



Asteron Life SME Insurance Index 2018

Issue 1



Introduction

The small business sector is a significant growth engine representing 97%* of all businesses within New Zealand, which means it is a major audience for the insurance industry.

The sector is diverse, complex and dynamic, and understanding the attitudes of these businesses has never been more critical, which is why Asteron Life has developed the first edition of the Asteron Life SME Insurance Index.

Owning a small business requires enormous levels of financial, emotional and physical investment. But what happens to small businesses when life circumstances impact their owners?

While we frequently view those in small to medium enterprises (SMEs) in their context as business owners, they are also clearly consumers with their own set of personal financial and insurance arrangements, and these arrangements are made more complex through the investments they make in their businesses. But to what extent does this impact the way they think about their personal situation? And what can life insurance brokers and advisers learn from this?

Each year, Suncorp surveys over 900 SME business owners and decision makers about their attitudes to business insurance**. This survey includes questions about what life insurance coverage they have, and this year for the first time Asteron Life has used the data to compile insights to help life insurance brokers and advisers gain deeper insights into SMEs.

In this Index, we explore the types of life insurance coverage that SMEs hold, their attitudes to brokers and advisers and also examine the businesses who take out insurance on behalf of employees.

These insights are designed to shed light on the attitudes and behaviours of SMEs towards life insurance. By better understanding SMEs, life insurance brokers and advisers will be able to plan their service offering to meet the needs of this diverse, complex, but important audience. We hope that you find these insights helpful as you plan for the year ahead.

* This information is sourced by the 2017 MBIE statistics <http://www.mbie.govt.nz/infoservices/business/business-growth-and-internationalisation/small-enterprise>

** This research was conducted for Vero New Zealand

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The findings

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

- The majority of New Zealand SMEs have some form of life insurance
- Time and having sole responsibility are the most notable challenges mentioned by SMEs with life insurance
- SMEs with life insurance feel more positive towards brokers and advisers
- An understanding of which SMEs take out life insurance for employees

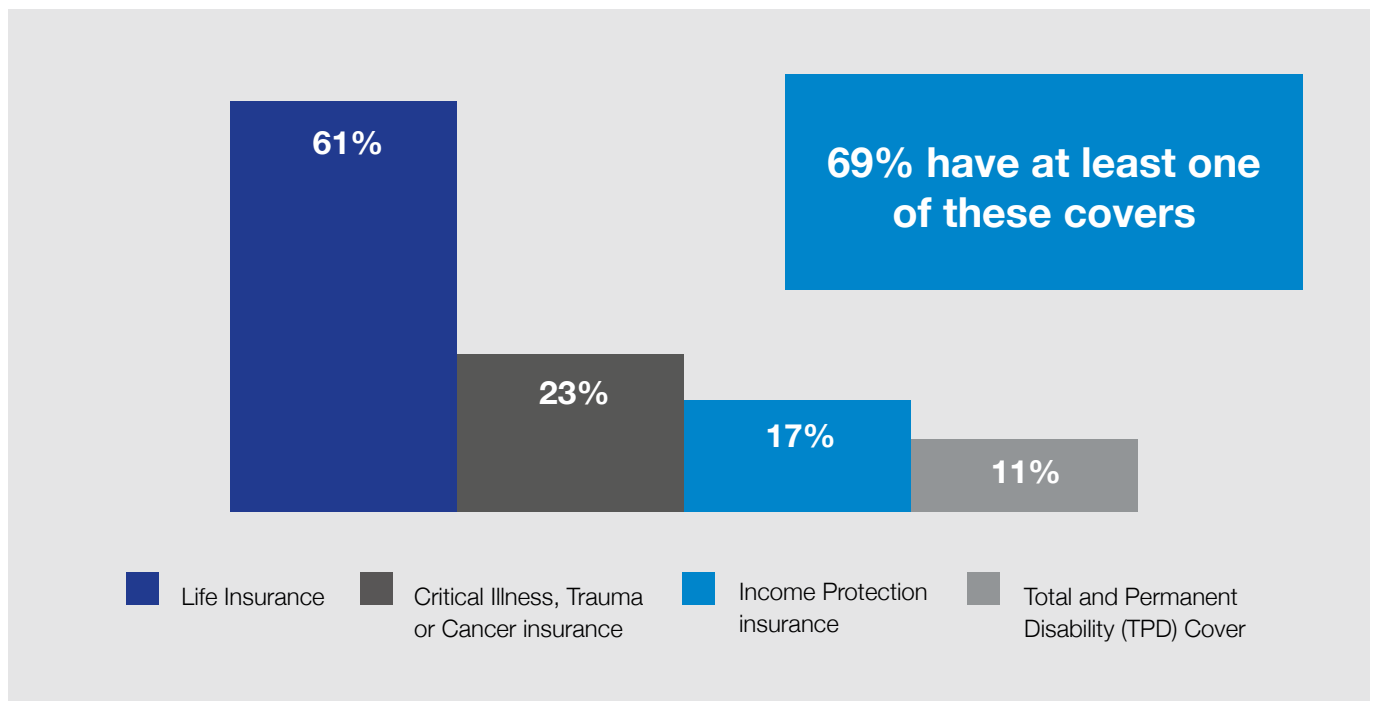
These findings will be explored in detail in this report.



WHAT LIFE INSURANCE COVERS DO SMES HAVE?

Life insurance, income protection, trauma and disability cover, appears to be widely accepted by the majority of NZ SMEs, with over two in three claiming to have some form of cover. Of these, life insurance is by far the most common cover, while penetration of other major life covers is considerably lower (see Figure 1).

Figure 1: Life insurance covers



Specifically, 61% claim to have life insurance, but at this stage, few SMEs appear to have insurance that would protect them if they were to suffer an illness or injury that prevented them from working in their business. Less than a quarter have trauma cover, only 17% have income protection cover, and just over a tenth are covered for total and permanent disability. This is despite the fact that many small business owners are deeply personally invested in their business and would suffer severe financial implications if they were unable to work, meaning that there is a major role for 'other' life covers.

In general, there are few characteristics that differentiate SMEs with and without life insurance, suggesting that life insurance is relevant across a broad range of demographic factors. More specifically:

- **Gender:** There is a small skew to males, while females are less likely to have life insurance (see Figure 2).
- **Age:** Surprisingly, there is very little difference between age groups, even though instinctively life insurance is most relevant for those with dependent families (see Figure 2). Anecdotally, many younger SMEs tell us that they have life insurance policies that have been established for them by their parents.

- **Location:** Metropolitan-based SMEs are significantly more likely to have life insurance than their regional peers (see Figure 2).
- **Education:** Those with degrees or higher education are significantly more likely to have life insurance (see Figure 3).
- **Business size:** Business size appears to make little difference to the propensity to have life insurance, with smaller business owners and decision makers just as likely to have life insurance as those in larger businesses (see Figure 4).

