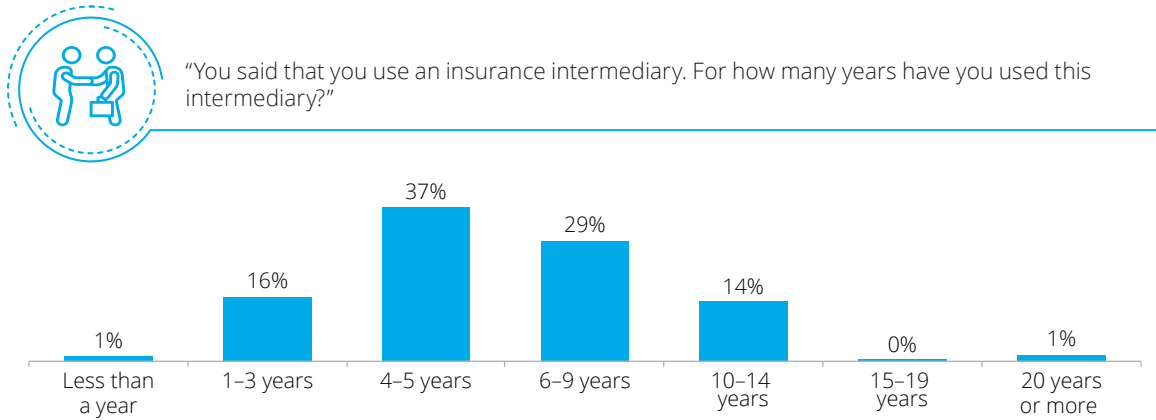


**We believe the trend on intermediated distribution will continue, driven by relationship and loyalty, and an increased trust in insurers and intermediaries since the COVID-19 outbreak.**

