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# *Global Digital Small Business Insurance Survey*

## This time it's personal

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# *Executive Summary*

**Small and Medium-Sized Enterprises (SMEs) are the backbone** of every economy. They account for 99% of all firms, 70% of employment, and between 50% and 60% of value added in the OECD. They are also one of the most dynamic sectors of the economy, with 97,000 new SMEs formed each year in the UK alone.

On the face of it, SMEs should be an attractive market for insurers, commanding higher policy premiums than personal insurance. But the market is challenging, as SMEs come in all shapes and sizes and have different, and sometimes complex, needs. They often need the personalised advice of an agent or broker, but are unwilling to pay for the premium services tailored to bigger corporate clients. Could digital channels hold the answer? And are business customers ready to buy insurance online?

To find out, we spoke to 2,100 small businesses (with up to 50 employees) in 14 countries. Their responses uncovered a demand for digital insurance services that is not being met by the industry. This presents an opportunity (or a threat) for insurers. They will have to develop a clear strategy on how to deliver products and services across multiple channels. They will need to understand the evolving needs of current and prospective clients better. Finally, insurers will need to consider what is required in terms of people, processes, and technology to deliver a personalised, multichannel experience.

***Here is a summary of the main findings of our Global Digital Small Business Insurance Survey***

**There is widespread unmet demand for purchasing business insurance online.** Only 24% of small businesses purchased their most recent business insurance online, perhaps due to limited offerings, but change is coming. Of the small businesses that expect to switch providers in the next five years, 48% say they'd prefer to buy online—and 65% say they are quite or very likely to do so in the future.

***Business implication:*** Insurers must start to think about what their digital offering will be, in order to serve this unmet need. There is also an opportunity to reduce the cost of acquisition and service for this segment.

**Small businesses are confident about their business needs, but are often unknowingly underinsured.** Today's small businesses are confident about their business goals and insurance needs, with 74% reporting they were 'quite' or 'very' confident in their business insurance needs. However, 18% did not have liability cover and only 16% had cyber insurance, despite an additional 46% saying it could be applicable to their business.

***Business implication:*** Insurers have an opportunity to help businesses understand the implications of being underinsured.

**Personal insurance purchasing behaviour is the single biggest predictor of current and future business insurance purchasing behaviour.** Despite a strongly held view that business insurance purchasing behaviour is determined by factors such as the sector a company is in, our survey revealed that attitudes are strongly influenced by personal insurance purchasing habits. Of the respondents who bought their personal insurance online, 70% said they would prefer to buy their business insurance online too.

***Business implication:*** Where personal insurance goes, business insurance is sure to follow. Insurers will need to reevaluate their customer segmentation models for digital. Small businesses behave very much like individuals, and segmenting by sector and size alone may not be the best way to go to market; insurers need to understand more about the individual buyer too.

**New businesses are digital natives.** Younger companies are more likely to be born digital. When predicting if a company will purchase insurance online, the age of the business is twice as important as the number of employees. Companies that have been operating for less than a year are 20% more likely to purchase their future insurance online than an otherwise identical well-established company[1]. Newer businesses are more accustomed to looking for recommendations and advice online, whereas established players tend to have a deep relationship with their agent/broker.

***Business implication:*** Our survey implies that digital channels will be key to attracting new small businesses.

**Small businesses want to do all their insurance work online.** Findings highlight that merely providing a digital 'shop window' for products and services is not enough. Small businesses want a consistent

and connected digital offering across the customer journey, from being able to buy a policy online (36%) to making claims (36%), tracking claims (55%), or amending a policy (38%).

***Business implication:*** Insurers will need to create a fully digitised insurance service, which in turn will require end-to-end digital processes and a genuine digital operating model.

**But customers still expect insurance advisors to be on hand.** Even businesses that are ready to buy insurance products online expect the service to include the advice and support of agents and brokers. Next to price, 'advice from an expert during the process' is the most important factor in the decision to purchase insurance online.

***Business implication:*** Insurers should review their overall channel strategy to look at how they can provide a digital offering across each stage of the customer journey, while retaining other channels such as help lines and face-to-face appointments. Rapid advances in artificial intelligence and machine learning mean that in the future, human advisors could be replaced by intelligent communication technology.

