



Asteron Life SME Insurance Index 2020



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Introduction

Welcome to the 2020 Asteron Life SME Insurance Index.

This third edition of the Asteron Life SME Insurance Index comes in the middle of a year like no other in recent history. The COVID-19 pandemic has unquestionably had a significant impact on everyone, but what does this mean for life insurance advisers?

The launch edition of the 2020 Asteron Life SME Insurance Index examines the life insurance needs of SMEs and the role that advisers play, both in general and during times of change. Our insights this year are drawn from two surveys, enabling us to understand how attitudes have shifted over recent months. As usual, our main survey was conducted with 900 SMEs in December 2019. However, we also conducted a supplementary survey of 300 SMEs in May 2020 to uncover the impact of the COVID-19 pandemic on SMEs, their insurance behaviour and the role of advisers at that time.

This report finds that while the impact of the pandemic has been significant, the need for advisers and the role that advisers can play remains unchanged. In this report we explore SMEs' understanding and usage of life insurance products, their relationships with advisers and how advisers can build strong relationships that result in better insurance outcomes for SMEs.

Strong, valuable adviser relationships are built on regular communication, deep understanding and expert, professional guidance, and this is just as relevant during difficult times, whether that be economic downturns, natural disasters or even pandemics.

The insights in this report are designed to shed light on the attitudes and behaviours of SMEs towards life insurance. By better understanding SMEs, those involved in life insurance will be able to better 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.

“ Strong, valuable adviser relationships are built on regular communication, deep understanding and expert, professional guidance, and this is just as relevant during difficult times, whether that be economic downturns, natural disasters or even pandemics. ”

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Executive summary

- Many SMEs only have one form of life insurance cover, which is typically life cover only.
- At the same time, a decreasing number of SMEs report having income protection and TPD covers, with trauma increasing slightly since 2019.
- While cost is a major reason not to have these other covers, many simply hadn't even thought about them or don't see the relevance.
- Increasingly significant numbers of SMEs are working out what life insurance cover they need on their own, without the advice of an insurance professional.
- Those who decide on their insurance needs by themselves are far more likely to only have one form of life insurance cover.
- A quarter of SMEs are considering making changes to their life insurance as a result of the COVID-19 pandemic.
- Only 12% of adviser clients have been in contact with their adviser during the COVID-19 pandemic.
- Research within the Vero SME Index saw higher SME satisfaction rates when clients were contacted by their broker.
- SMEs who buy their life insurance through an adviser are more likely to have a more comprehensive range of covers than just life cover.
- Adviser clients tend to feel more confident about their insurance than direct buyers.
- Expertise is the main reason that adviser clients say they work with advisers. Advocacy, timesaving, getting the right insurance and peace of mind are also important benefits.
- SME satisfaction levels with their life insurance adviser are relatively low.
- Satisfied clients are more likely to have collaborative relationships with their advisers, and more likely to have advisers who undertake complex, added-value tasks on their behalf.
- Higher satisfaction is associated with better insurance outcomes, with satisfied clients more likely to have more than one cover, and more likely to have income protection and TPD cover.
- Over half of direct buyers would consider buying their life insurance through an adviser.
- Lack of understanding of the benefits of an adviser is one of the main reasons direct buyers don't use advisers.
- Expert guidance is a key trigger that would inspire direct buyers to consider using an adviser.
- Word of mouth is one of the main ways SMEs would look for an adviser.
- Those who are considering using an adviser in the future are more likely to turn to personal contacts or their industry body.

The findings

The 2020 Asteron Life SME Insurance Index focusses on SME attitudes to life insurance and advisers, concentrating on:

- Narrow life insurance coverage
- The rising risk of DIY
- The benefits of advice
- What makes a satisfied client
- Uncovering opportunities amongst direct buyers
- The importance of referrals

These topics will be explored in detail in this report.