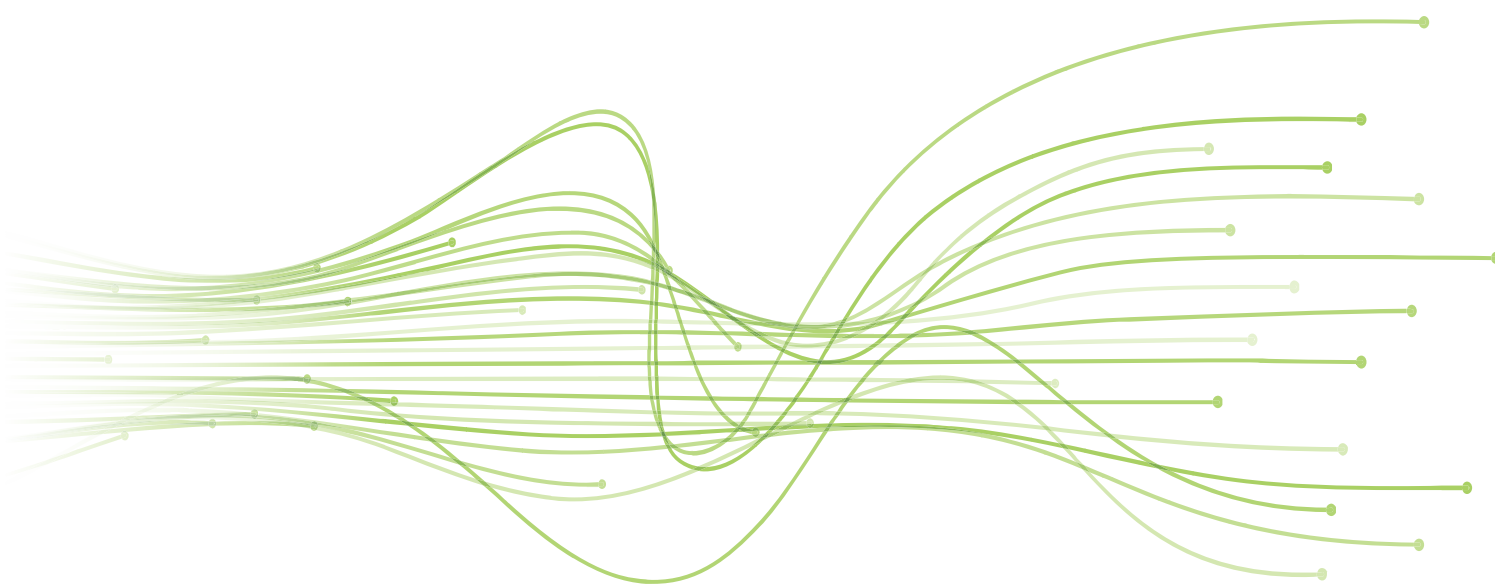
**Relationship and loyalty**

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

**Graph 1.4: Loyalty towards intermediaries**



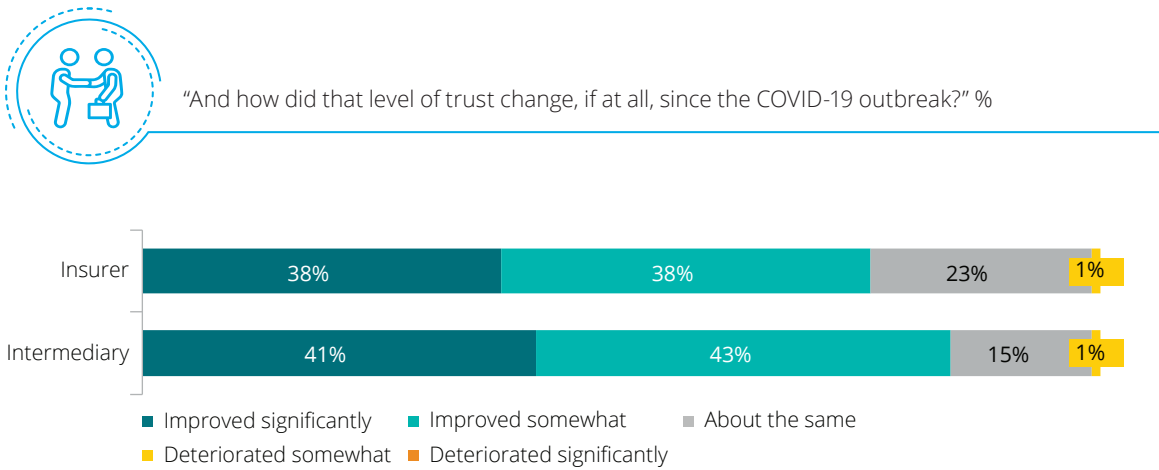
**83%** of respondents have been using the same intermediary for 4 years of more