**Small businesses are seeking connected digital services, not just insurance.** 53% of respondents favoured a 'one stop digital shop' for outsourced services, including accounting, investing, legal, recruiting, and banking. Interestingly, they want more from their insurers: 45% would be willing to purchase legal cover, 26% would purchase risk advice, and 47% would be willing to use sensors to reduce their premium.

***Business implication:*** In the short term there is an opportunity for insurers to look at how they extend their core product and service offering to include additional products such as legal cover and risk advice. In the medium term, insurers will need to look at how they partner with the broader ecosystem of online services—such as banking and accounting—to connect their offerings and present this in a simple and compelling way to small businesses.

# *Introduction*

Small and Medium Sized Enterprises (SMEs) underpin the economy in almost every developed and developing nation. Companies with fewer than 250 employees account for 99% of all firms in the OECD nations, generating between 50% and 60% of value added[2] and accounting for 70% of jobs on average.

SMEs are an essential market for the insurance industry, worth about €10 billion in annual gross written premiums in Germany and the UK each, and growth in the UK of 12% a year[3]. Yet SMEs struggle to find the right product at the right price, when their needs can be as complex as those of larger companies. For insurers, this particular segment is equally challenging to serve: SMEs demand personalised attention, but at a premium that doesn't support this level of service.

Digital services could be the answer. At present, selling insurance to SMEs through digital channels is not straightforward. Many of the products they need are complex; products need tailoring to specific businesses; and SMEs want personalised advice before buying.

Nevertheless, a number of specialised online services have emerged, including comparison platforms such as Simplybusiness (UK) or Gewerbeversicherung24 (Germany). Is this a sign that SMEs are ready to embrace digital insurance services? We wanted to find out.

To understand digital demand further, we carried out a comprehensive global survey of more than 2,100 micro and small businesses in 14 countries, each with up to 50 employees. We asked them how they buy insurance today, how they view digital services, and how they think they will interact with the insurance industry in future.

Our survey confirms that there is an unmet demand for digital insurance services, but it's a complicated story. Insurers will need to take into account a complex array of needs and preferences. For those who are well-prepared, a lucrative new market awaits.

*Our survey of more than 2,100 small businesses in 14 countries confirms that there is unmet demand for digital insurance services.*

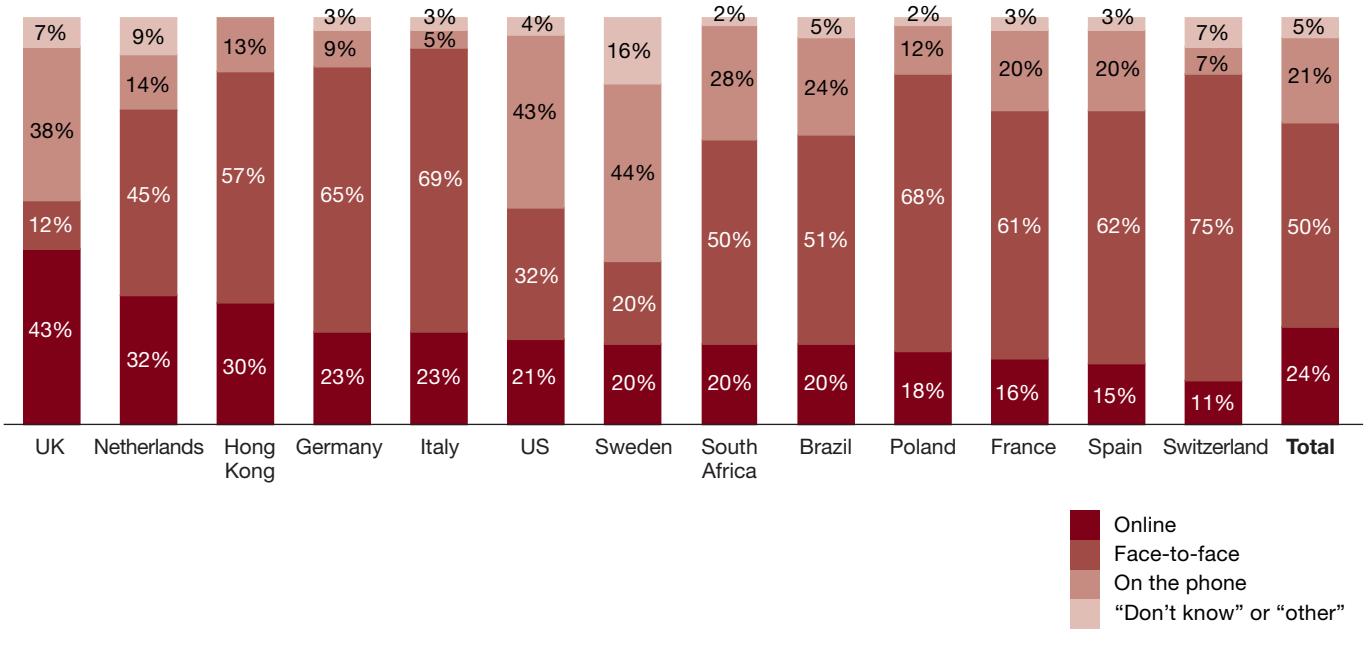
# *Understanding how small businesses buy and manage their insurance today*