Figure 2: Life insurance covers profile

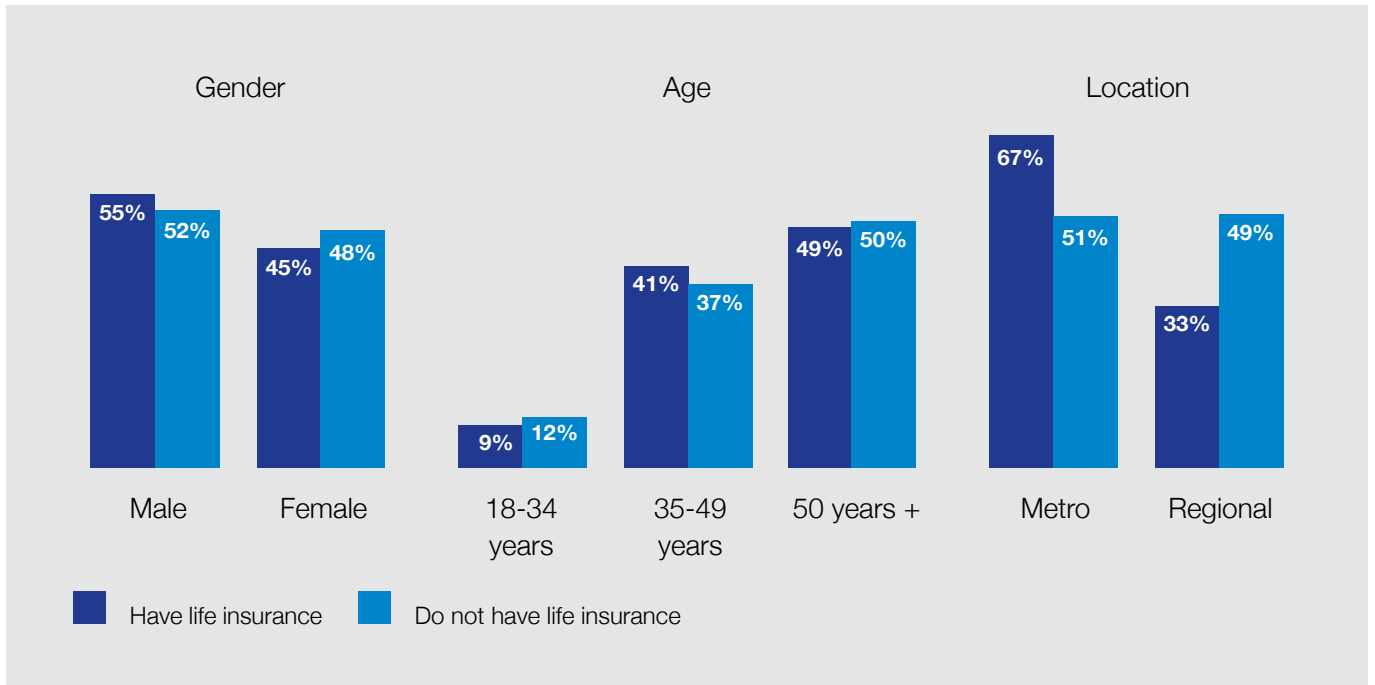


Figure 3: Life insurance covers profile continued

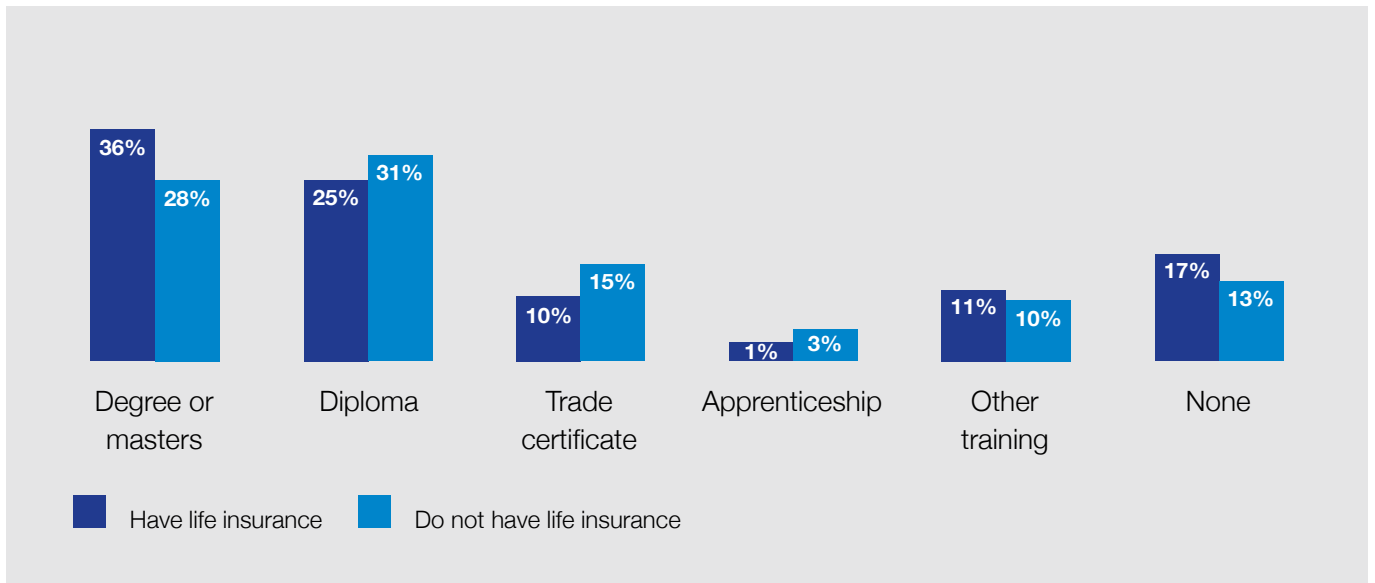
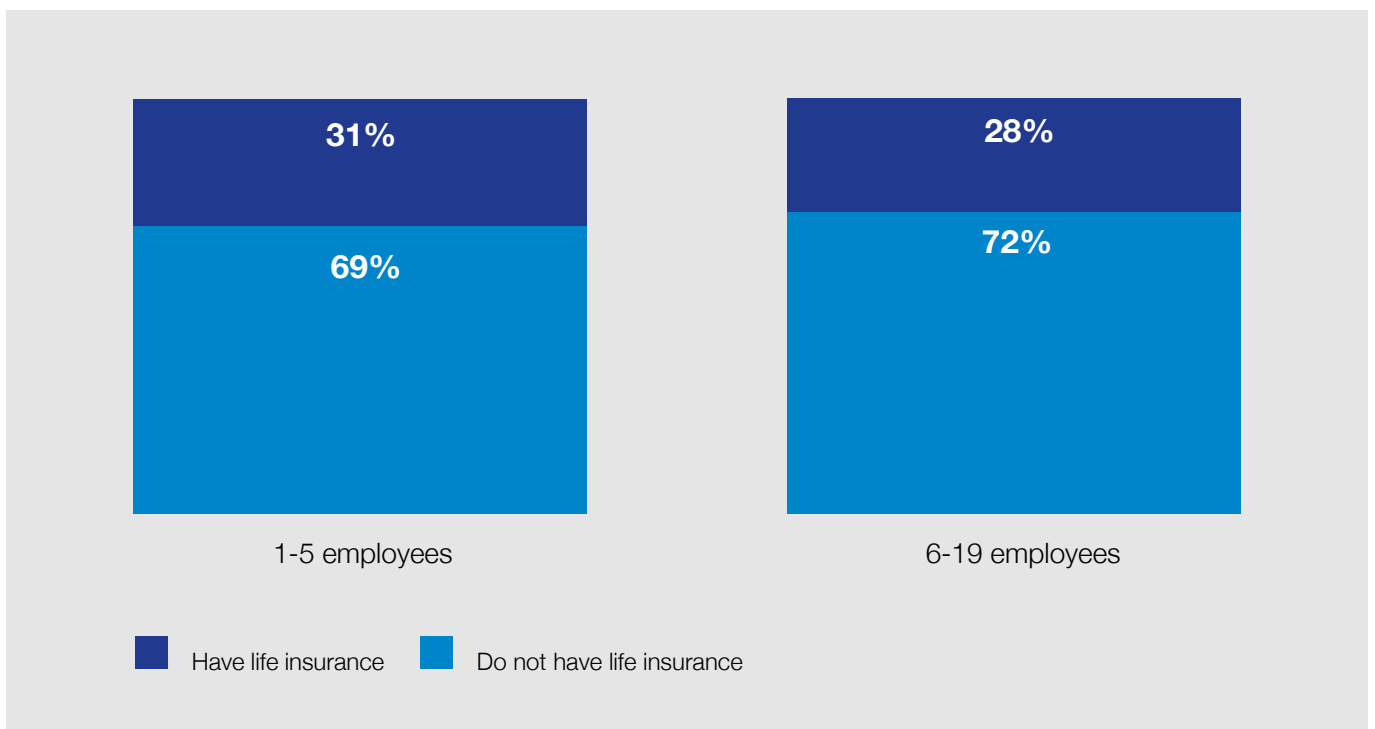


