



Informed

Insights into small business drive new opportunities.

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Introduction

Welcome to the third issue of the Vero New Zealand SME Insurance Index 2021.

Understanding small and medium business enterprise (SME) business owners and decision makers is the fundamental objective of the Vero SME Insurance Index, and part of this involves looking at how key groups of SMEs differ.

Rural business owners and decision makers are a vital part of the New Zealand economy. So, this report examines the differences between the behaviour and attitudes of rural SMEs compared to others and explores whether brokers and advisers could be adapting their approach to ensure that they are meeting the needs of this important and distinctive group of SMEs.

Our research has found that rural SMEs' usage of brokers and advisers, and appreciation for the benefits they bring, are markedly different compared to SMEs in other locations.

Understanding these differences will enable brokers and advisers to adjust their approach to provide them with the most appropriate and relevant range of services.

We are delighted to present the final issue of the Vero SME Insurance Index in New Zealand for 2021. In this report we have delved deep to understand rural New Zealand small businesses – what are their experiences through COVID, how they feel about insurance, and which purchase channels they use or would consider?

We hope that the insights uncovered are useful in helping brokers and advisers to develop communications and ways of more effectively attracting and working with rural SME clients.

For this report we defined rural using the below definition in our survey:

Which of the following best describes the area your business operates in?

- City/Big Town
- Small Town
- Rural Area

These results were sense checked against regions to ensure accuracy.

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The findings

The last issue of the 2021 Vero SME Insurance Index focuses on the differences in rural SMEs, including:

- **Confidence higher for the future in rural areas**
- **Trust in insurance higher in rural areas**
- **Rural broker usage lower but more satisfied**
- **Large opportunities amongst rural direct buyers**

These topics will be explored in detail in this report.

Executive summary

This year's research results uncovered many opportunities for brokers and advisers to grow their business amongst rural SMEs and this report explores these findings:

- Broker usage is lower amongst rural SMEs, but rural broker clients are more satisfied with their broker and have collaborative relationships suggesting significant opportunity amongst this audience.
- Brokers already working with rural clients could also consider asking for testimonials given that this audience is far more likely to speak of the reassurance insurance brings and the importance of paying for important services.
- While rural SMEs appear to be more resilient, experiences will differ, and brokers could consider checking with their rural clients to understand how they have been effected and how confident they are feeling.
- Rural SMEs who currently buy direct would be motivated to use a broker who delivers expertise, for example through in-depth analysis and explaining recommendations, and therefore brokers could consider communicating this expertise more overtly to attract direct buyers.
- Word of mouth recommendations are highly valued amongst rural SMEs, and they are highly trusting of the advice provided by their business advisors. Therefore, rural brokerages could consider developing referral campaigns and building relationships with local business advisors, like accountants, to further grow their business.
- Rural broker clients are more likely to value risk assessments and getting in-depth information about their insurance options, meaning that brokers working in rural areas should consider offering and promoting these services.
- Brokers could consider the potential of having clients across both metro (i.e. city/big town) and rural areas to reduce their reliance on any particular area. This diversification is likely to help shelter brokers from future market downturns.



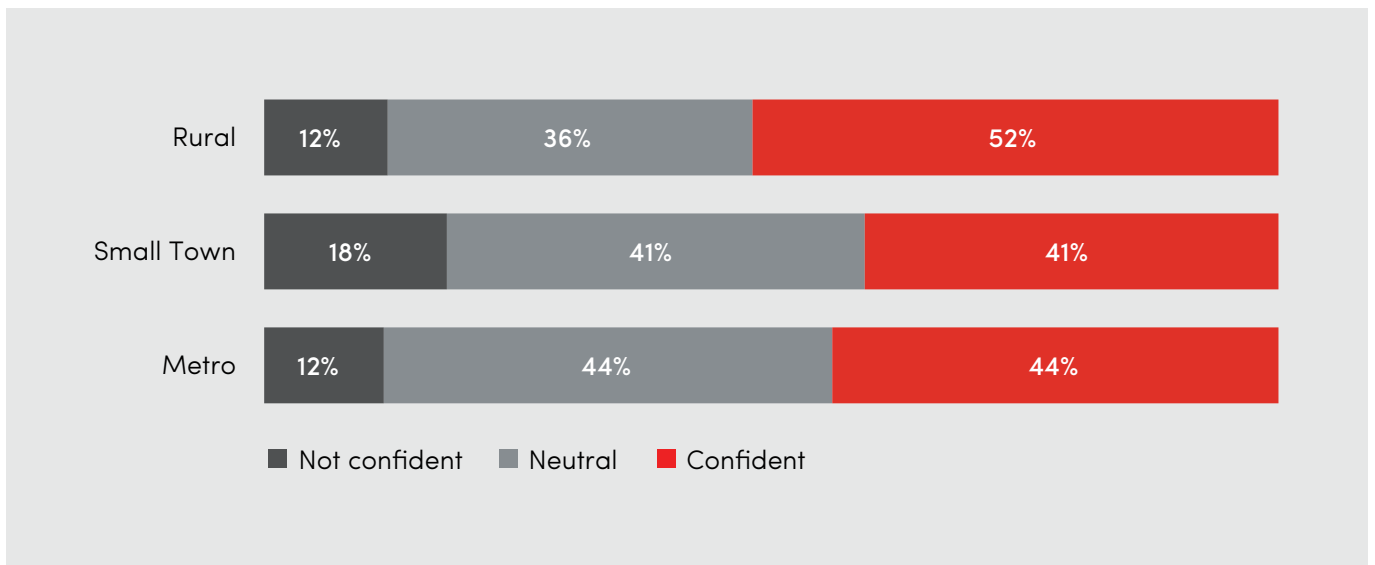
Part 1: Confidence higher for the future in rural areas

Rural SMEs are less likely to have experienced negative impacts from COVID-19

The business impacts of the COVID-19 pandemic have been felt across the world with many experiencing lock downs, supply issues and trading restrictions, to name a few. In focusing on rural SMEs, we found that experiences during the COVID period have differed by location. When this research was completed in November 2020 it showed there were signs that SMEs in rural areas of New Zealand have avoided some of the challenges faced by those operating in other areas.

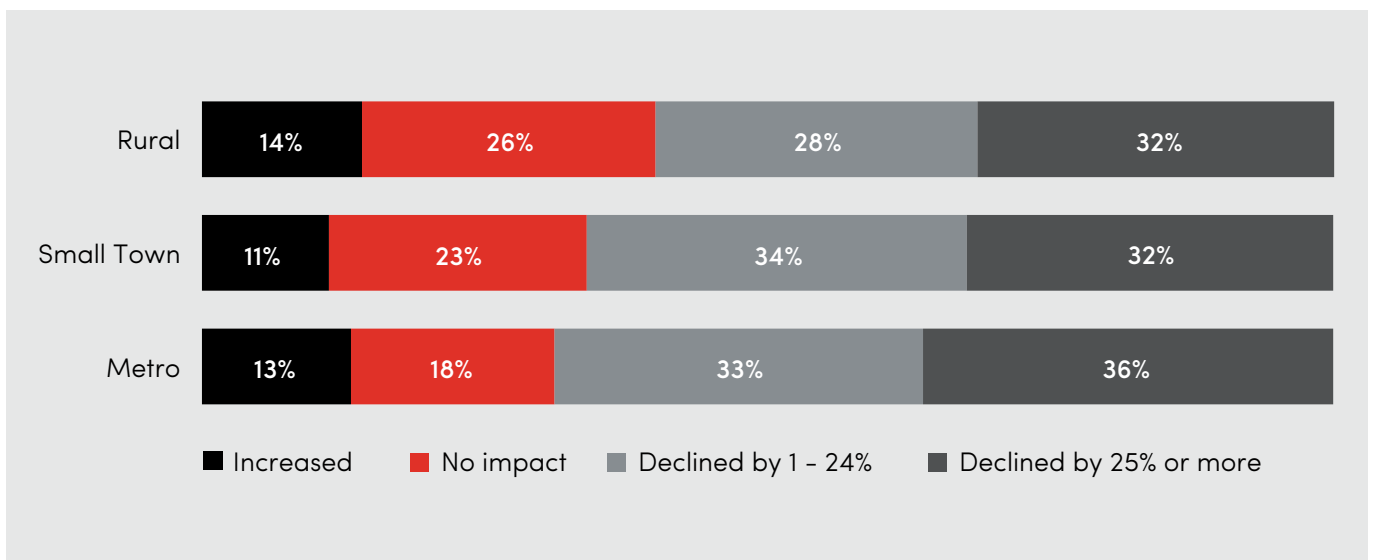
In general, SMEs in rural areas are more likely to be optimistic about their business prospects in the year ahead, with over half of rural SMEs saying they feel confident (see Figure 1.1).