Digitisation is disrupting all sectors of the economy, and the insurance industry is no exception. Our global survey highlighted that small businesses expect insurers to offer online products, and to add more digital services going forward.

Less than a quarter of companies in our survey bought their business insurance online, often due to the limited options available to them. There are noteworthy geographic differences: Those in the UK were most likely

*Exhibit 1*

**Purchasing channel split by country—how small businesses purchased their most recent business insurance**




Source: Primary research
PwC Strategy&

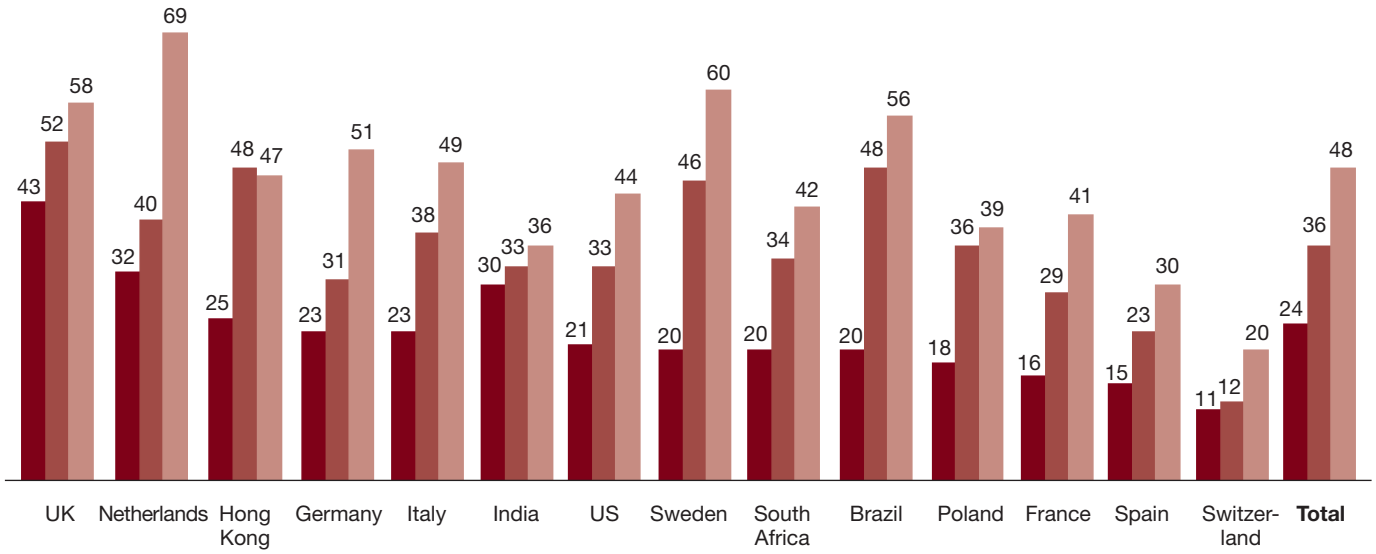
to have bought their business insurance online, while those in Switzerland were the least likely.