Figure 4: Life insurance by business size



However, more notable differences appear when we start comparing the attitudes towards insurance of those SMEs who have life insurance with those who don't. In general, those with life insurance are better disposed to insurance in general, and feel more confident and comfortable, while those who don't have life insurance tend to be more cynical. In particular, those with life insurance are more likely to agree with the following statements:

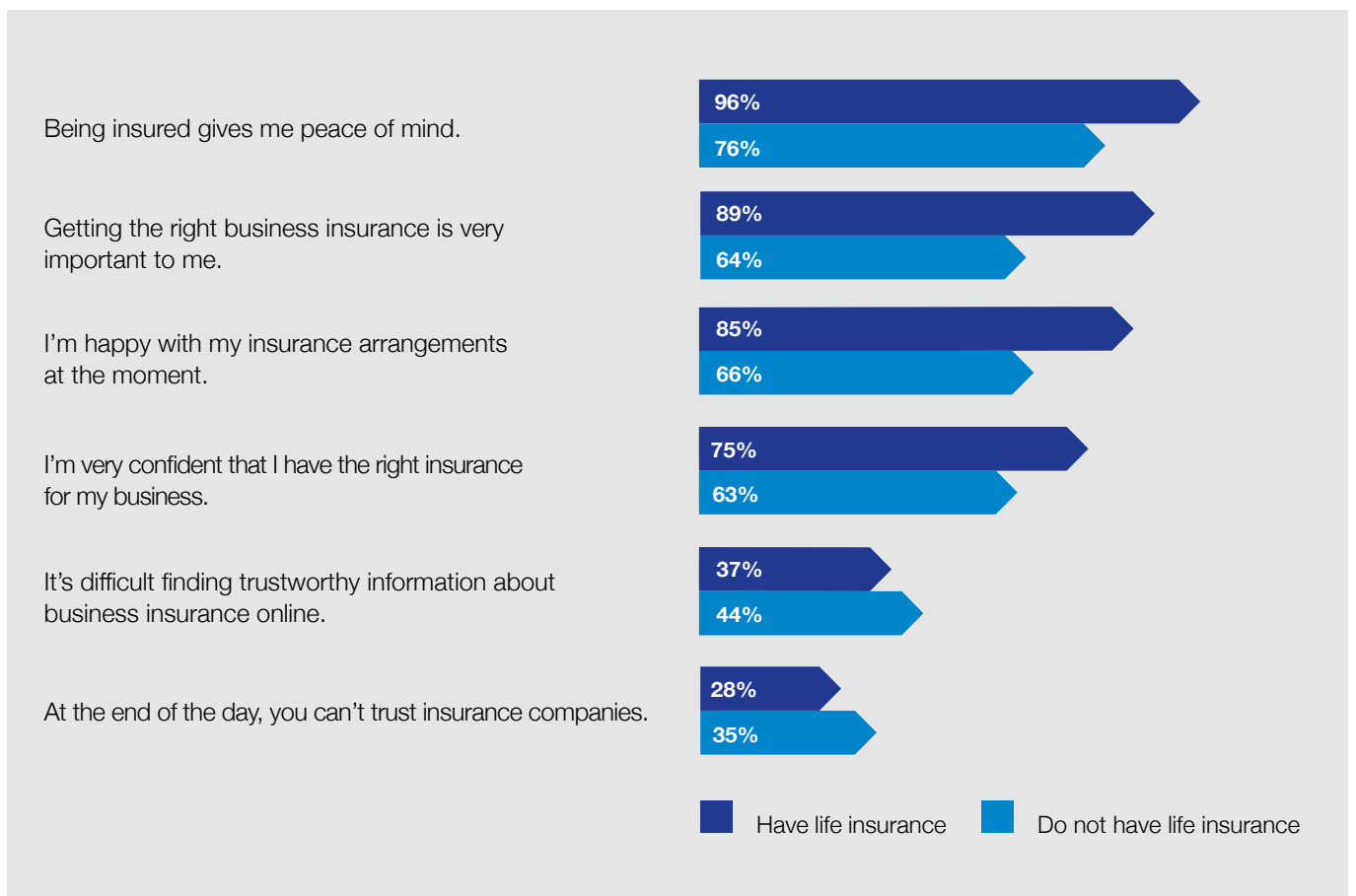
- Being insured gives me peace of mind
- Getting the right business insurance is very important to me

- I'm happy with my insurance arrangements at the moment
- I'm very confident that I have the right insurance for my business

In contrast, those without life insurance are more likely to say:

- It's difficult finding trustworthy information about business insurance online
- At the end of the day, you can't trust insurance companies (see Figure 5).