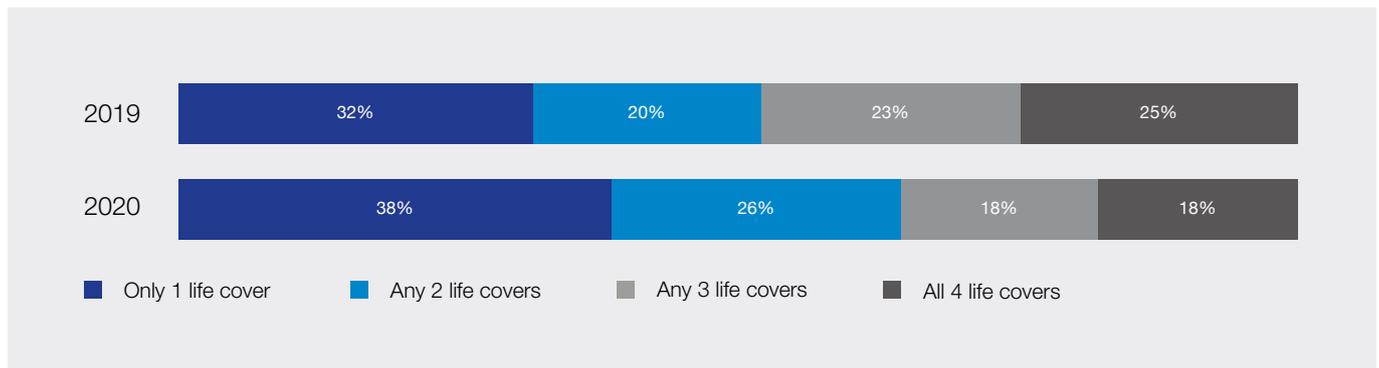
NARROW LIFE INSURANCE COVERAGE

Many SMEs only have one life insurance policy

Life insurance encompasses a range of different products to cover the different risks that people face, and yet frequently perceptions focus on the general “life” cover as being the only cover required. Our findings reinforce this, showing that

this year 38% of SMEs have only one form of life insurance cover, up from 32% in our 2019 report. At the other end of the spectrum, only 18% have all four life covers, a decline from 25% in our 2019 report (see Figure 1.1).

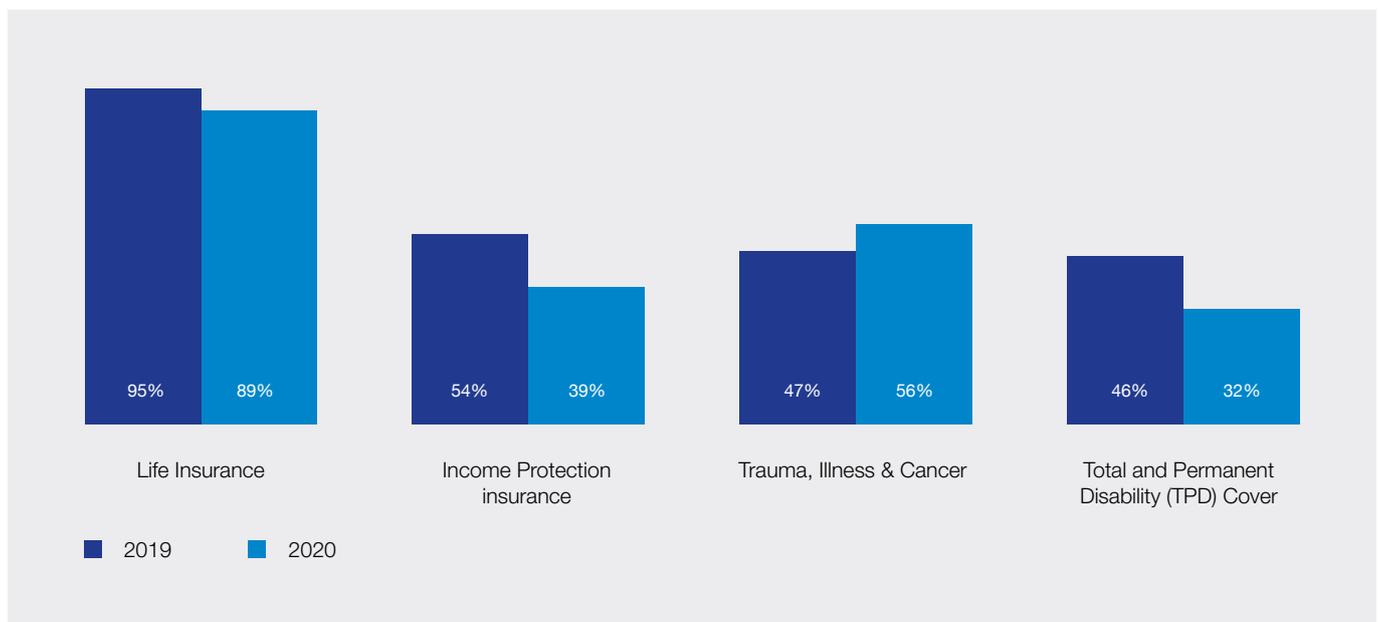
Figure 1.1: Number of life insurance policies purchased by SMEs