However, the future intention of these companies reveals a growing preference for digital services across all geographic markets. Among the small businesses that indicated they are likely to switch their insurance provider in the next 5 years, there was a strong preference for digital insurance products[4]; with 48% of respondents stating they would prefer to purchase their business insurance online.

Of those who indicated an online preference for the future, 50% would rather do this directly from an insurance company website, 28% would prefer a price comparison website or app, and just 10% would use a broker or agent's site (*see Exhibits 1 and 2*).

*Exhibit 2*

**Online purchasing behaviour—today vs. future preference (%)**




Note: 'Most recent business insurance purchased online' shows the percentage that answered 'online' to the question 'How did you buy your last business insurance policy?' 'Online is preferred purchasing method in future' shows the percentage of businesses that answered 'online' to the question 'What would be your preferred method of purchasing business insurance in the future?' 'Likely to switch in next 5 years only' refers to businesses that answered 'More than once a year', 'Every 1-2 years', or 'Every 2-5 years' to the question 'On average, how often do you switch insurance companies for any of your covers?'

Source: Primary research PwC Strategy&

### *Small businesses are confident about their business needs, but are often unknowingly underinsured*

Today's small businesses are switched on, confident, and clear about their needs. The survey highlights that in the vast majority of cases, responsibility for buying business insurance falls to the owner or founder of the company (83%).

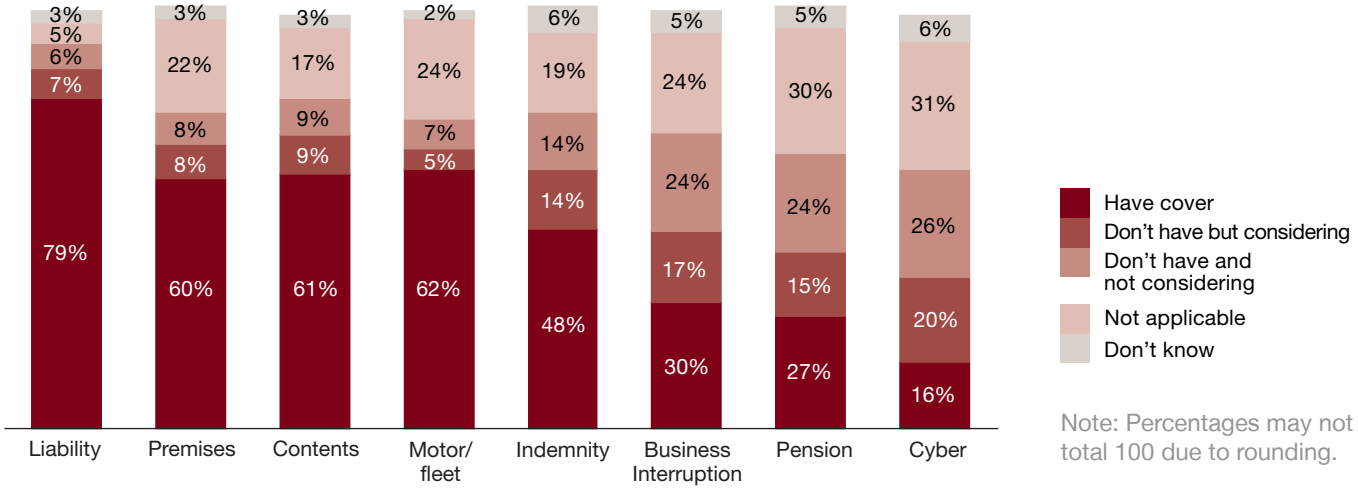
As you would expect, these individuals feel they know and understand the needs of their business, and therefore the insurance they require. 51% of respondents said they are 'quite confident' and 23% are 'very confident' about their business's insurance requirements.

However, when we asked for details of their current insurance policies, we found that many were unknowingly underinsured:

- 18% of businesses do not have liability insurance in place.
- Only 50% of businesses had indemnity insurance.
- Only 16% have cyber insurance in place, despite an additional 46% recognising that it could be applicable to their business.