Figure 5: Differences in insurance attitudes



In a nutshell

- 61% of SMEs claim to have some form of life insurance.
- The prevalence of income protection, trauma and total & permanent disability (TPD) are much lower than life insurance.
- Males, those with higher education and those located in metropolitan areas are more likely to have life insurance.
- Those with life insurance feel more comfortable about their insurance, while those without life insurance are more likely to be cynical about insurance in general.

Things for brokers and advisers to consider

- While many SMEs have basic life insurance, there is a significant opportunity to talk to SMEs about covers beyond life, such as income protection, in the context of their business.
- Talk to SMEs about how life insurance can make them feel more comfortable and confident.
- Life insurance is not as common amongst regional and less educated SMEs, as well as those who are more cynical. There is an opportunity to build trust and understanding of the importance of life covers with these groups.



WHAT CHALLENGES ARE FACED BY SMES WITH LIFE INSURANCE?

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 and advisers 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. 36% rate trying to do everything on their own as one of

their top challenges, and 31% 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 6).

Figure 6: 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 35% not having enough time for themselves and their family (see Figure 7).

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. Trying to do everything on their own appears to be a problem for the under 35s, with over half reporting this as a challenge and almost two in five saying that prioritising tasks and goals is a challenge (see Figure 8).

Figure 7: Business challenges by gender

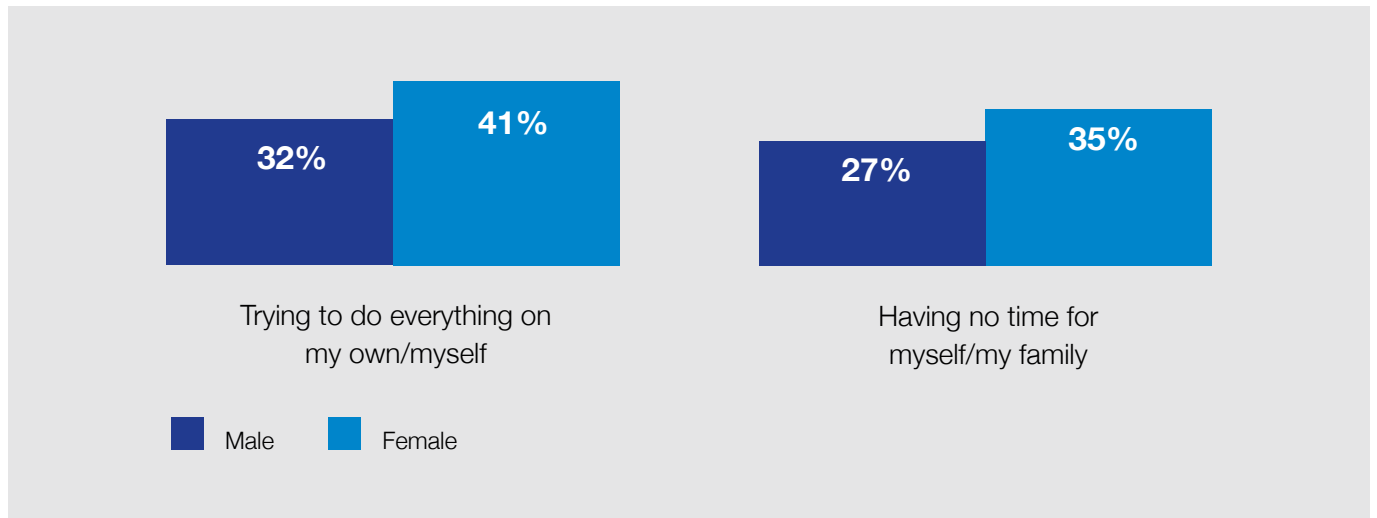
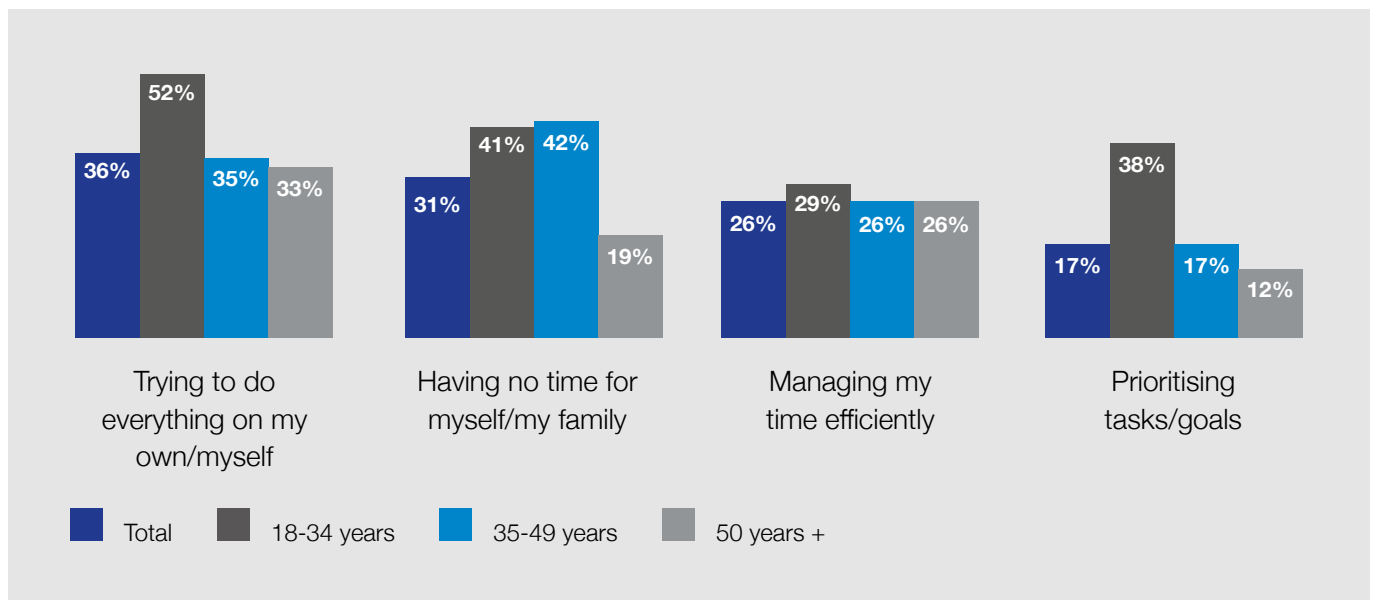