Unsurprisingly, life insurance is the dominant form of cover. 89% of those with any form of life insurance say that they have life cover only, compared to 39% who have income protection, 56% with trauma and 32% with TPD. While trauma cover has seen an increase (see Figure 1.2) the

reported incidence of income protection and TPD has fallen compared to last year. This suggests that there is a very real and ongoing need for education about the importance and benefits of covers beyond life cover.

Figure 1.2: Type of life insurance policies purchased by SMEs



Why is it that SMEs tend to have such a narrow range of covers, and what are the barriers to having the other forms of life insurance? Cost is a clear barrier, but many also say they simply hadn't thought about it, suggesting there is a lack of knowledge and a need for education. Other SMEs say they think income protection, trauma and TPD aren't relevant to them, which again suggests a lack of understanding of the benefits of these covers (see Figure 1.3).

The task before advisers is to communicate the relevance of specific life insurance policies compared to the perceived price barrier, as well as the high level of value these policies have for SMEs who are directly responsible for their own incomes.

If SMEs have concerns about the affordability of certain life covers then Advisers are able to speak to their Asteron Life BDM about the availability of package discounts where applicable.

Figure 1.3: Top 3 reasons for not having policies

	Income protection insurance	Trauma, Illness & Cancer	Total and Permanent Disability (TPD) Cover
1	Too expensive	Too expensive	Too expensive
2	Not relevant for my situation	Haven't thought about it	Haven't thought about it
3	Don't think I will get a payout if I have to make a claim	Not relevant for my situation	Not relevant for my situation / Don't think I will get a payout if I have to make a claim

In summary

- Many SMEs only have one form of life insurance cover, which is typically life cover only.
- At the same time, a decreasing number of SMEs report having income protection and TPD covers, with trauma increasing slightly since 2019.
- While cost is a major reason not to have these other covers, many simply hadn't even thought about them or don't see the relevance.