Figure 1.1: Business confidence



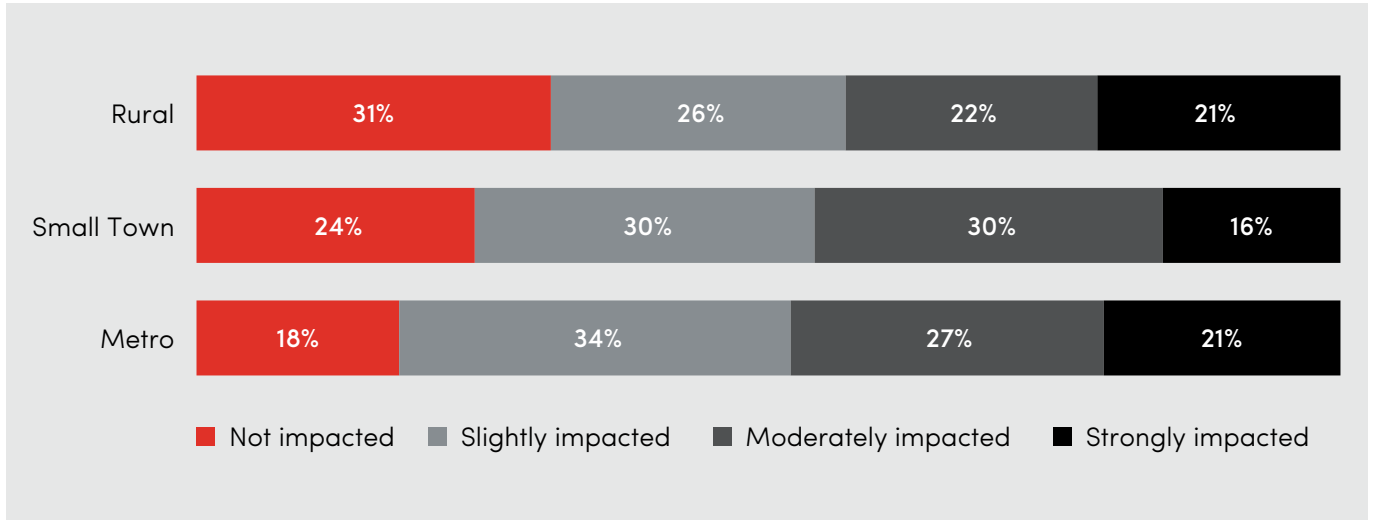
This higher rate of confidence could possibly be explained by the reported COVID-19 experiences of rural SMEs. SMEs in this group are less likely to report having experienced revenue reduction because of COVID-19. Specifically, 40% of rural SMEs report either no revenue impact or even an increase in revenue, compared to 31% for metro SMEs (see Figure 1.2).

Figure 1.2: Impact of COVID-19 on revenue



The differences in revenue impact links to different levels of operating challenges faced during COVID-19. 31% of rural SMEs report no impact on business operation or supply lines compared to only 18% of metro SMEs (see Figure 1.3).

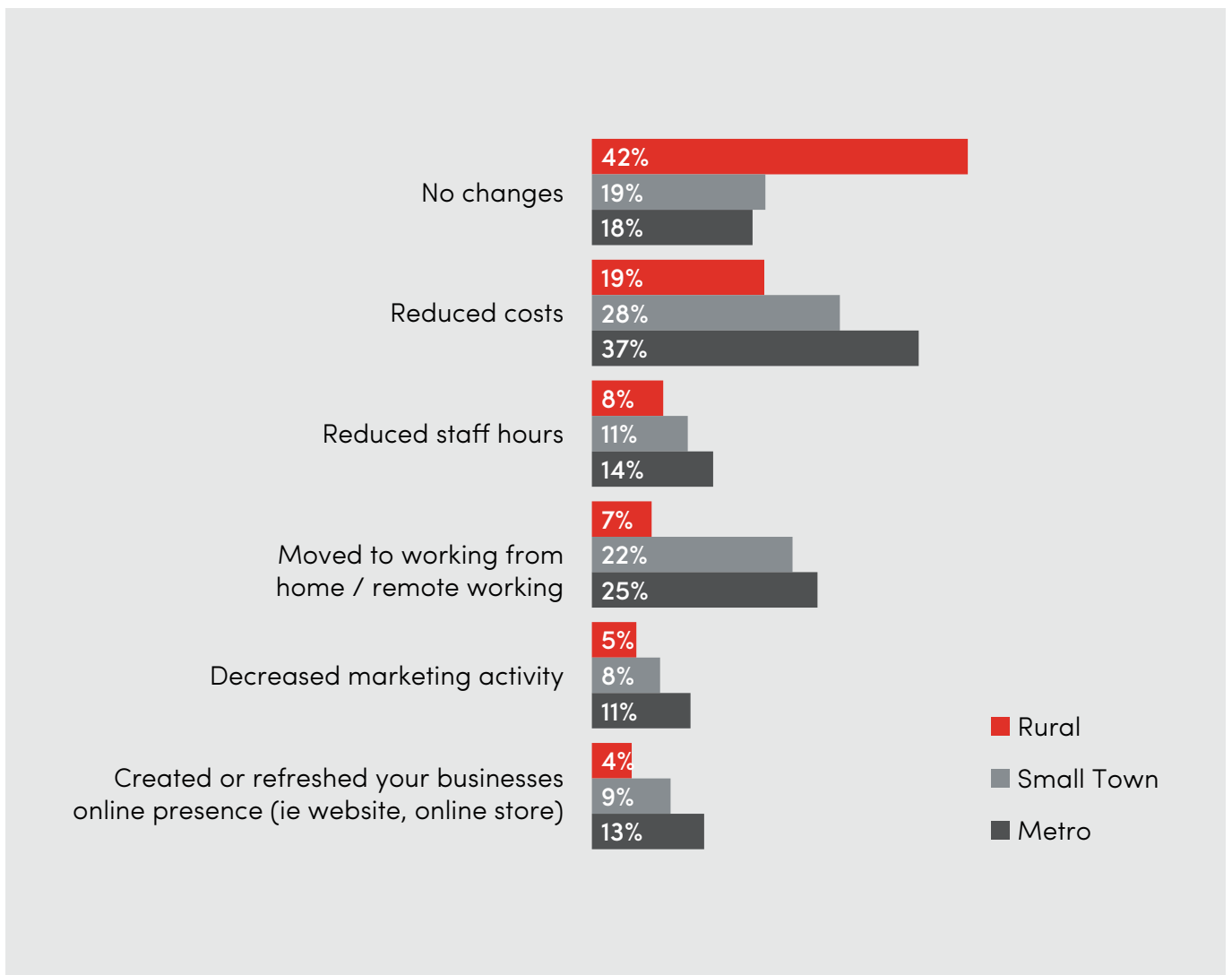
Figure 1.3: Impact of COVID-19 on SME operations/supply lines