Figure 8: Business challenges by age



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

Things for brokers and advisers to consider

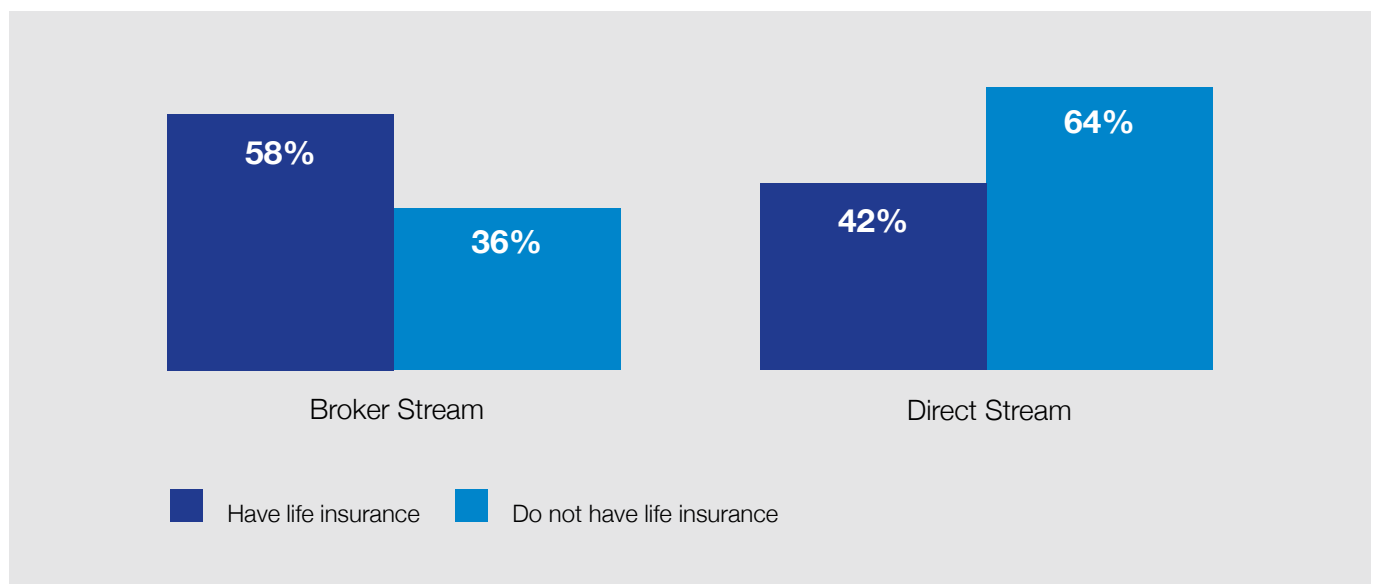
- Time is the most significant challenge for most SMEs, especially females and those under 50 (the ages most likely to have younger families).
 - Demonstrate ways in which brokers and advisers save time and make life easier for these busy business owners and decision makers.



HOW DO SMES WITH LIFE INSURANCE FEEL ABOUT BROKERS AND ADVISERS?

Not only are those SMEs with life insurance more positive about insurance in general, they are significantly more likely to purchase their business insurance through a broker or adviser (see Figure 9). So how do they feel about brokers and advisers and what are their expectations and needs?

Figure 9: Broker or adviser usage

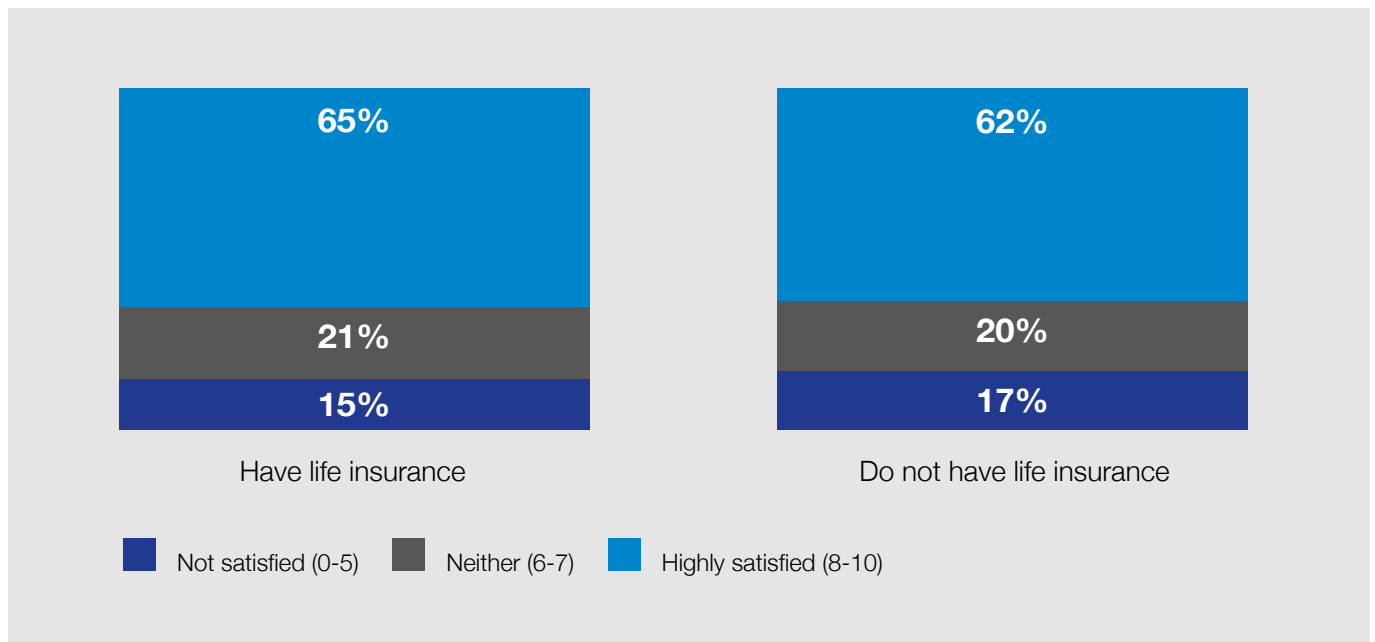


It is important to note that the results presented here are derived from a survey on business insurance, and therefore reflect how SMEs feel about the broker or adviser they use for their business insurance. However, our hypothesis is that there is likely to be substantial crossover between SMEs' attitudes towards brokers and advisers of all types of insurance and that life insurance advisers can gain considerable insight into SMEs through examining this data. This hypothesis is backed up by qualitative research with SMEs, in which they overwhelmingly suggest that their needs are similar across all types of insurance.

SMEs with life insurance appear to be very positive about their business insurance brokers or advisers, with 65% claiming to be satisfied, a marginal increase over those without life insurance (see Figure 10).