### 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**



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

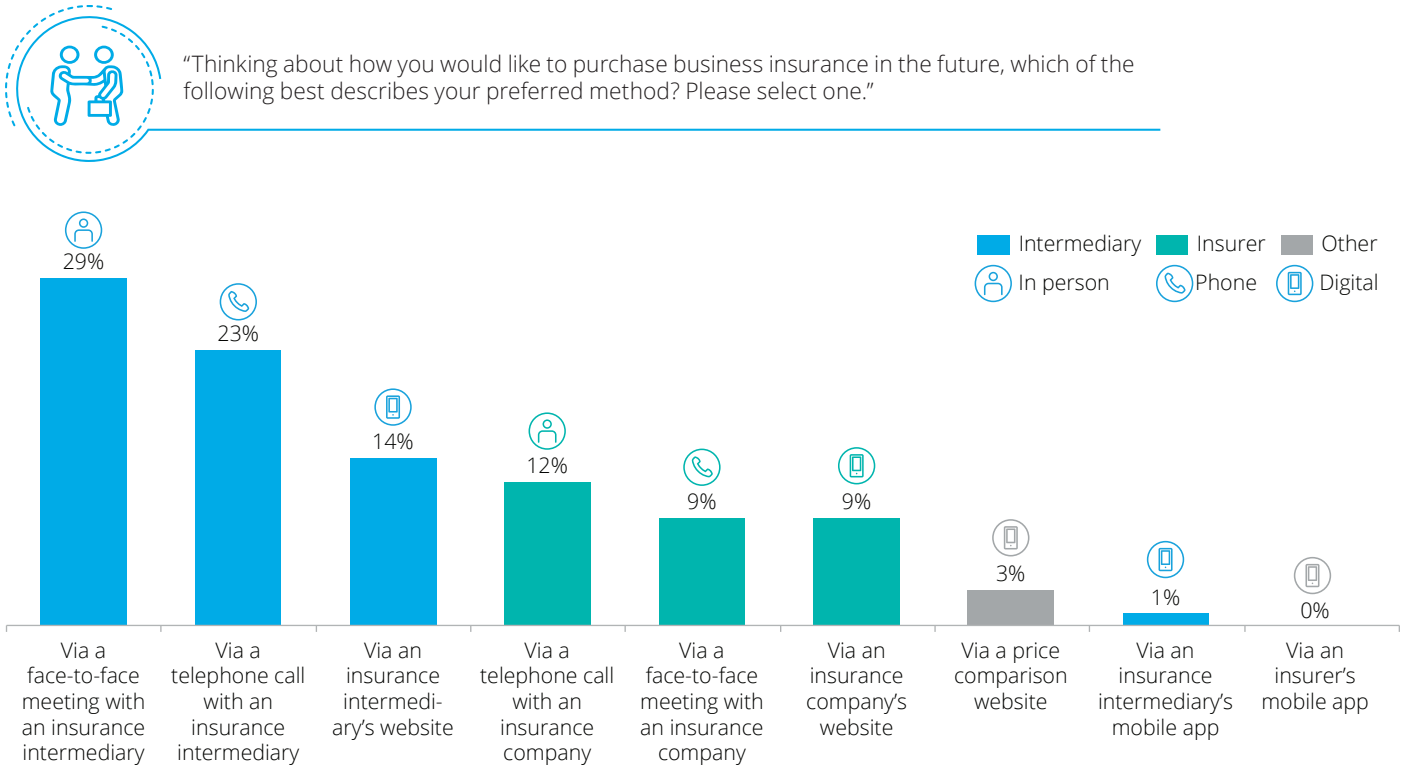
A vast majority of SMEs (73%) continue to prefer to purchase insurance through channels involving direct human contact rather than using digital channels:

- 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**



## 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.

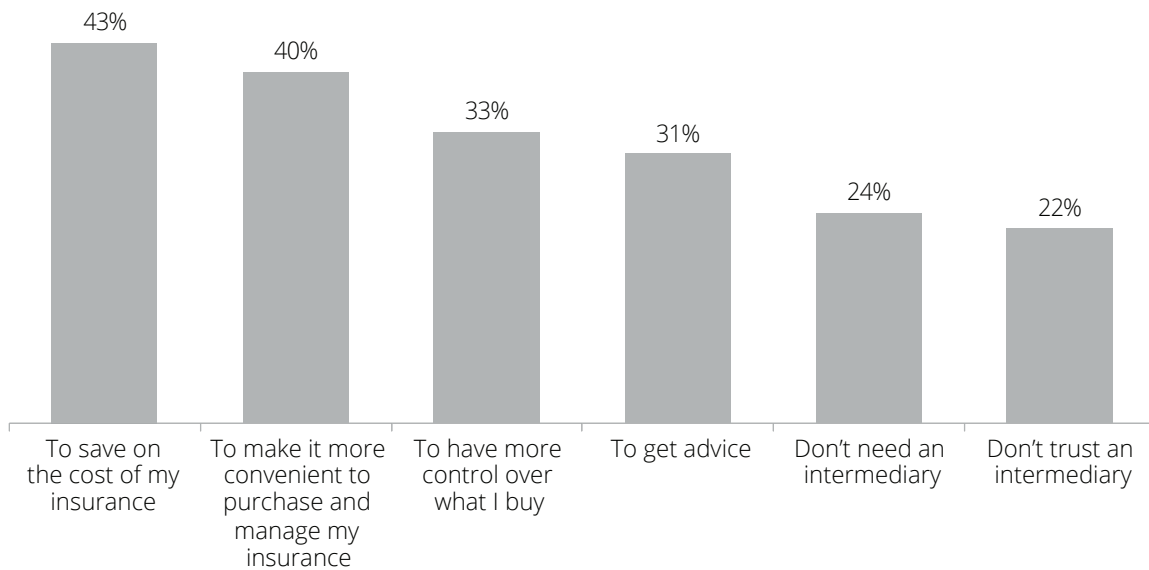
43% of those considering buying directly from insurer believe they would obtain some financial benefit by dealing with the insurer directly.