Rural SMEs are less likely to have made business changes because of COVID-19

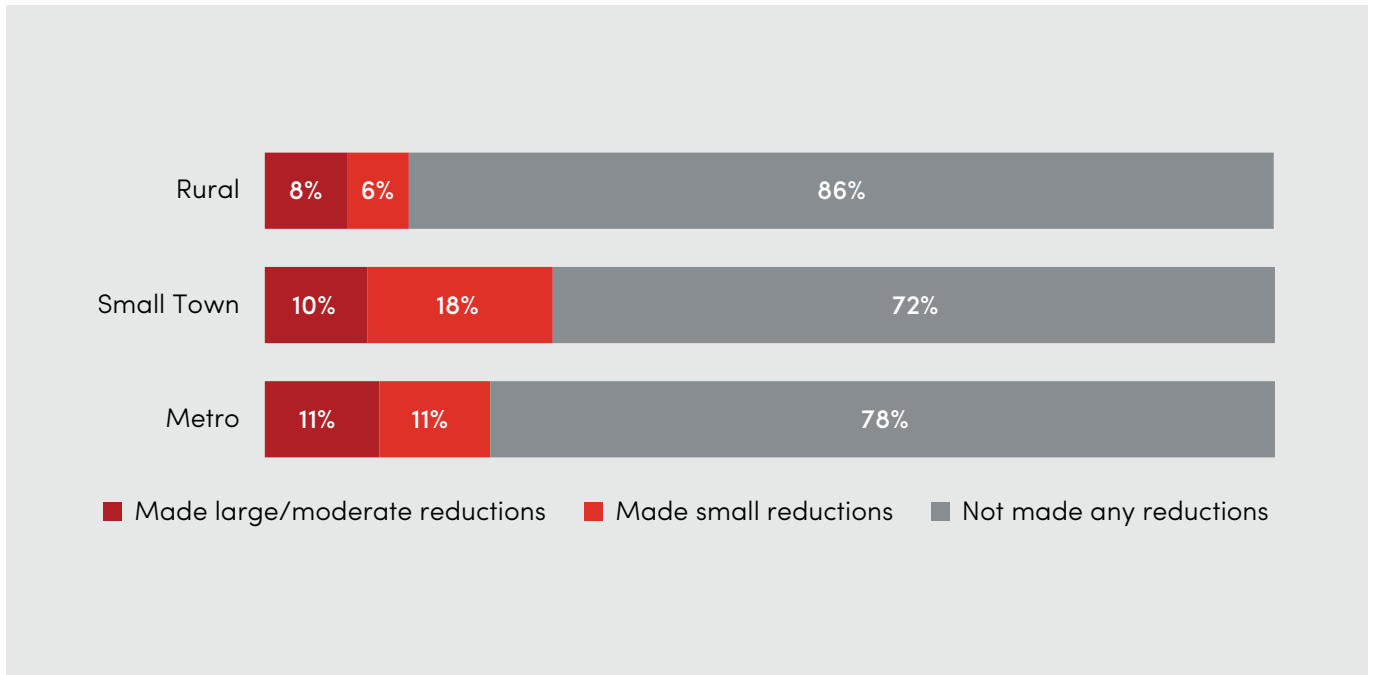
While many SMEs have had to adapt to the impacts of COVID-19 through changes to their business, this has been less common for rural SMEs. Specifically, 42% of rural SMEs reportedly made no changes to their business because of COVID-19 compared to only 18% of metro SMEs. In addition, over a third of metro SMEs report having to reduce their business costs, compared to only 19% of rural SMEs, and a quarter report moving to remote working compared to only 7% of rural SMEs (see Figure 1.4).

Figure 1.4: Business changes made as a result of COVID



Our data shows that reducing costs is a common reaction to COVID-19, but does this translate to reducing insurance? While 22% of metro SMEs have made reductions to their insurance in the last 6 months, this is less common amongst rural SMEs with only 14% of rural SMEs making the same choice (see Figure 1.5).

Figure 1.5: Reduced insurance last 6 months



What this means for brokers and advisers

- While rural SMEs appear to be more resilient, experiences will differ, and brokers could consider checking with their rural clients to understand how they have been effected and how confident they are feeling.



Part 2: Trust in insurance higher in rural areas

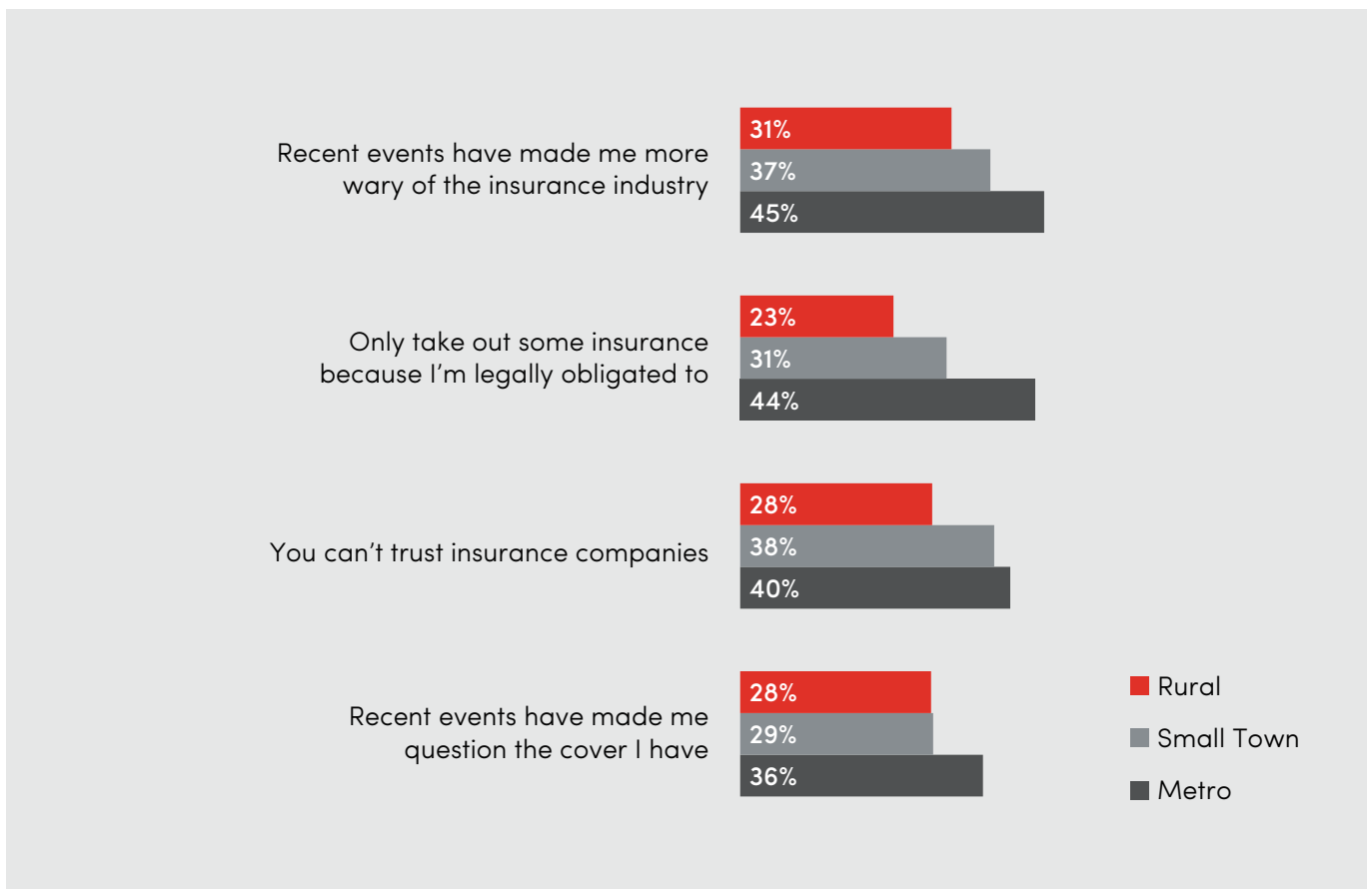
Rural SMEs see the value of insurance beyond the price tag

Our research has identified an increase in levels of consumer mistrust. This trend is widespread across countries and industries, and there are signs that this mistrust is also present in business insurance.

Positively, closer examination of rural SMEs shows that they are less likely to have negative sentiments about insurance, and in particular their level of mistrust appears lower on average. 45% of metro SMEs feel wary about the insurance industry compared to only 31% of rural SMEs (see Figure 2.1). In addition, while 44% of metro SMEs only take out insurance because they're legally required to, this number drops to 23% amongst rural SMEs.