The insurance 'knowledge gap' presents a clear opportunity to insurers. There is a need to articulate and visualise the impact of not purchasing certain types of cover, such as liability insurance (*see Exhibit 3*).

*Exhibit 3*
**Type of insurance cover held by SMEs**




Note: Percentages may not total 100 due to rounding.

Source: Primary research PwC Strategy&

# *Charting the factors that influence buying insurance online*

A common assumption in the insurance industry is that size and sector are the main determinants of purchasing channel preference for business insurance. But our survey showed this was not the case for small businesses.

Rather, we found that the biggest influence on how business insurance is purchased comes from how small business owners buy their personal insurance. Fifty-nine percent of those who bought their personal insurance online also purchased their most recent business insurance online. The correlation becomes stronger for future decision making; 70% of owners who purchased their personal insurance online state they would like to purchase their business insurance online in the future. In fact, we found this correlation to be 10 times more influential than other factors, such as turnover, and 16 times more influential than sector affiliation[5].

There were differences from country to country, with UK business owners most likely to buy both their personal and business insurance online, and Swiss businesses the least likely (*see Exhibit 4, next page*).

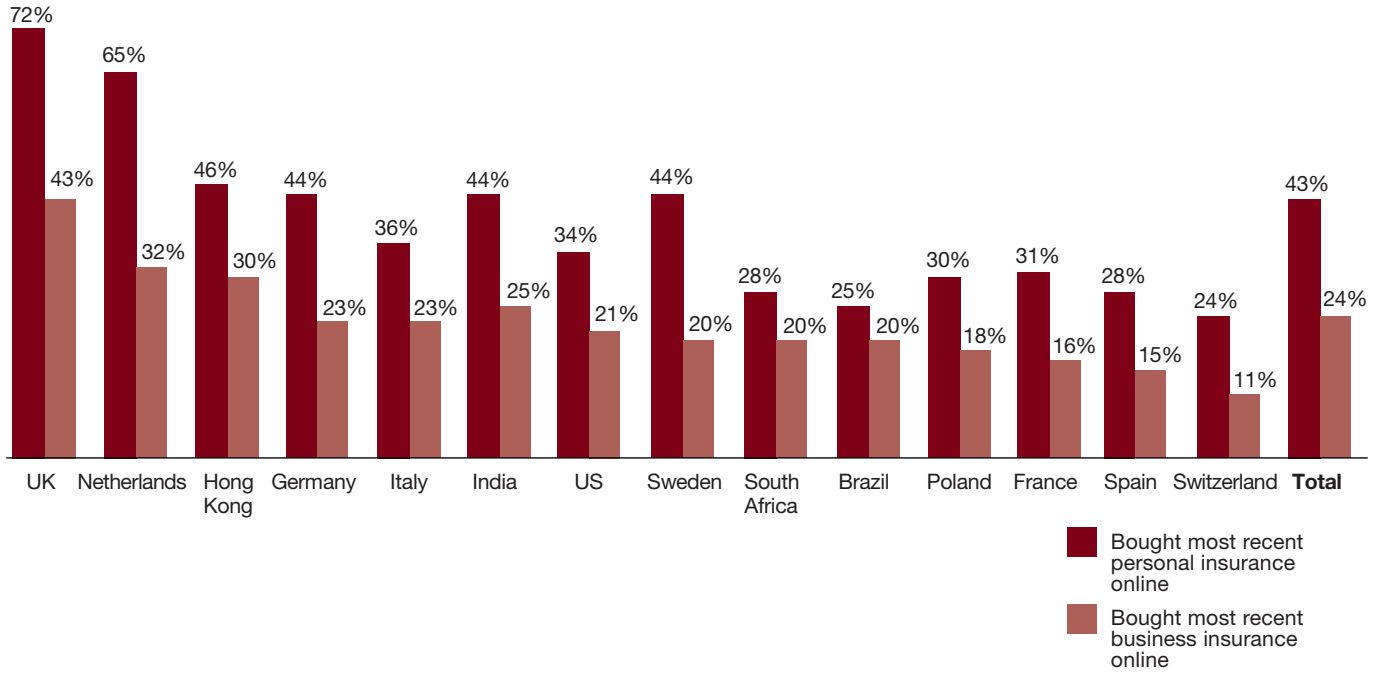
*Personal insurance purchasing behaviour is the single biggest predictor of how a business wants to purchase its business insurance.*