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

**Graph 1.7: Reasons to buy directly from insurer**



"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."



\* ~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.

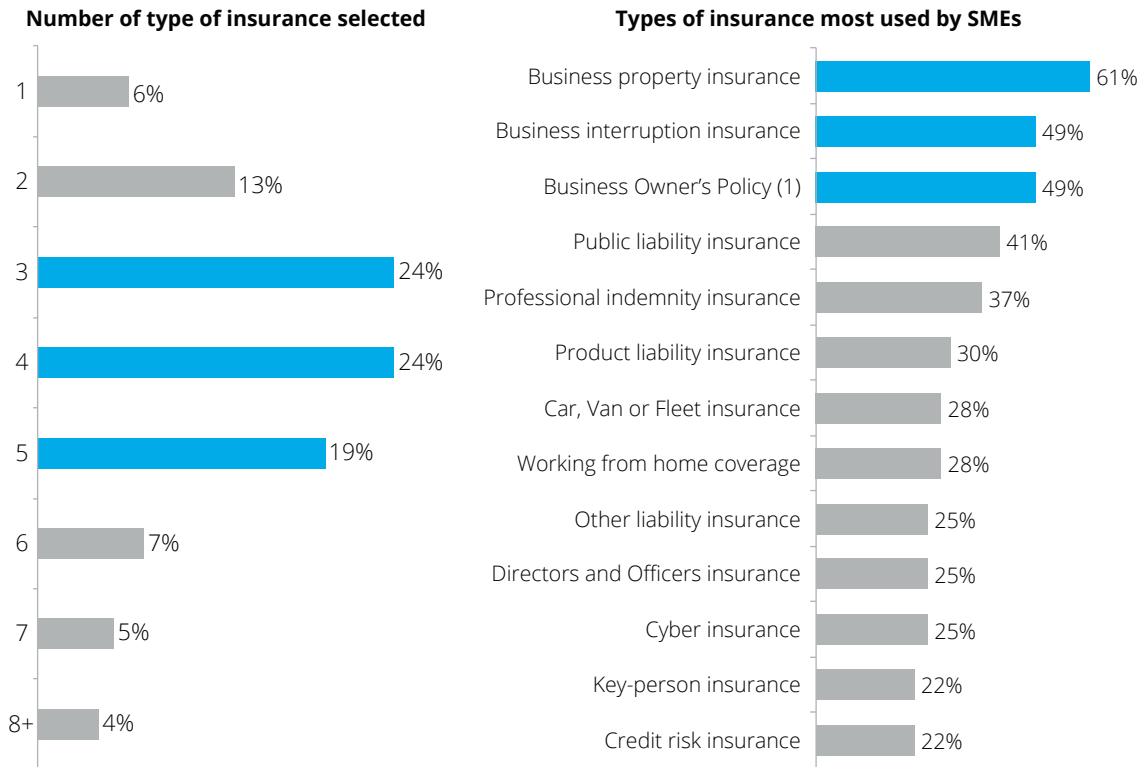
The most commonly used insurance types (excluding those required by law) are business property insurance, business interruption insurance, business owner’s policy.\*

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”



(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.