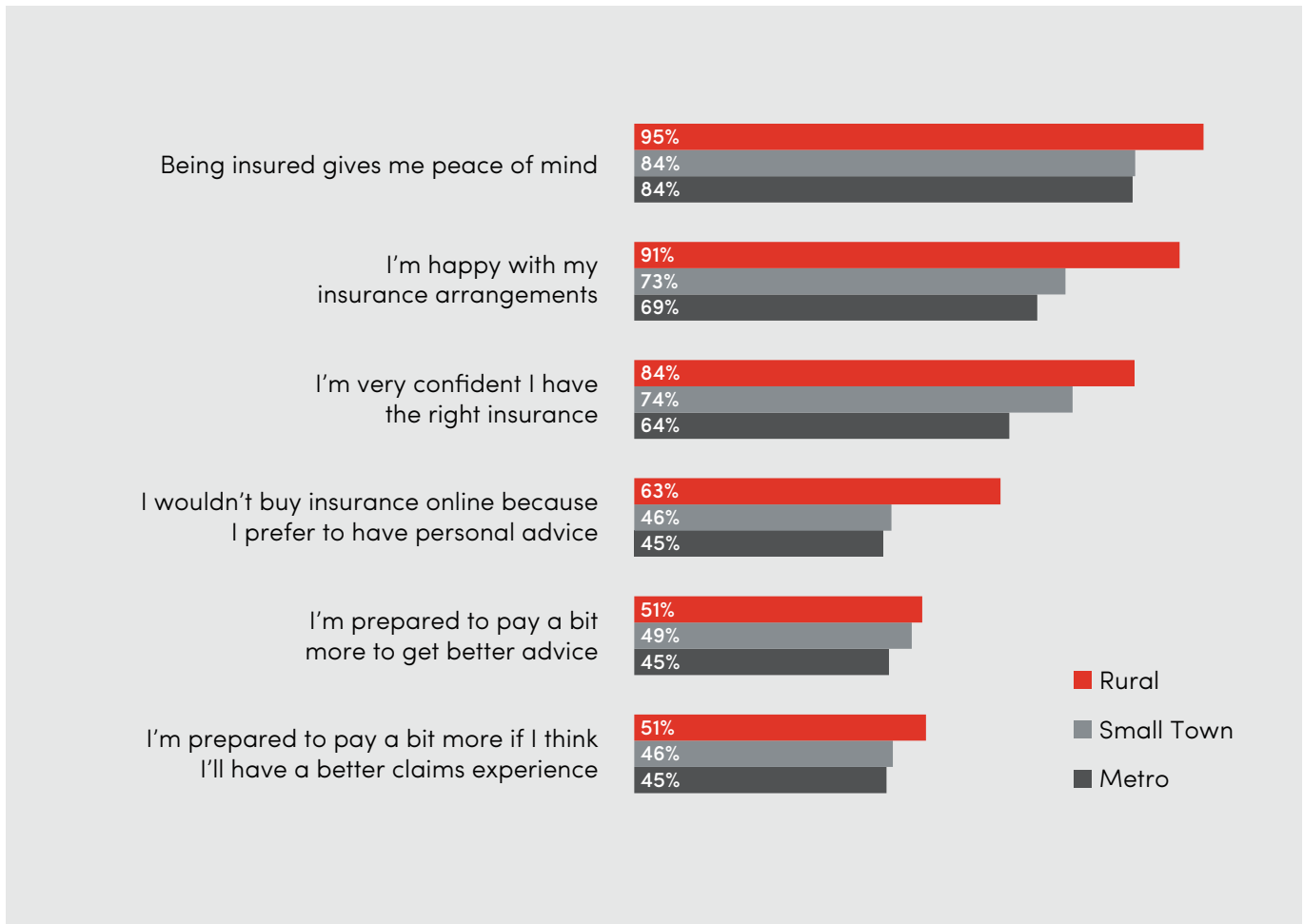
Mistrust towards insurance companies is also less common amongst rural SMEs with only 28% saying they can't trust insurance companies compared to 40% amongst metro SMEs. It seems likely that recent events such as COVID-19 have led more metro SMEs to question their cover with more of these businesses reporting negative impacts from the pandemic. In comparison only 28% of rural SMEs say that recent events have made them question their cover.

Figure 2.1: Negative insurance attitudes



Rural SMEs are also more likely to feel positive about insurance and are more prepared to pay for a better insurance experience. For example, over 90% of rural SMEs say their insurance gives them peace of mind and that they are happy with their arrangements (see Figure 2.2). 20% more rural SMEs say they are confident with their insurance compared to metro SMEs. Over half of rural SMEs are likely to say they are willing to pay more for better service and claims experience compared to 45% of metro SMEs.

Figure 2.2: Positive insurance attitudes



What this means for brokers and advisers

- Brokers already working with rural clients could also consider asking for testimonials given that this audience is far more likely to speak of the reassurance insurance brings and the importance of paying for important services.