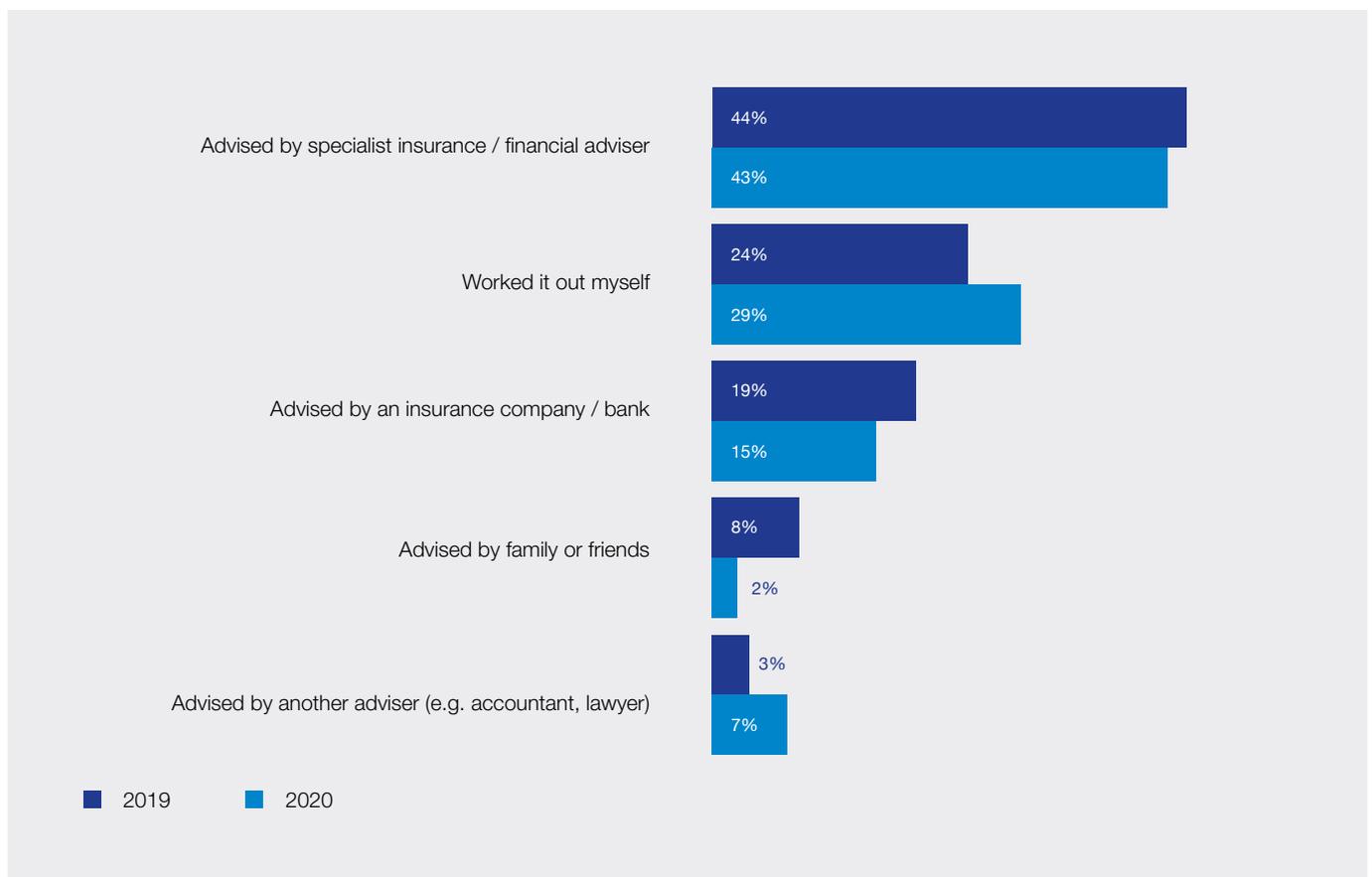
THE RISING RISK OF DIY

An increasing number of SMEs are making their own decisions on their life insurance coverage.

Insurance is a highly complex field and understanding the nuances of different covers takes considerable expertise. Despite this, an increasing number of SMEs are working out what life insurance they need by themselves, without any professional advice. Specifically, this year 29% of SMEs claimed that they decided on the type and level of life insurance cover they needed by themselves, up from 24% last year. At the same time, only 43% claim to have made

their decision with the advice of a specialist insurance or financial adviser (see Figure 2.1). This suggests that there is a need to educate SMEs on the role that advisers can play in ensuring that they have the most appropriate life insurance cover for their needs. There is also a real need to help SMEs understand the risks of making important insurance decisions without first seeking advice from experts.