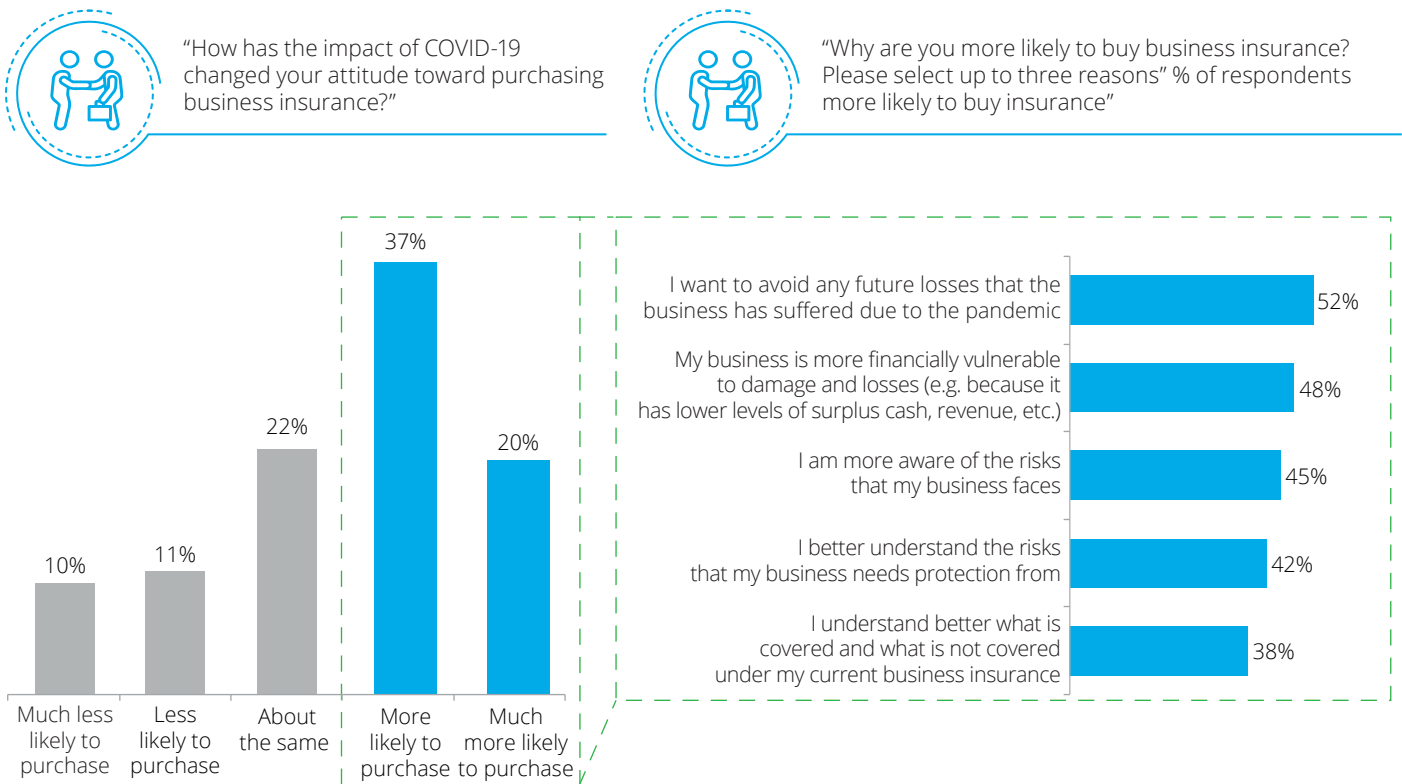
## COVID-19 made apparent key unmitigated risks