They are also more likely to say that they use brokers or advisers for their expertise and service, rather than price or time saving (although these factors are still important) (see Figure 11), suggesting that their understanding of the role of brokers and advisers is more sophisticated.

Figure 10: Broker or adviser satisfaction



While they appreciate and understand the role of their business insurance brokers and advisers, they are also likely to want more from them. When asked about the importance of a range of potential broker or adviser tasks, they are significantly more likely to say that the following are very important:

- Checking up on business changes
- Assessing the risk profile of my business and making recommendations on:
 - Appropriate insurance policies and coverage
 - Business changes to minimise business risk
- Providing general insurance information

At the same time, they are slightly less likely to rank managing claims or finding the cheapest policies as very important (see Figure 12).

Figure 11: Reasons to use a broker or adviser

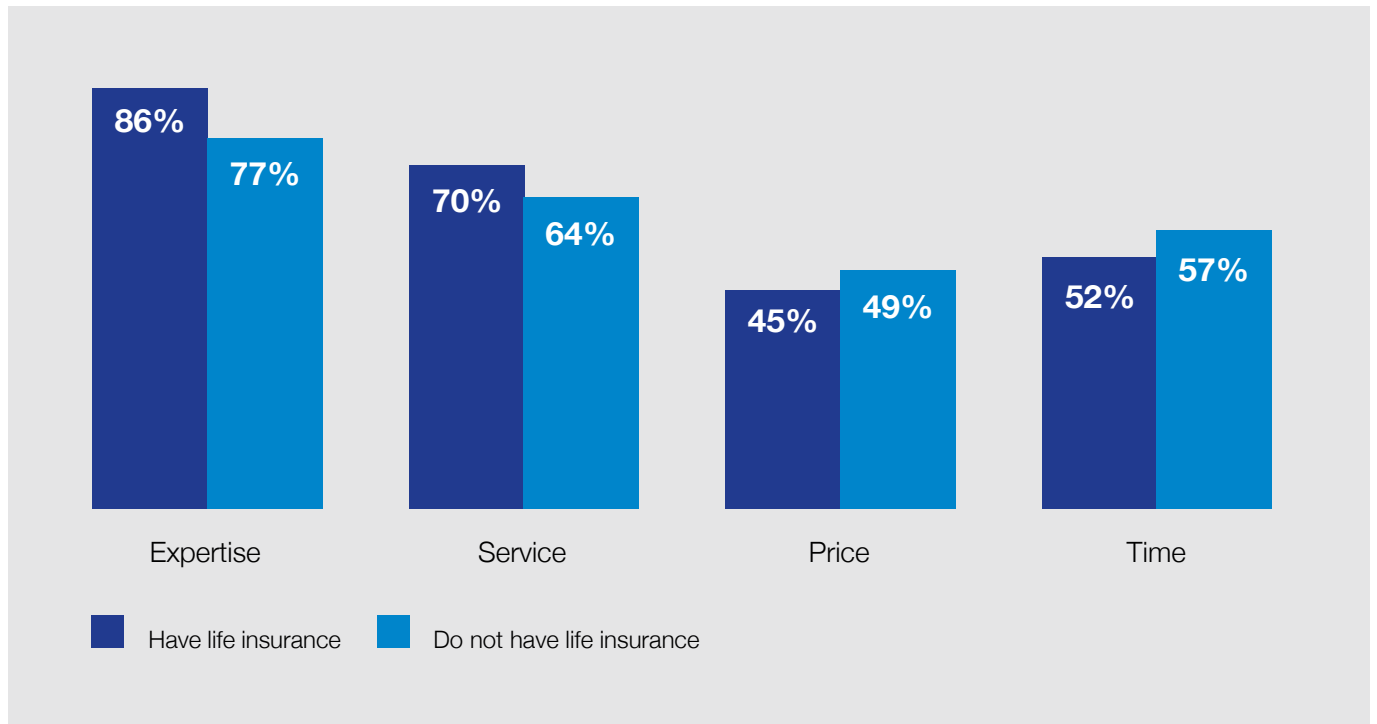
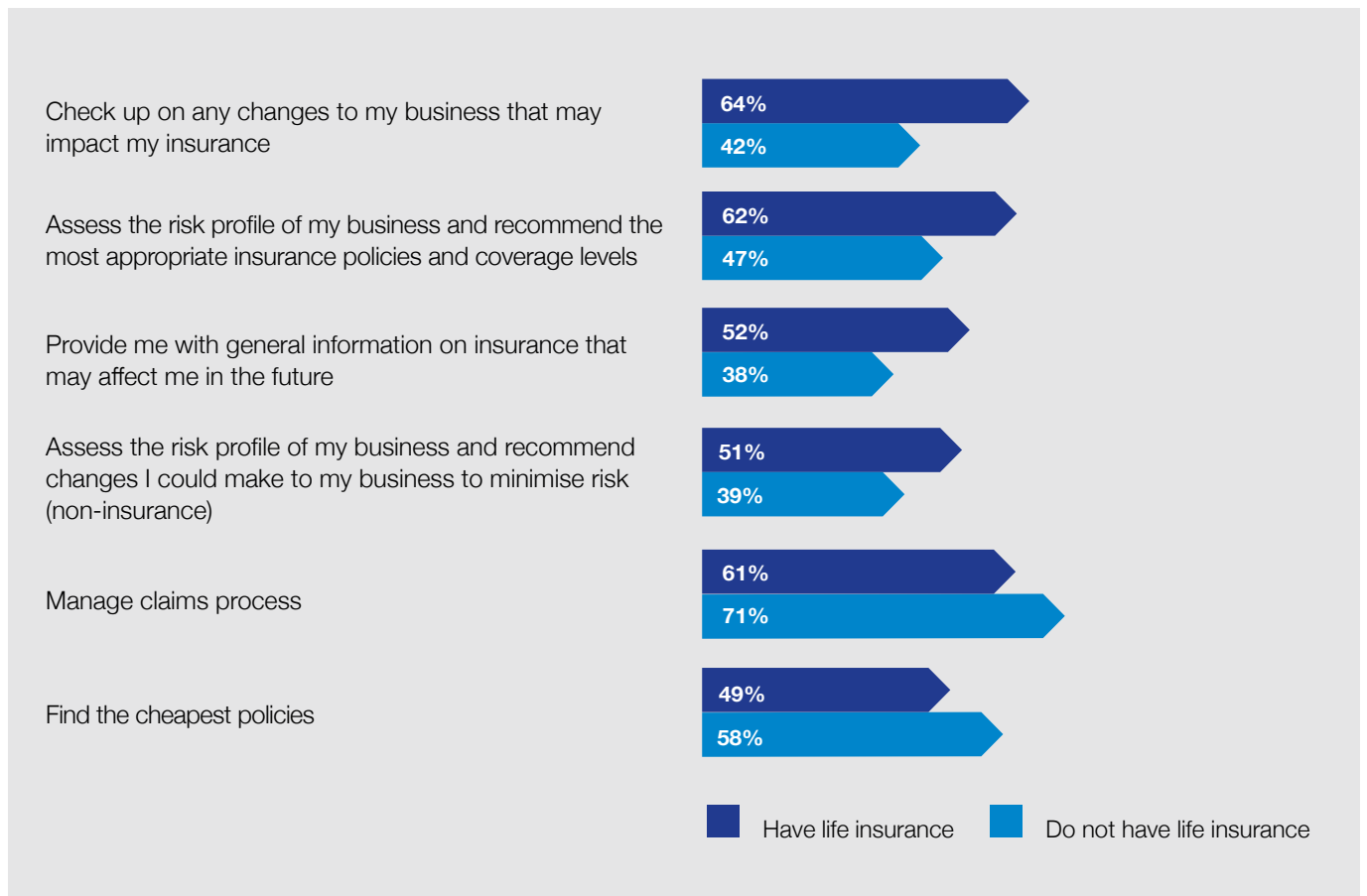