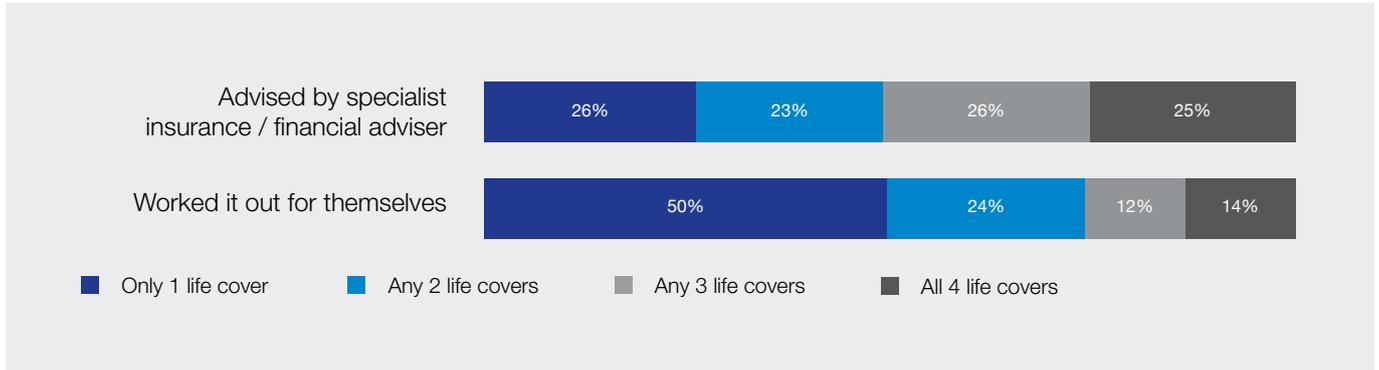
Figure 2.1: How SMEs reportedly decided on cover and amount



Seeking expert input into insurance decision making appears to have an impact on the breadth of insurance coverage. Those who work out their insurance needs for themselves are almost twice as likely to only have one life insurance policy compared to those who were advised by a

specialist insurance or financial adviser (see Figure 2.2). This suggests that advised clients have a stronger awareness and understanding of the range of life insurance covers, and also provides strong evidence of the need for SMEs to be better educated about life insurance options.

Figure 2.2: Number of life insurance policies purchased by source of advice



In summary

- Increasingly significant numbers of SMEs are working out what life insurance cover they need on their own, without the advice of an insurance professional.
- Those who decide on their insurance needs by themselves are far more likely to only have one form of life insurance cover.

COVID-19 FINDINGS

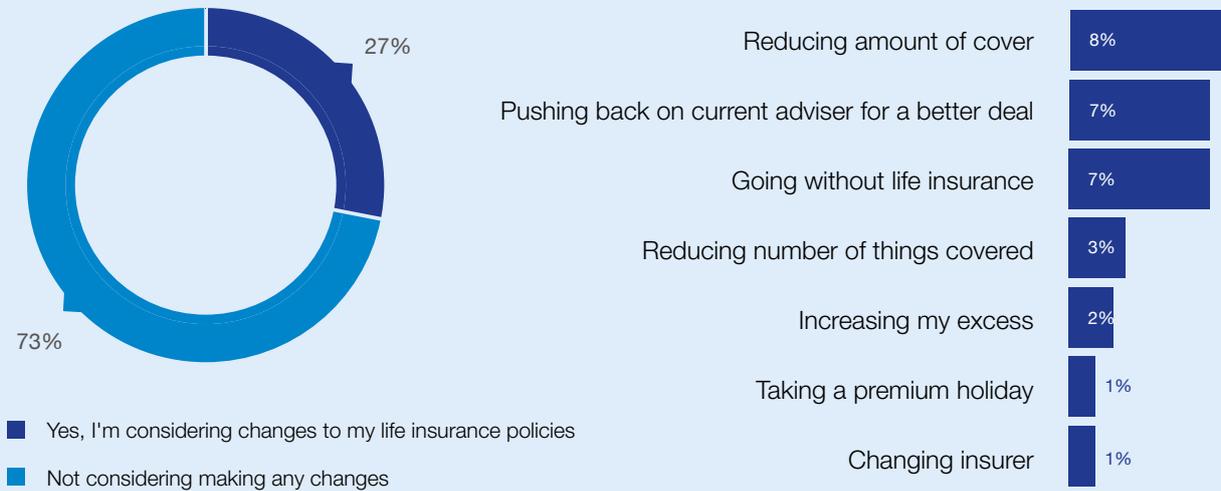
The need for advice and informed decision making is particularly high during difficult times.