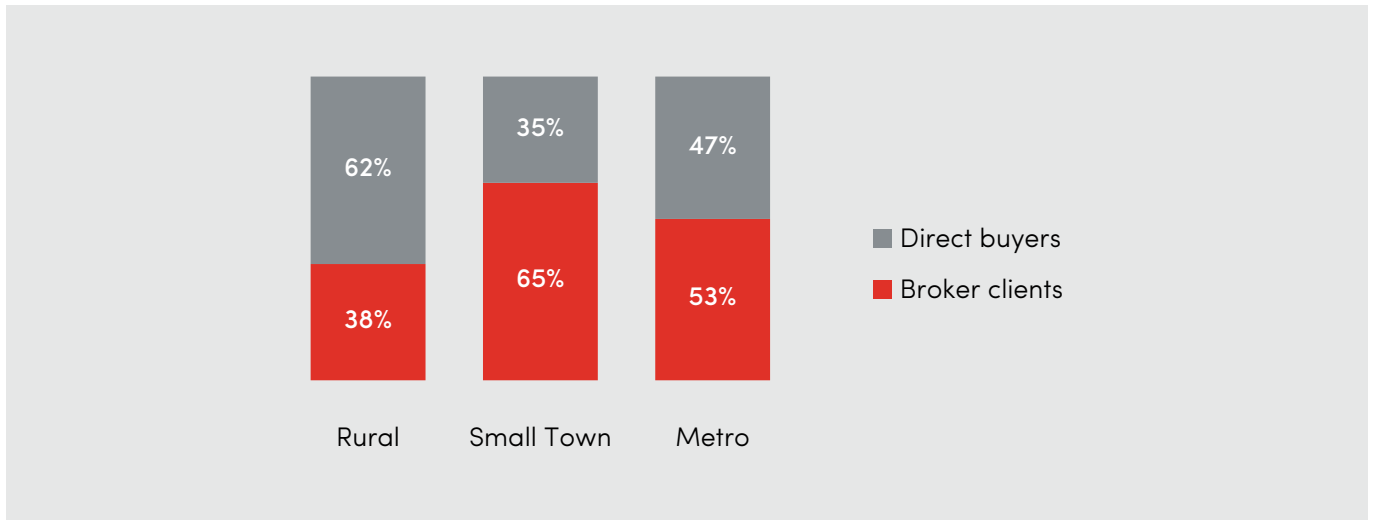


Part 3: Rural broker usage lower but more satisfied

Broker usage is significantly lower amongst rural SMEs

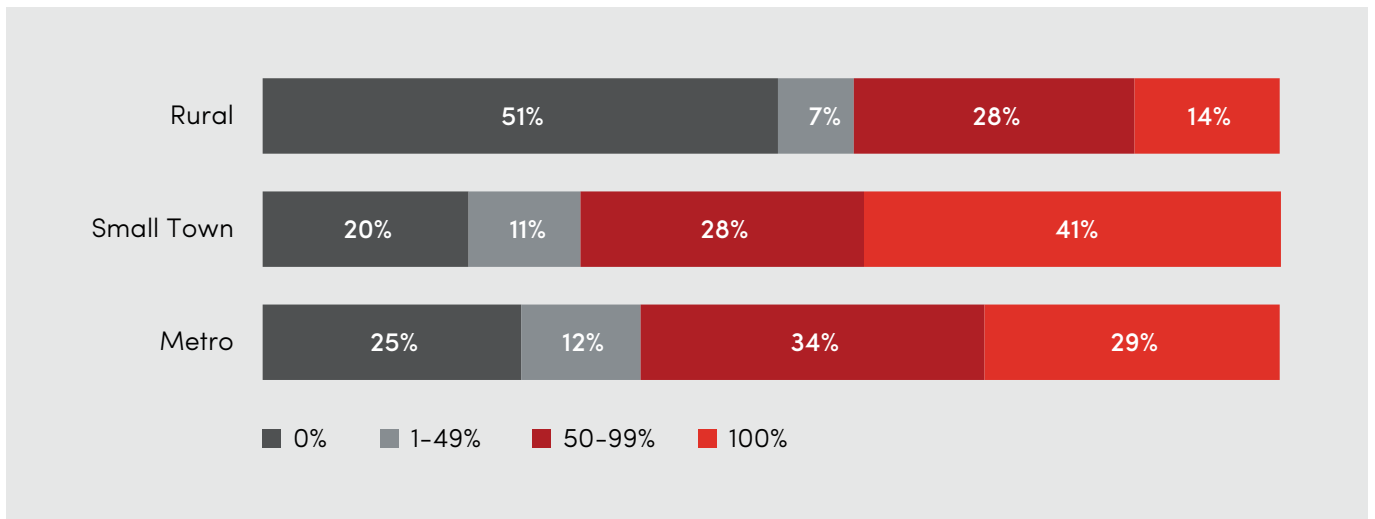
Despite a tendency to be willing to pay more for better insurance service, rural SMEs are less likely to report using a broker for their business insurance. Only 38% of rural SMEs report using a broker for their last insurance purchase compared to 65% from small towns or 53% from metro areas (see Figure 3.1).

Figure 3.1: Broker usage (last policy purchased)



Lower usage is also clear when looking at the percentage of insurance policies bought through a broker, with over half of rural SMEs not using a broker for any of their insurance (see Figure 3.2). In contrast, small town and metro SMEs are more than twice as likely to purchase all of their insurance through a broker.

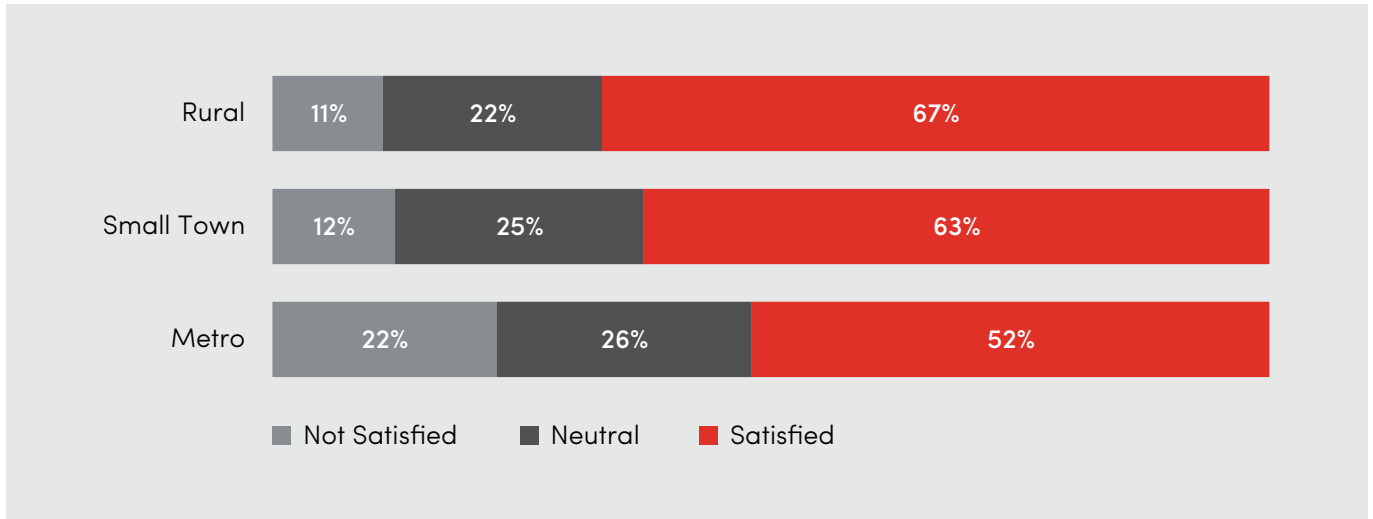
Figure 3.2: % of policies bought through a broker



Rural SMEs more positive about their broker

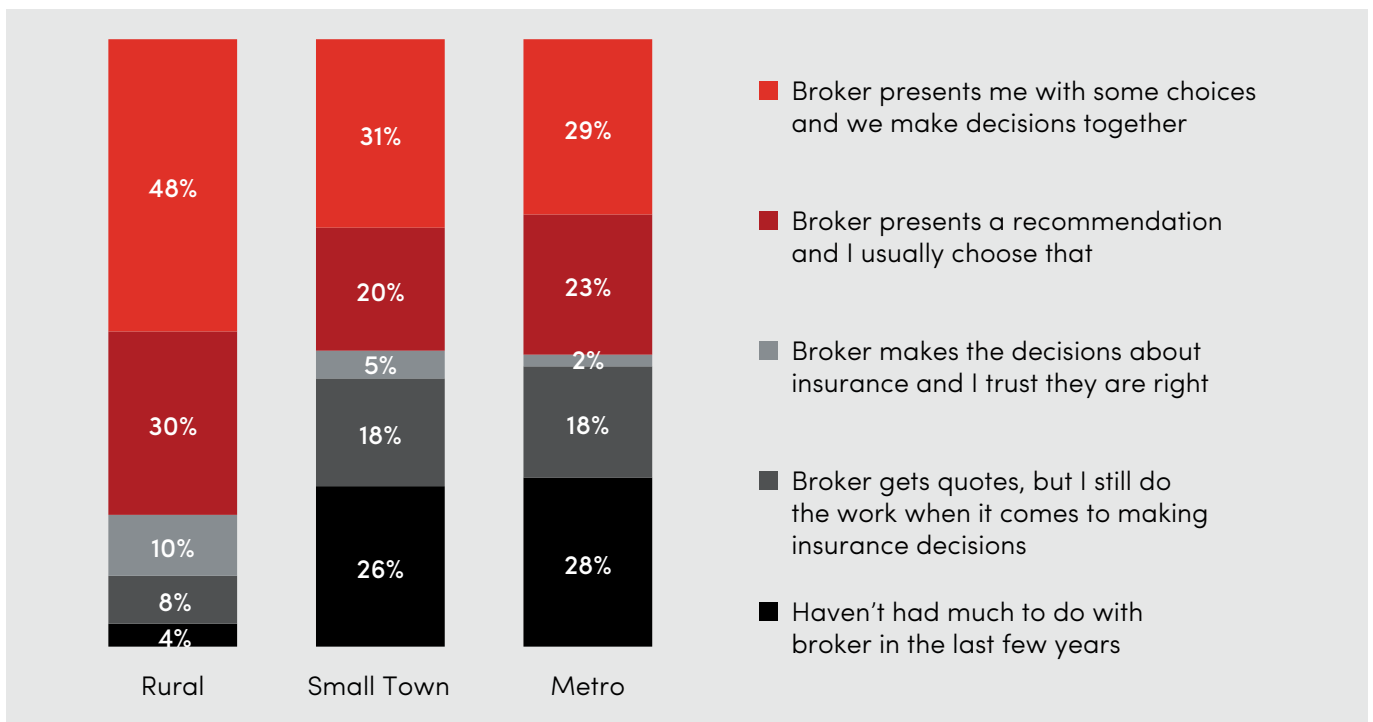
While they may not use brokers to a high degree, it's interesting to note that rural SMEs are 15% more likely to report being satisfied with their current broker compared to metro SMEs (see Figure 3.3). On the other end of the scale metro SMEs are twice as likely to report being dissatisfied with their broker (22%) compared to rural SMEs (11%).