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**





## 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

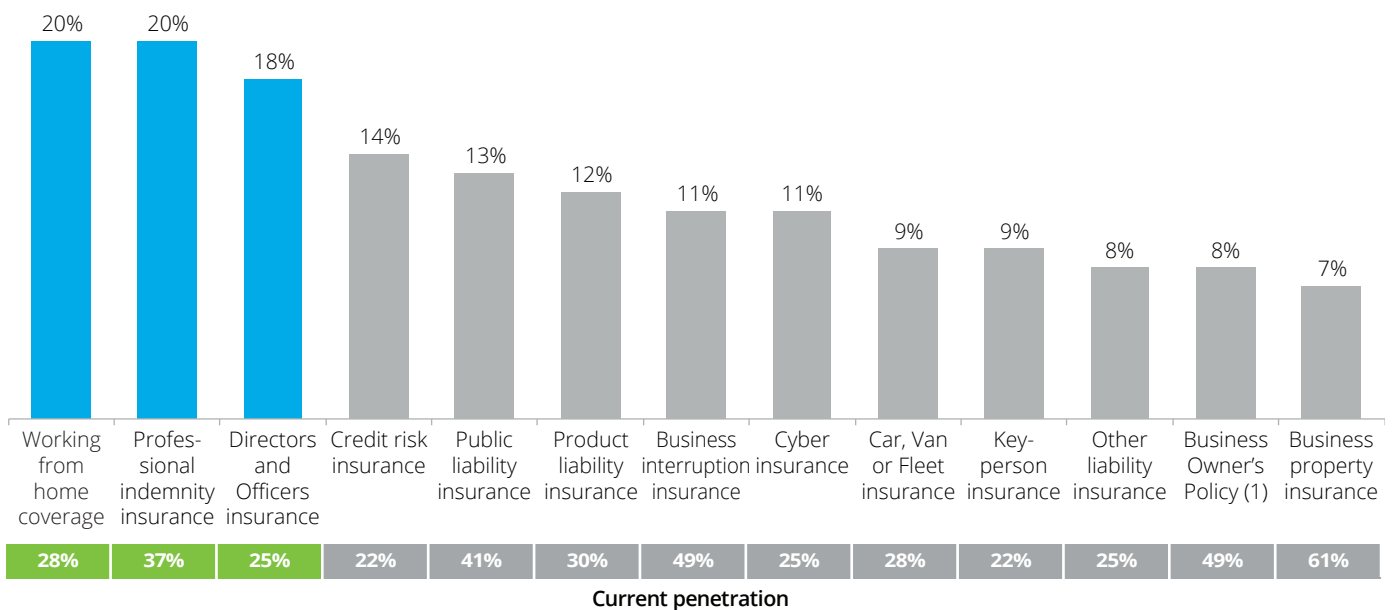
### Providing such types of insurance products could present growth opportunities for insurance players

- 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”



\* Limited statistical significance

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

(2) Protects staff from the risks of working from home (e.g. hacking, occupational health issues, etc.)

## 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%)

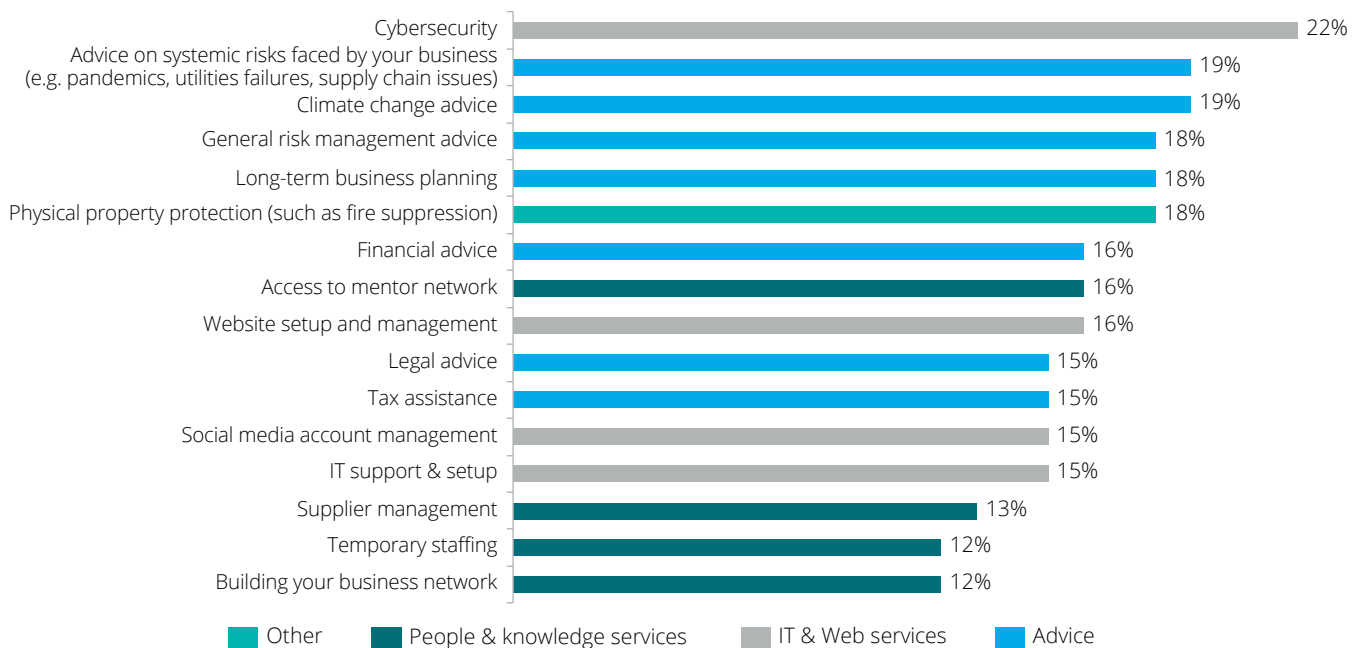
These new services could provide insurers the opportunity to diversify, create new revenue streams and potentially lower claims by going:

- 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



“Which of the following services would you use if they were offered by your insurer to help your business with common small business challenges and/or provide protection in the event of a loss? Please select up to three”



\* 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.

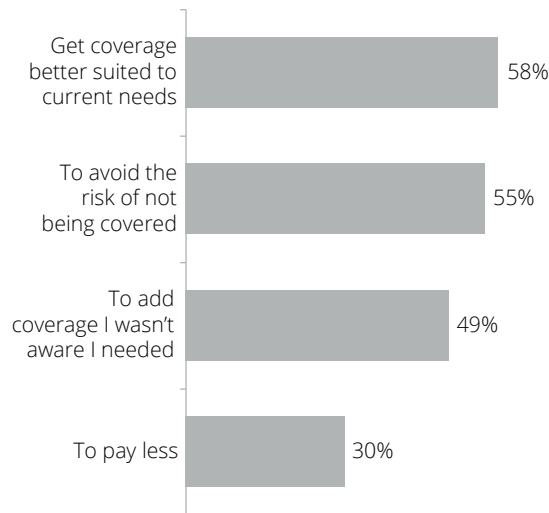
They want to be able to update insurance coverage at any point during the year (e.g., increase or decrease coverage based on changes in revenue, number of employees, number of customers, or other unexpected business changes), as opposed to being able to review and update it once per year, as is currently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

**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”



#### 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”).

## SMEs want to be able to link payment to usage (e.g. variable payment linked to asset or usage).

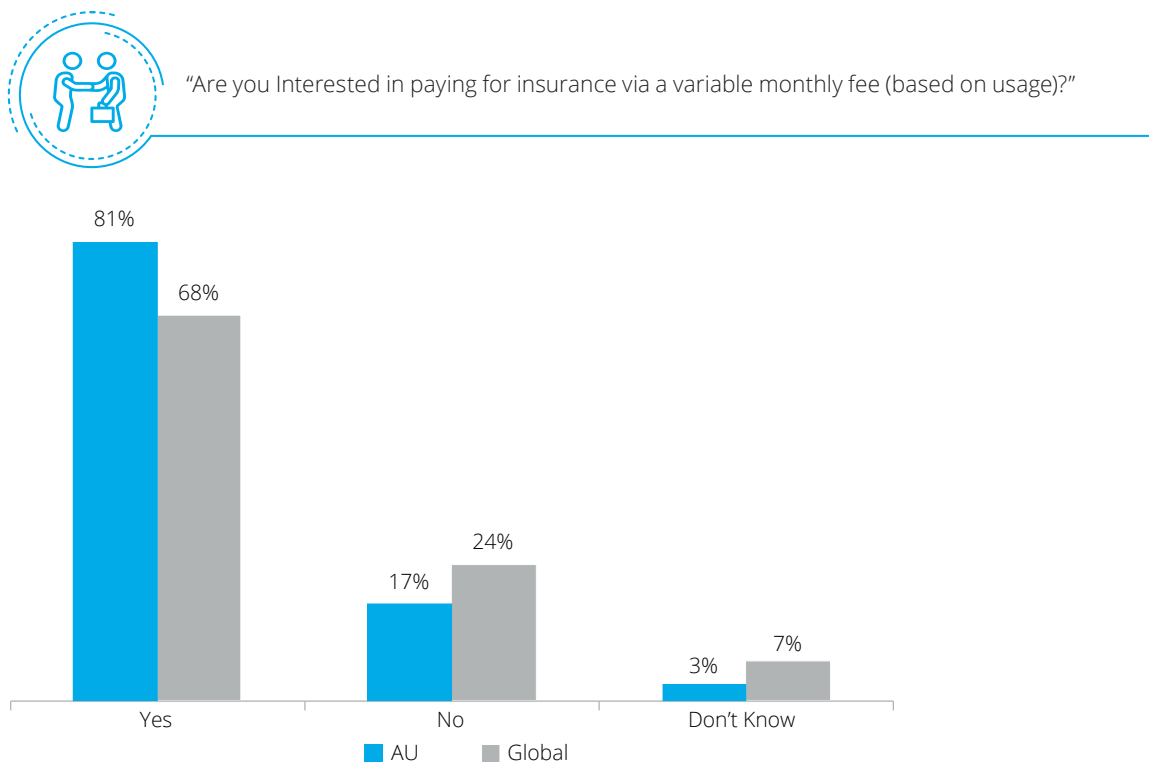
### Payment flexibility and personalisation