Figure 12: Importance placed on tasks



Our qualitative research feedback, conducted with eight SMEs across a range of industries (see Research Methodology), found that the expectations that SMEs have of their life insurance broker or adviser are no different from those of their business broker or adviser – they are looking for;

- Expertise
- Understanding
- Responsiveness
- Care

Although essential for all insurance covers, trust appears to be particularly important when it comes to life insurance. SMEs want to be able to trust what their broker or adviser says, to believe that they are acting in their best interests and to feel confident they are not being unreliable. There is considerable fear about being sold a product that better suits the broker or adviser's needs than their own, and therefore there is a clear need for life insurance brokers and advisers to avoid coming across as overly sales-focussed or biased.

For many SMEs, there is considerable appeal in having one broker or adviser look after all of their policies, both personal and business, for ease and convenience, so the broker or adviser has deeper understanding of them and their needs.

In a nutshell

- SMEs with life insurance are more likely to use a broker or adviser for their business insurance.
- They are more likely to use a broker or adviser for expertise and service.
- They have high expectations of their brokers and advisers and expect in-depth analysis and information.

Things for brokers and advisers to consider

- Those SMEs who use brokers and advisers are more likely to have life insurance, and many would like one broker or adviser to look after all policies.
 - Brokers and advisers should consider having a conversation with clients about all of their policies, and at least understand the full extent of their arrangements.
- Life insurance holders are even more likely to value expertise and have high expectations of their broker or adviser in terms of analysis and involvement.
 - Valuable engagements will demonstrate the expertise of the broker or adviser and will help SMEs navigate insurance decisions as they relate to their business needs.
- Trust is particularly important in this space.
 - Clients value empathy, honesty and integrity so these attributes should be considered in all engagements that brokers and advisers have with their clients.



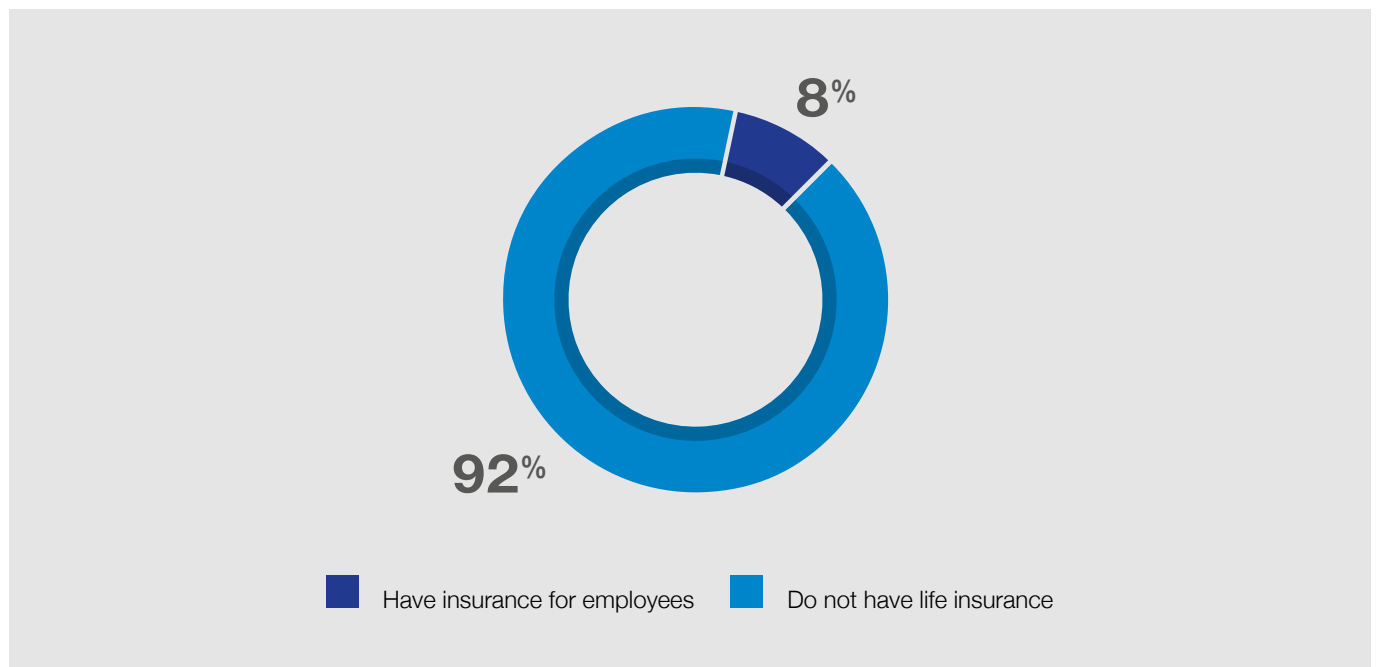


WHAT ABOUT SMES WHO TAKE OUT LIFE INSURANCE FOR EMPLOYEES?

In a competitive job market, providing personal insurance for employees can be an appealing non-salary incentive.

In this year's survey, 8% of SMEs claimed to take out life or health insurance for their employees (see Figure 13).

Figure 13: Life insurance covers for employees



Those who are younger, male, higher educated and in metropolitan locations are more likely to have this cover (see Figures 14 and 15).

SMEs who have this cover for employees generally tend to be more concerned about employee issues, such as attracting and retaining good staff, workplace accidents and also being unable to trade for a period of time (see Figure 16).