Figure 3.3: Broker satisfaction



Rural broker clients are also significantly more likely to report having collaborative relationships with their broker. Only 4% of rural SMEs report having a distant relationship with their broker (i.e. haven't had much to do with broker in the last few years) whilst 28% of metro SMEs report having a distant relationship (see Figure 3.4).

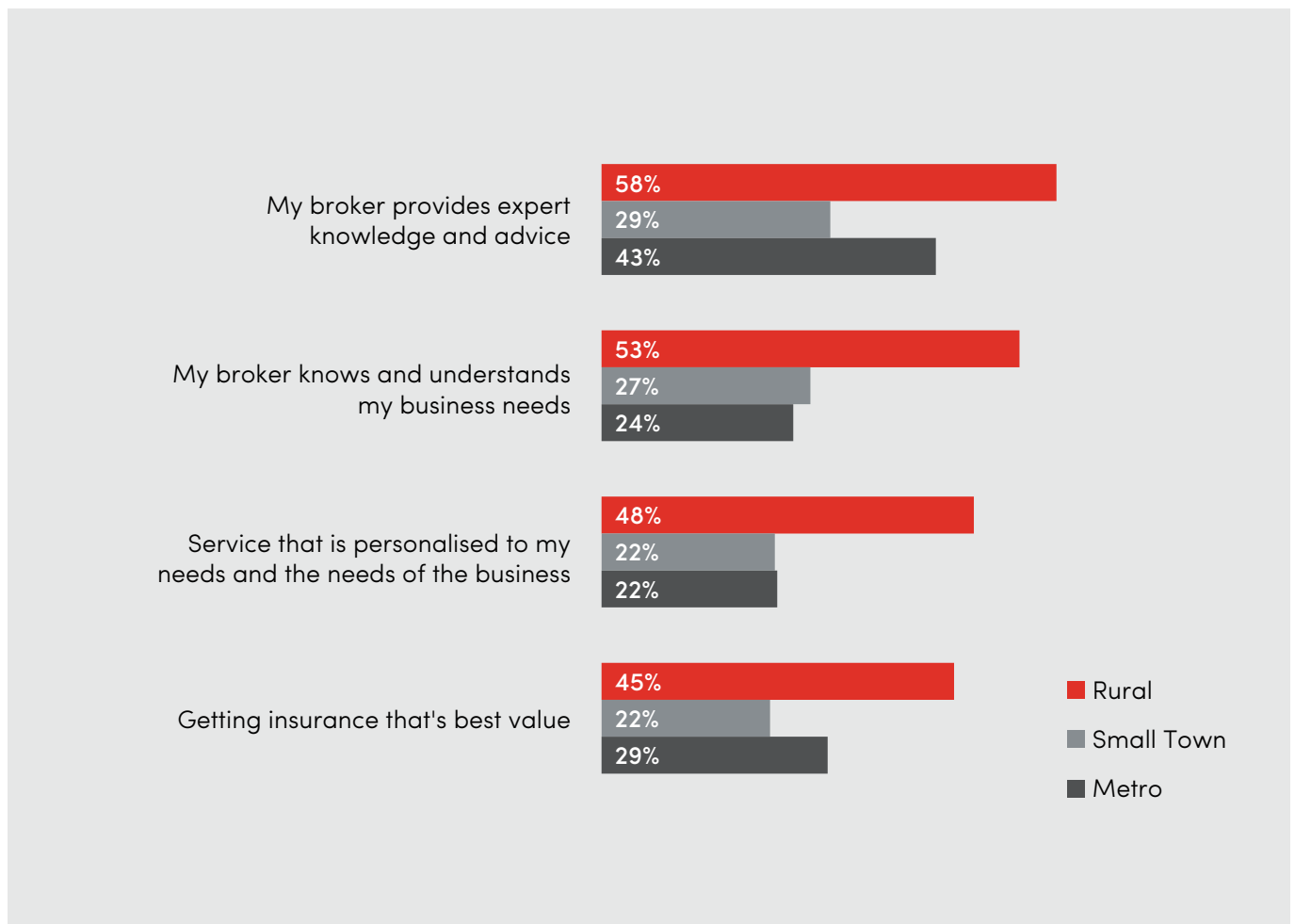
Figure 3.4: Broker relationship



What drives these higher satisfaction levels amongst rural broker clients?

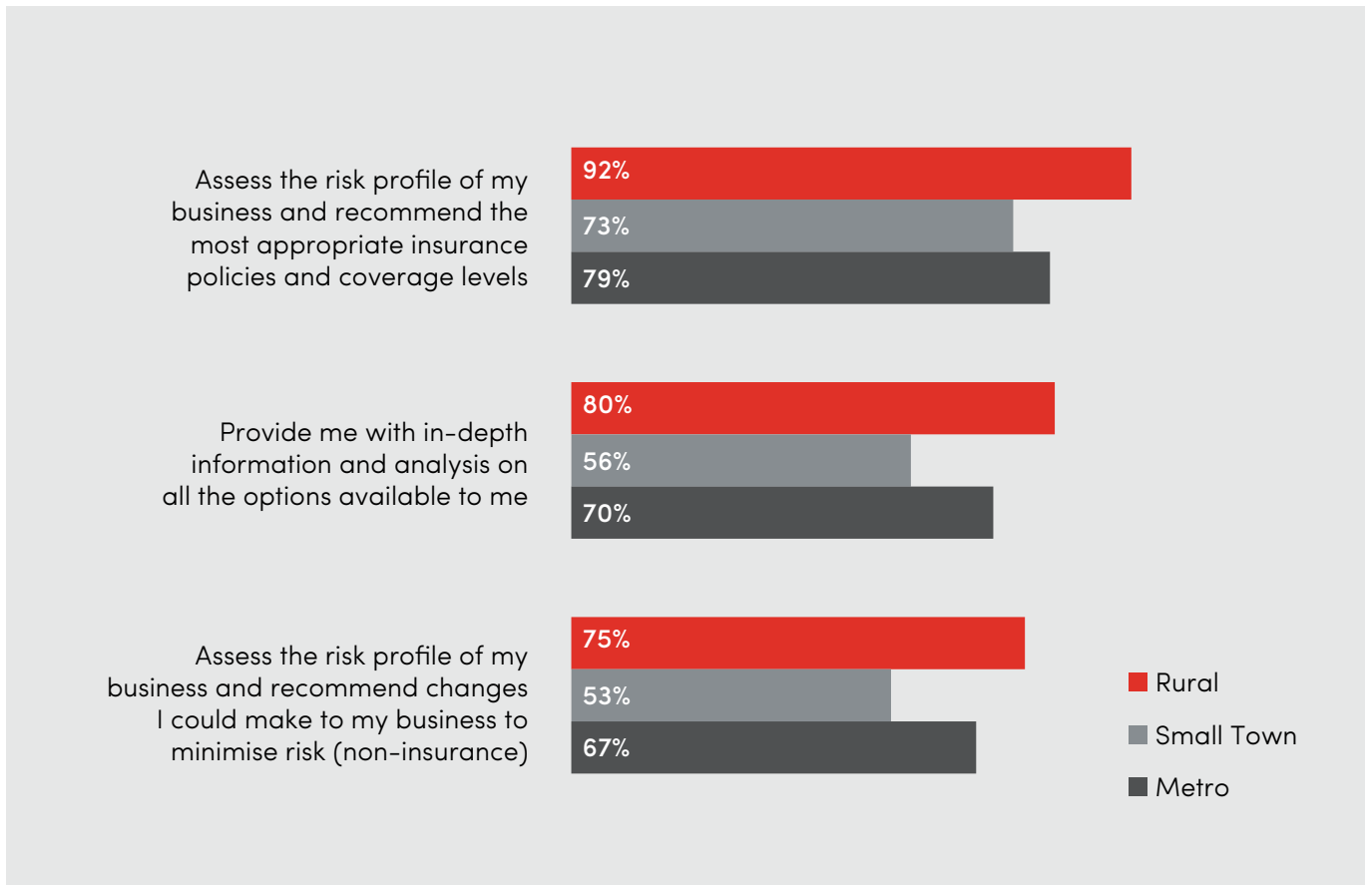
The data demonstrates this group are more likely to claim a wider range of reasons for choosing to work with a broker, including expert knowledge and advice as well as understanding their business needs (see Figure 3.5). Twice as many rural SMEs also report that they work with their broker because they provide personalised service compared to SMEs from other locations. Finally, 45% of rural SMEs report that their broker provides insurance that's best value compared to only 22% of small town SMEs and 29% of metro SMEs.