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**



#### 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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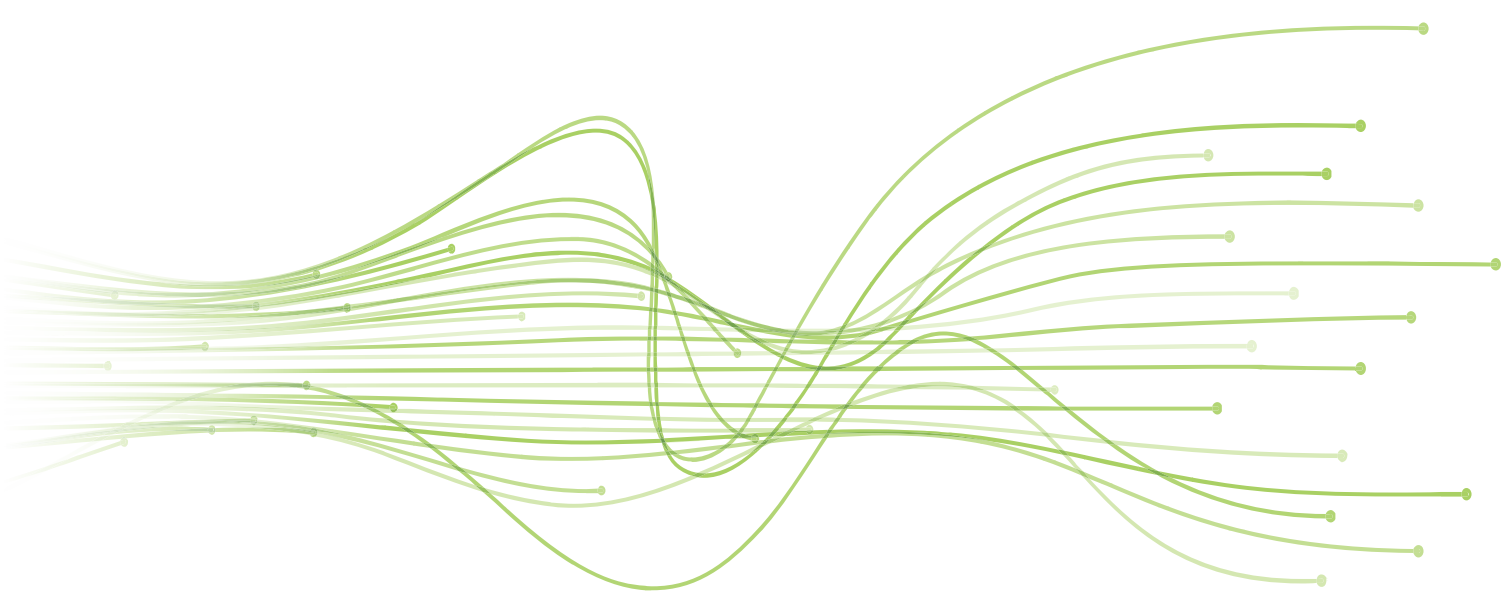
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