### *New businesses are digital natives*

Of the factors that determine how small businesses prefer to purchase insurance, the survey showed that the age of a business was as important as its turnover, 83% more important than its number of employees, and twice as important as the age of the buyer[6] (*see Exhibit 5 and 6, next pages*).

*Exhibit 4*

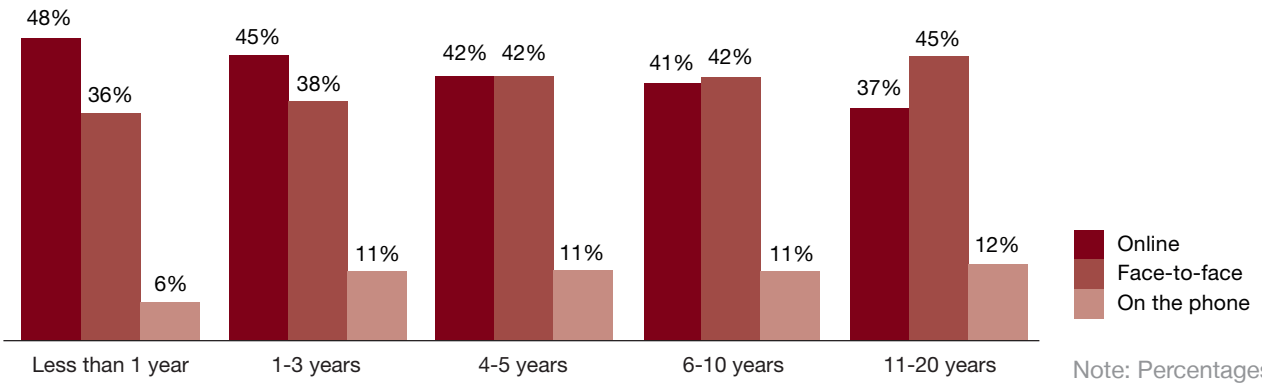
**Business insurance purchasing behaviour reflects personal insurance purchasing behaviour**




Source: Primary research
PwC Strategy&

*Exhibit 5*

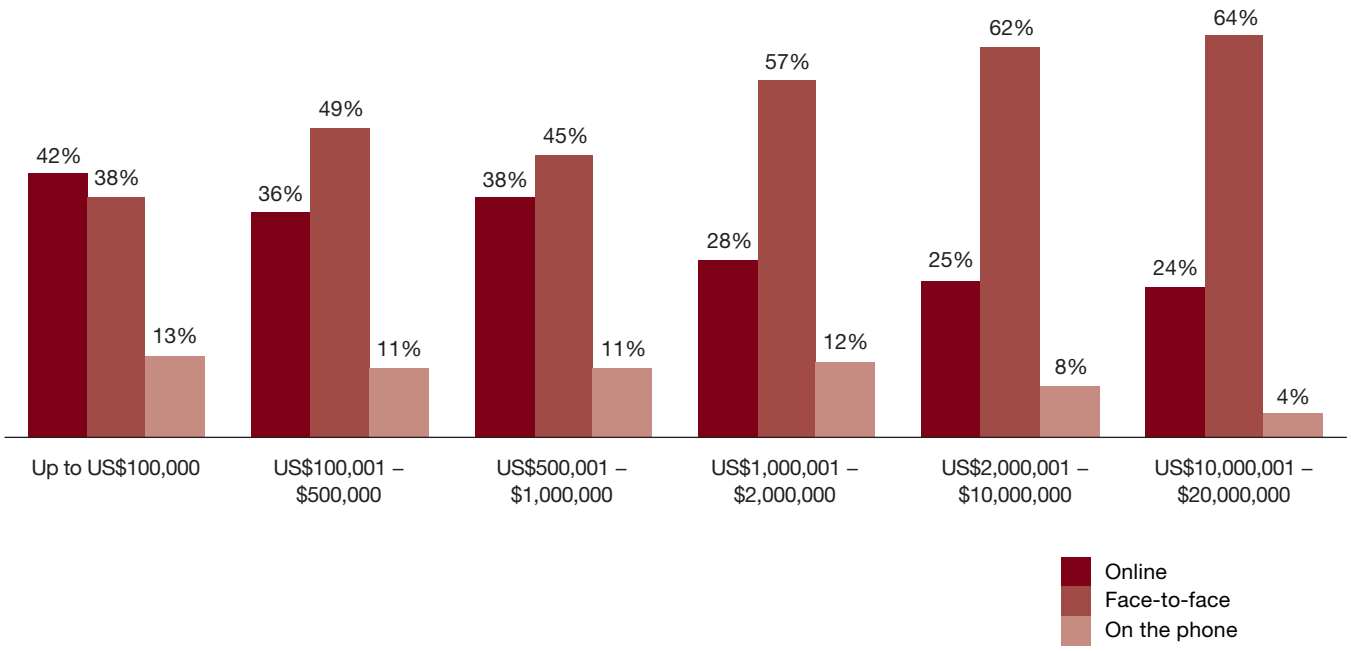
**Future channel preferences by age of business**