Figure 14: Life insurance covers for employees profile

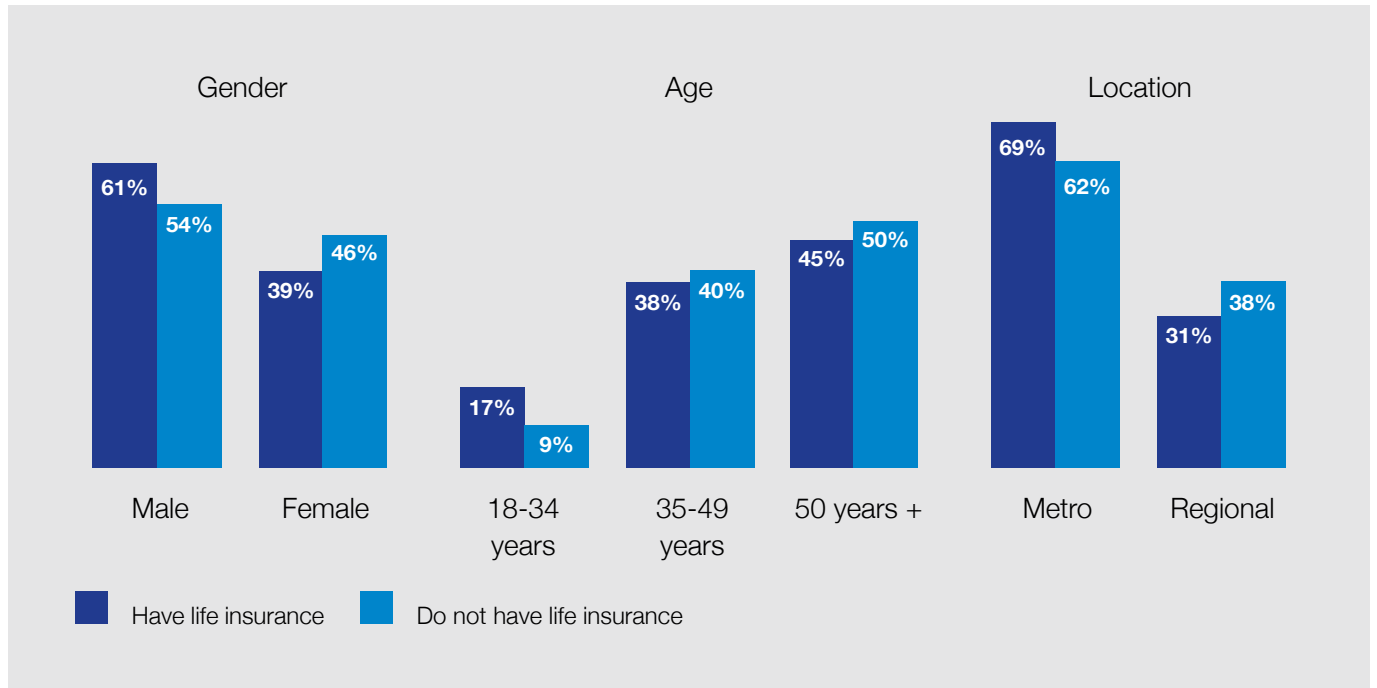


Figure 15: Life insurance covers for employees profile continued

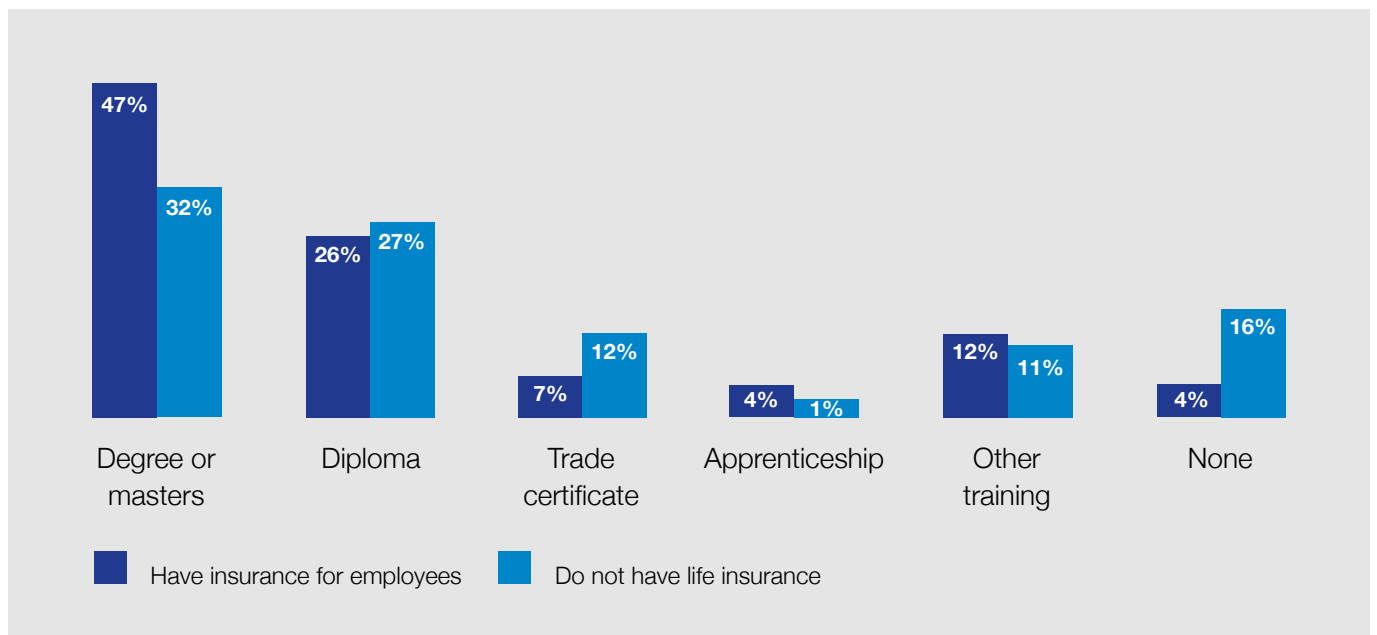


Figure 16: Differences in key challenges



However, they are less likely to be worried about a business owner or key employee taking time off due to illness or injury. Does this suggest that having insurance cover for employees makes them feel better covered and therefore better able to

deal with this type of eventuality? In some circumstances, it may suggest that these SMEs are more likely to have taken out cover such as keyperson insurance.

In a nutshell

- Only 8% of SMEs take out life or health insurance for their employees.
- Those who do are more likely to have more employees and be concerned about attracting good people.

Things for brokers and advisers to consider

- Cover for employees is still relatively rare and could represent an opportunity.
- The potential is particularly strong for employers who are concerned about staff issues such as attracting and retaining good people so it's worth understanding if this is a business issue or goal for SMEs.



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/adviser or direct)
- attitudes towards insurance brokers and advisers
- 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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