Our supplementary research into attitudes towards life insurance as a result of the COVID-19 pandemic suggests that many SMEs are thinking about making changes to their life insurance as a result of the pandemic. Specifically, 27% say that they are considering making changes, including potentially risky changes such as reducing or cancelling their life insurance altogether (see Figure 2.3).

Making changes such as these could see SMEs at risk of not being appropriately covered and therefore it is critical that these changes are carefully considered. There is an opportunity for advisers to provide SMEs with assistance and guidance which demonstrates their expertise, especially during times like these.

Advisers should speak to their Asteron Life BDM about affordability options available for their customers.

Figure 2.3: Considering changes in light of the COVID-19 pandemic



Expert guidance is always important to SME adviser clients, but it is fair to assume that expertise is particularly valuable during times of crisis. We asked SMES whether they had been in contact with their adviser due to the COVID-19 pandemic and 12% claim they have been. However, this proportion is relatively low and suggests that there is potential for more advisers to contact their clients about life insurance to demonstrate the expert advice that is available for those who choose to work with advisers.

In fact, similar research conducted for business insurance by Vero showed that being pro-actively contacted by a business insurance broker during the COVID-19 pandemic appears to have a strong impact on overall satisfaction amongst SMEs. Those who were pro-actively contacted are significantly more satisfied with their business insurance broker than those who made contact on their own (see Figure 2.4).

Figure 2.4: Satisfaction with broker by contact



In summary

- A quarter of SMEs are considering making changes to their life insurance as a result of the COVID-19 pandemic.
- Only 12% of adviser clients have been in contact with their adviser during the COVID-19 pandemic.
- Research within the Vero SME Index saw higher SME satisfaction rates when clients were contacted by their broker.