Figure 3.5: Main reasons to work with current broker



Rural SMEs place higher importance on a number of different tasks that brokers can undertake on their behalf. 92% of rural SMEs consider risk assessment profiles important compared to 79% of metro SMEs (see Figure 3.6). Those in rural areas are also 10% more likely to say in-depth information on all options is important compared to metro SMEs. They are also more likely to place importance on assessing business risks and recommending changes to minimise those risks, with rural SMEs 8% more likely to select this compared to metro SMEs and 22% more likely compared to SMEs in small towns.

Figure 3.6: Broker tasks considered important



What this means for brokers and advisers

- Broker usage is lower amongst rural SMEs, but rural broker clients are more satisfied with their broker and have collaborative relationships suggesting significant opportunity amongst this audience.
- Rural broker clients are more likely to value risk assessments and getting in-depth information about their insurance options, meaning that brokers working in rural areas should consider offering and promoting these services.

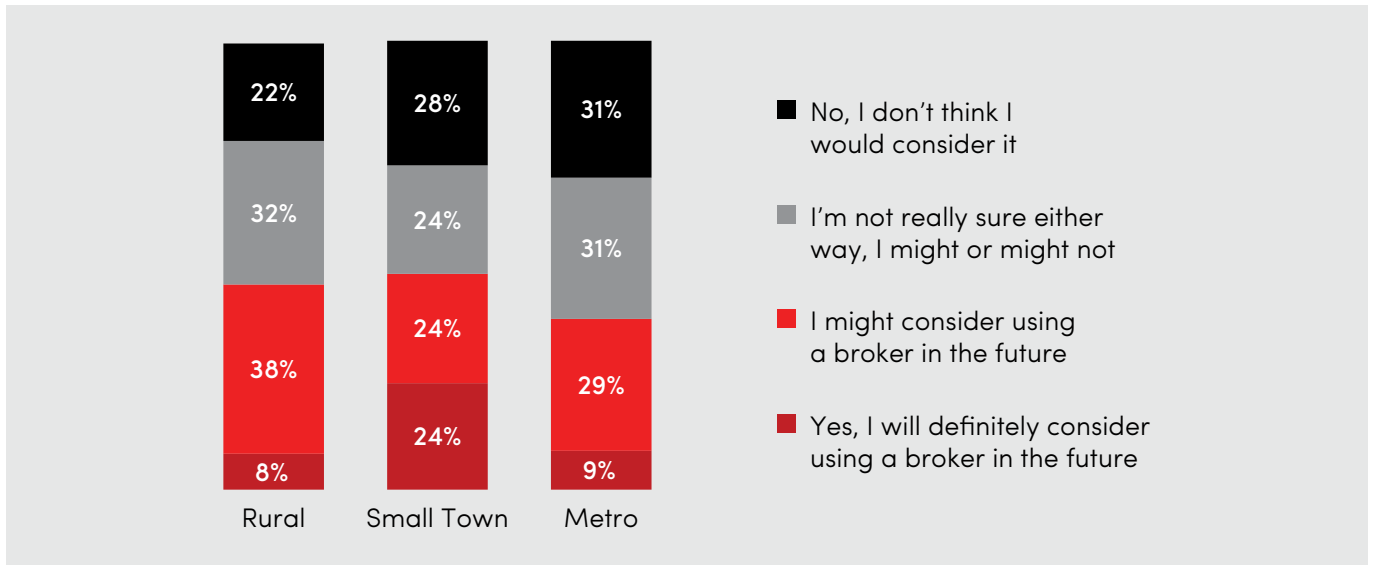


Part 4: Large opportunities amongst rural direct buyers

Many rural direct buyers are open to using a broker

Despite broker usage rates being lower amongst rural based SMEs, rural direct buyers are more likely to consider using a broker in future compared to those in metro locations. Consideration sits at 46% for rural SMEs whereas only 38% of metro businesses would consider using a broker (see Figure 4.1).

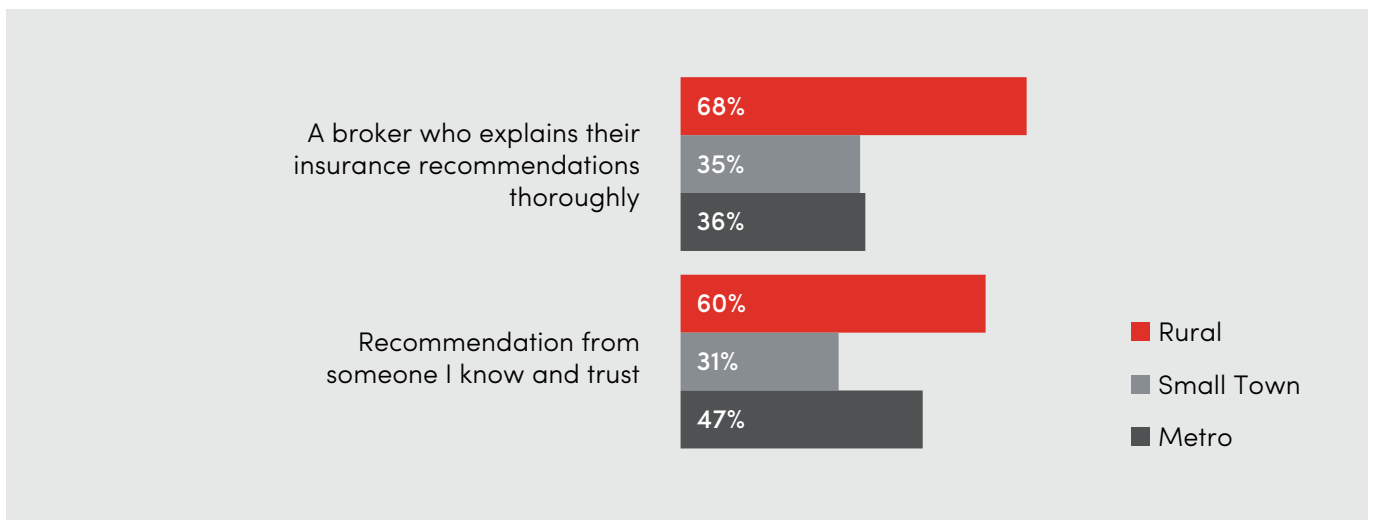
Figure 4.1: Broker consideration amongst direct buyers



What would these “considerers” look for in a broker?