Note: Percentages may not total 100 due to rounding.

Source: Primary research
PwC Strategy&

*Exhibit 6*
**Channel preferences by turnover**




Note: Percentages may not total 100 due to rounding.

Source: Primary research PwC Strategy&

# *How small businesses will want to buy and manage their insurance in future*

The insurance sector has begun to develop digital offerings for small businesses, with many investing in digital 'shop windows' that explain the products and services on offer before routing customers to face-to-face or telephone channels.

But in addition to doing their research online, small businesses now expect to be able to purchase, amend, and renew a policy and make and track a claim online. With many business sectors now offering seamless and comprehensive online services, insurance organisations are faced with little option but to do the same (*see Exhibit 7*).

*Exhibit 7*

**Small businesses want a digital offering at every stage of the customer journey**

| | Research | Purchase | Amend | Make a claim | Track a claim | Renew |
|---|---|---|---|---|---|---|
| **Online** | 54% | 36% | 38% | 36% | 55% | 39% |
| **Face-to-face** | – | 46% | 24% | 22% | 16% | 31% |
| **Phone** | – | 11% | 24% | 29% | 16% | 19% |
| **Email** | – | – | 12% | 11% | 11% | 9% |
| **Other** | 46%[1] | 7% | 2% | 2% | 2% | 2% |

[1] 26% recommendation from an agent/broker/advisor,
6% recommendation from a friend or family member,
4% recommendation from a trade organisation,
2% direct advertising

Source: Primary research
PwC Strategy&

### *Customers still want expert service*

Our survey indicated that businesses want a blend of the digital and human world—the convenience of a digital offering combined with access to expert advice when needed. This is what they value:

### *A personalised service*

Insurers will need to address the widespread perception among small businesses that purchasing online insurance somehow leads to a more challenging claims process if they don't have a personal agent. Small businesses need to be reassured that they will not be shortchanged on service if they buy insurance online.

### *The right to have expert advice on hand*

Small businesses continue to seek support. 'Expert advice' came second only to price among the factors that might persuade a small business to acquire its insurance online. Those who were not interested in online offerings cited the need for advice just behind an existing relationship with a broker. Insurers will have to consider the dual need for online and human services, and build flexibility into their business models so that clients might be routed to alternative channels if their questions can't be addressed online.

### *The option of tailored products*

Small businesses also need reassurance that they will be able to obtain tailored products online. The perception today is that digital services offer generic policies rather than personalised products.

### *Competitive pricing*

Finally, price will continue to be the decisive factor behind the choice of insurer. 17% of respondents said they would buy insurance online if it saved money (*see Exhibit 8, next page*).