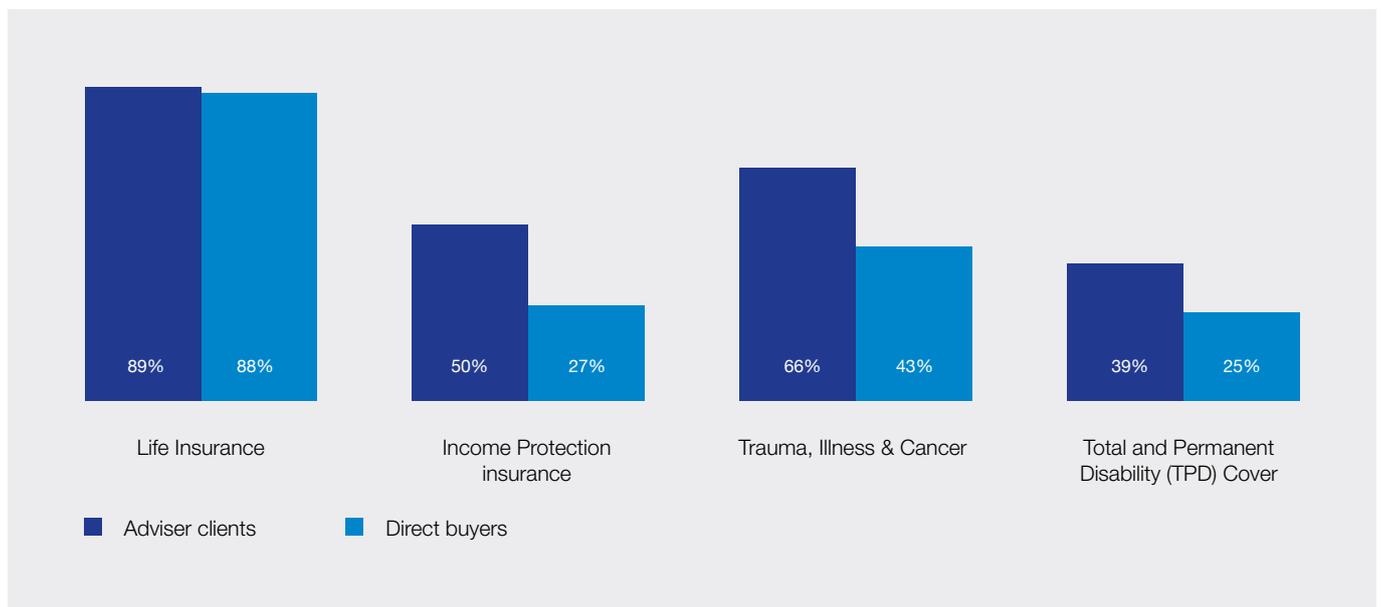
THE BENEFITS OF ADVICE

SMEs who use advisers are more likely to have broader cover and feel more confident.

As we saw in the first chapter of this report, many SMEs only have a very narrow range of life insurance cover, mostly life cover only. However, when we look more closely at adviser clients, we see that advice can have a significant impact on the breadth of coverage. Advised clients are significantly more likely to have a broader range of covers including income protection, trauma and TPD. For example, 50% of adviser

clients have income protection cover, compared to only 27% of those who bought their life insurance direct. Similarly, 66% of adviser clients have trauma cover compared to only 43% of direct buyers (see Figure 3.1). This is evidence that advisers can ensure that their clients are more appropriately covered for a full range of eventualities that could have a major impact on their lifestyle and earning potential.

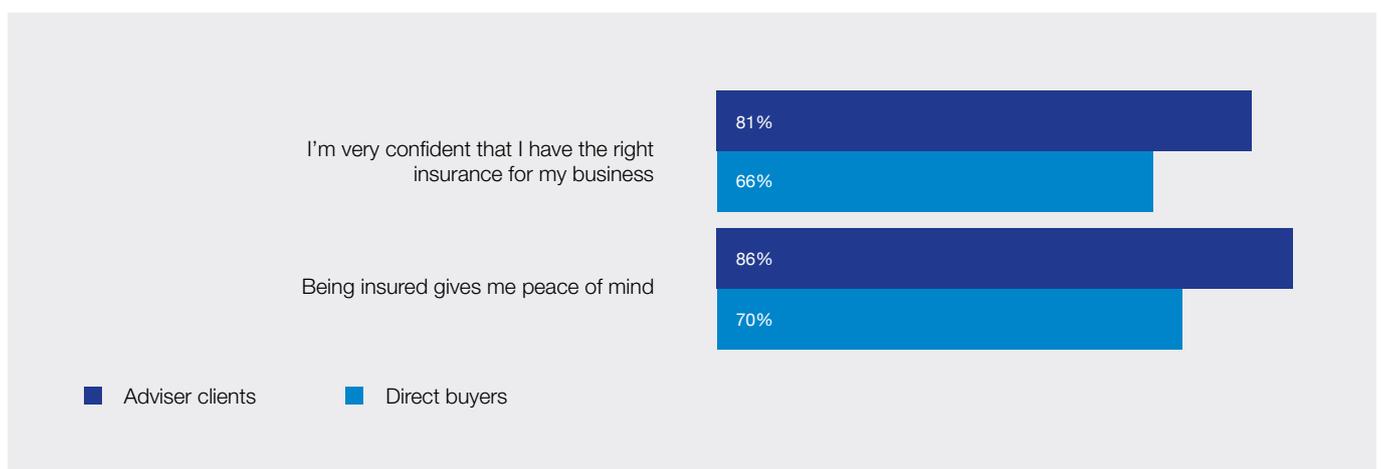
Figure 3.1: Type of life insurance policies purchased by purchase channel