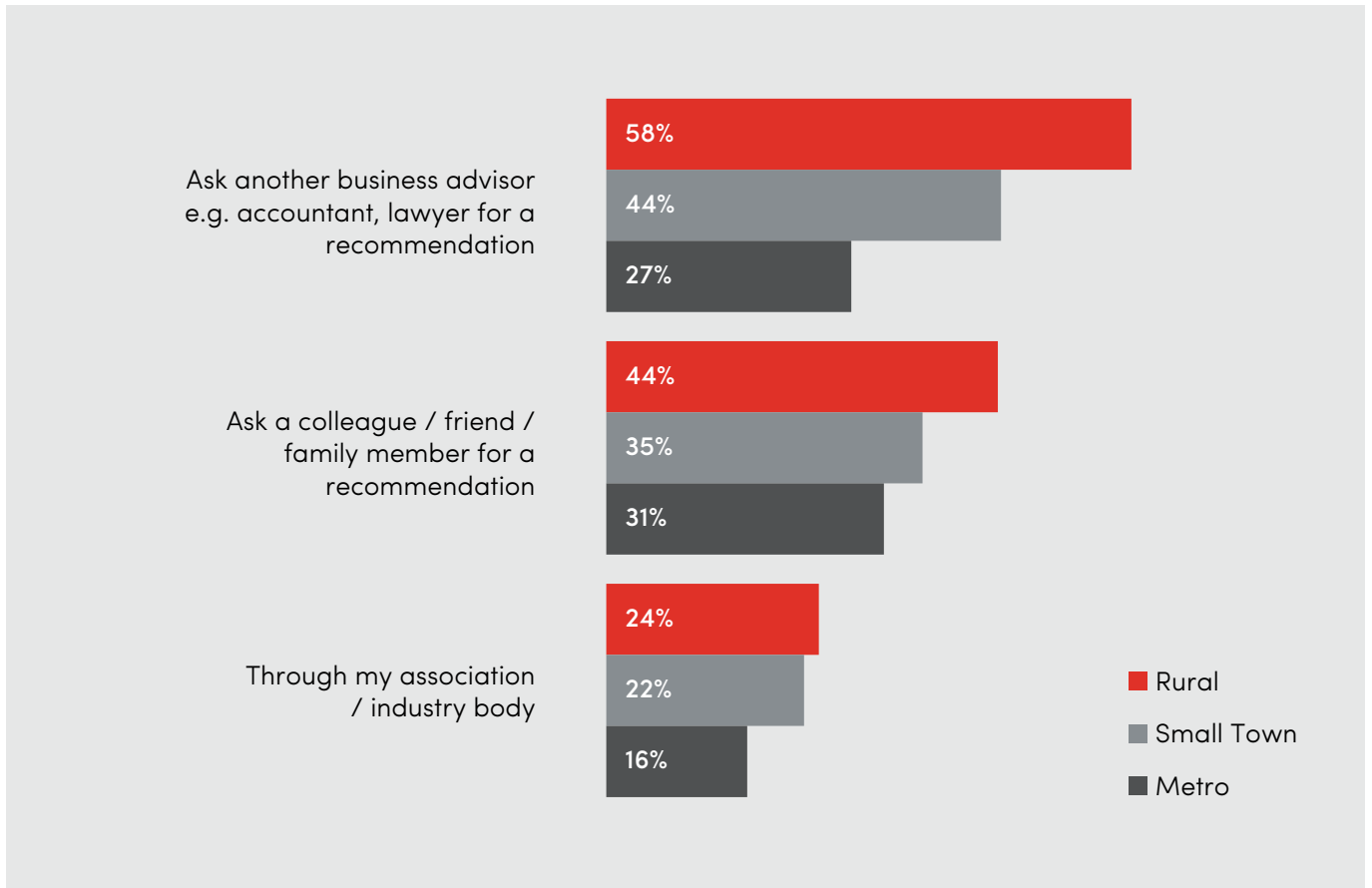
Rural SMEs would be more likely to consider working with someone who explains recommendations thoroughly and is recommended by someone they trust compared to their small town or metro counterparts. (See Figure 4.2).

Figure 4.2: Characteristics sought in a broker



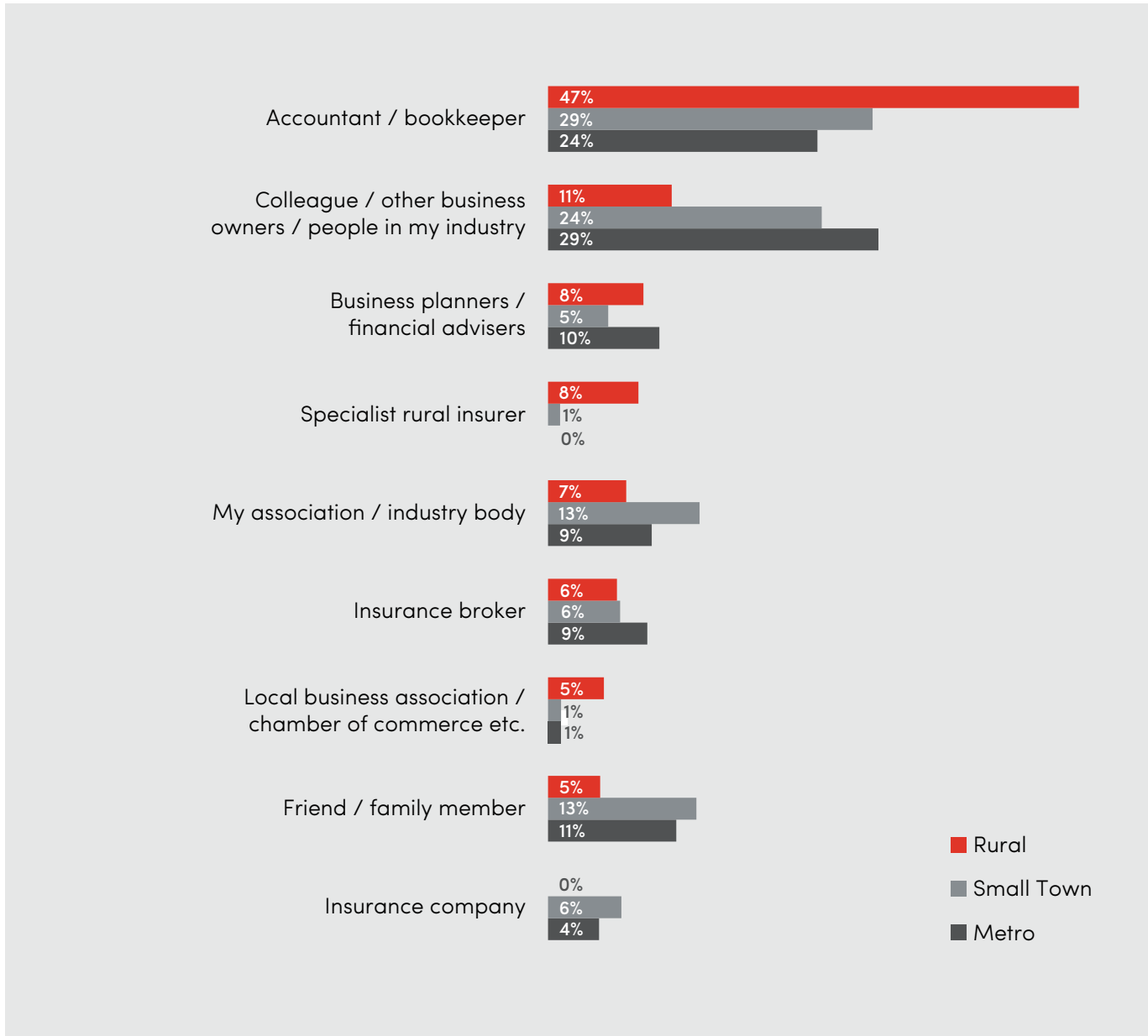
Our research also looked at differences in where SMEs would look for a broker. Rural SMEs would be more likely to look for a broker through their existing connections. 58% would ask another business advisor while 44% would use professional or personal connections (see Figure 4.3).

Figure 4.3: Places direct buyers would look for a broker



Business advisors continue to be highlighted as a key source for rural SMEs, for both broker clients and direct insurance buyers. When asked about whose advice they trust most for business risk advice, 47% of rural SMEs say that they trust their accountant / bookkeeper, which is almost double the rate of metro SMEs (see Figure 4.4).

Figure 4.4: Trusted risk advisers



What this means for brokers and advisers

- Rural SMEs who currently buy direct would be motivated to use a broker who delivers expertise, for example through in-depth analysis and explaining recommendations, and therefore brokers could consider communicating this expertise more overtly to attract direct buyers.
- Word of mouth recommendations are highly valued amongst rural SMEs, and they are highly trusting of the advice provided by their business advisors. Therefore, rural brokerages could consider developing referral campaigns and building relationships with local business advisors, like accountants, to further grow their business.
- Brokers could consider the potential of having clients across both metro (i.e. city/big town) and rural areas to reduce their reliance on any particular area. This diversification is likely to help shelter brokers from future market downturns.

The research

This report is based on research involving 900 business owners and decision makers from around New Zealand. The research was independently* conducted using an online quantitative survey.

The survey was conducted during November 2020 and the data was weighted by business size to current Statistics New Zealand data. The survey covered:

- general business challenges
- attitudes towards insurance
- insurance purchase process
- attitudes towards insurance brokers
- 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

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

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