*Exhibit 8*

## What led you to buy your business insurance online? (*multiple response*)

## Why didn't you buy your last business insurance policy online? (*multiple response*)

Source: Primary research
PwC Strategy&

## *Case Study: Direct Line for Business*

Direct Line for Business (DL4B) was designed to be the first-choice direct insurer for micro SMEs. But to get there it had to overcome three hurdles: Many products are complicated; most SMEs buy insurance through a broker; and prepackaged products sold direct don't always meet the customer's exact needs.

DL4B needed to reach micro SME customers directly, in a way that put customer experience at its centre. To achieve this the company designed, built, and launched a new customer-focused digital experience in the space of 11 months, which allowed SME owners to buy the right product for their business quickly and efficiently. The products were tailored towards individual businesses. The purchasing journey was simple; it supported the customer's decision making, and more importantly, it provided human contact at the points where customers needed it the most.

https://www.pwc.co.uk/industries/financial-services/fs-case-study-customer-experience.html

*'We've created an insurance product and user experience for micro SMEs that we believe to be extremely innovative and market-changing for commercial insurance.'*

*Jasvinder Gakhal, Director of Commercial Direct, DLG*

***Small businesses are seeking a connected digital offering that goes beyond insurance***

For those insurers that are willing to look beyond their existing market, the opportunity is significant. The survey demonstrated that in the first instance small businesses are willing to purchase a broader set of services from insurers; 45% of small businesses expressed an interested in purchasing legal cover (62% in Germany) and 26% would purchase risk advice (50% in Brazil).

Small businesses are also looking for insurers to work as part of a broader ecosystem of service providers, with more than 50% of respondents open to a 'one-stop shop' digital platform for accessing a wide range of services, including market trends, tax, legal and regulatory advice, online banking, and accounting.

# *Conclusion: Preparing for a new age of digitally enabled small businesses*

Regardless of size, age, sector, or location, the way small businesses acquire insurance services is expected to change in the near future. The question for insurers is how they intend to adapt to keep up with the evolving preferences and expectations of their clients.

Here are eight ways we believe insurers can successfully respond to the new age of direct digital services for small business:

- **Know** your customers and choose your focus wisely—use customer research, segmentation, and techniques such as customer personas to understand your customers' needs, cost-to-serve and the profitability per customer and customer group. Carefully select the right segment for digital pilots and further roll-out—taking into account the segment size, the complexity of their needs, their preferences, etc.

- **Define** the right strategy—review your customers, channels, and distribution strategy. Do you have the right skills and capabilities for the right channels? For example, is everything in place to help customers track their claims online?

- **Explore** the option of building a new digital small business greenfield to meet the expectations of this sizable segment waiting to take full advantage of digital services.

- **Adopt** a test and learn approach—involve customer testing groups when designing new solutions. Rapidly build prototypes and test them with a target customer base.

- **Evolve** your existing business—enable your business to adapt to the changing client landscape. As customers demand more digital services, how can insurers adapt to meet these needs? Be clear about the capabilities you will need in a digital age, from new underwriting approaches and skills to digitally enabled account managers. Invest and adapt to acquire these over time.

- **Invest** in identifying how to take advantage of the digital opportunity, including the underlying operating model across the whole value chain. Invest in enabling technology based on the redefined operating model that will enable development. Look to the burgeoning Insurtech startup community for new ideas and new ways to engage customers.

- **Embrace** online marketing, advertising, and knowledge. This is the new battleground for acquiring customers.

- **Protect** your business against the risk of cyber-attack and provide new risk prevention and cyber products to meet your customer needs.

We hope that you found our report challenging and useful. If you have any queries or would like to discuss any of the issues in more detail, please speak to your usual PwC or Strategy& contact or one of the contacts listed on page 2.

## Endnotes

[1,5,6] Looking at the partial impact, controlling for other individual and personal demographic factors in our survey.

[2] https://www.oecd.org/mcm/documents/C-MIN-2017-8-EN.pdf June 2017.

[3] UK SME Insurance: Market Dynamics and Opportunities 2016, https://www.globaldata.com/store/report/vf0043ia--uk-sme-insurance-market-dynamics-and-opportunities-2016/.

[4] Likely to switch provider in the next 5 years refers to the answer to the question 'On average, how often do you switch insurance companies for any of your covers?'

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