One of the core reasons that people have insurance is for peace of mind. Our data suggests that adviser clients are significantly more confident in their insurance than direct buyers. 81% of adviser clients say they feel very confident they have the right insurance, compared to only 66% of direct

buyers. Similarly, 86% of adviser clients say being insured gives them peace of mind, compared to 70% of direct buyers (see Figure 3.2), demonstrating that confidence is a clear benefit of using an adviser.

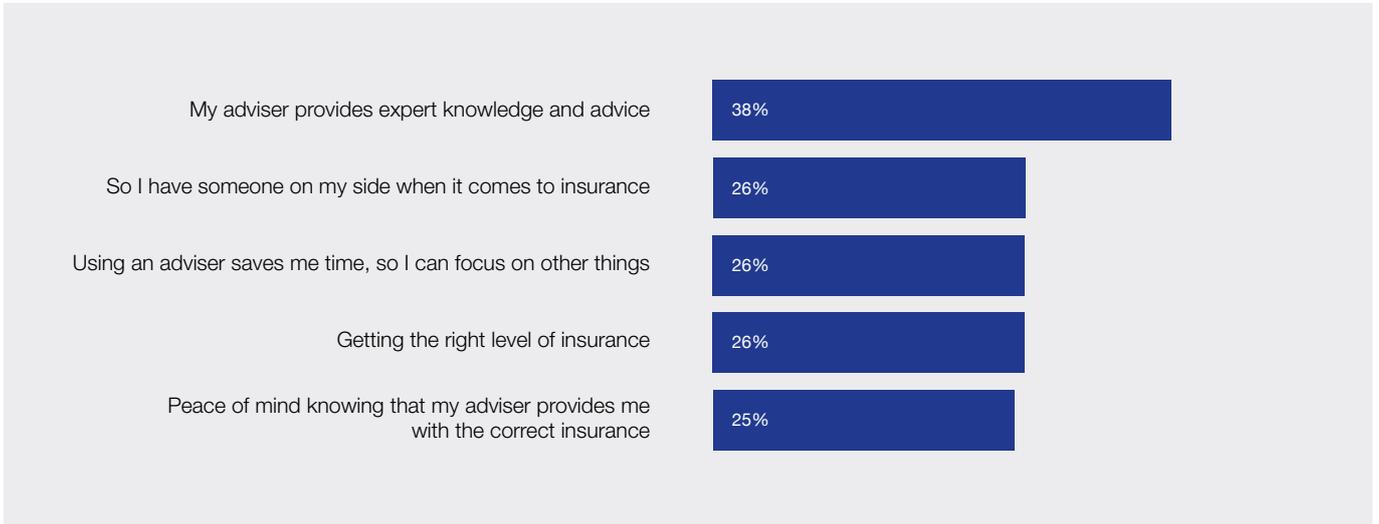
Figure 3.2: Attitudes of adviser clients vs direct buyers



Why, then, do adviser clients say that they choose to work with an adviser? Expertise is the key here, with 38% citing this as a reason to use an adviser. Advocacy, timesaving,

getting the right level of insurance and peace of mind, are also important reasons to work with an adviser for many SMEs (see Figure 3.3).

Figure 3.3: Top 5 reasons to work with adviser



In summary

- SMEs who buy their life insurance through an adviser are more likely to have a more comprehensive range of covers than just life cover.
- Adviser clients tend to feel more confident about their insurance than direct buyers.
- Expertise is the main reason that adviser clients say they work with advisers. Advocacy, timesaving, getting the right insurance and peace of mind are also important benefits.

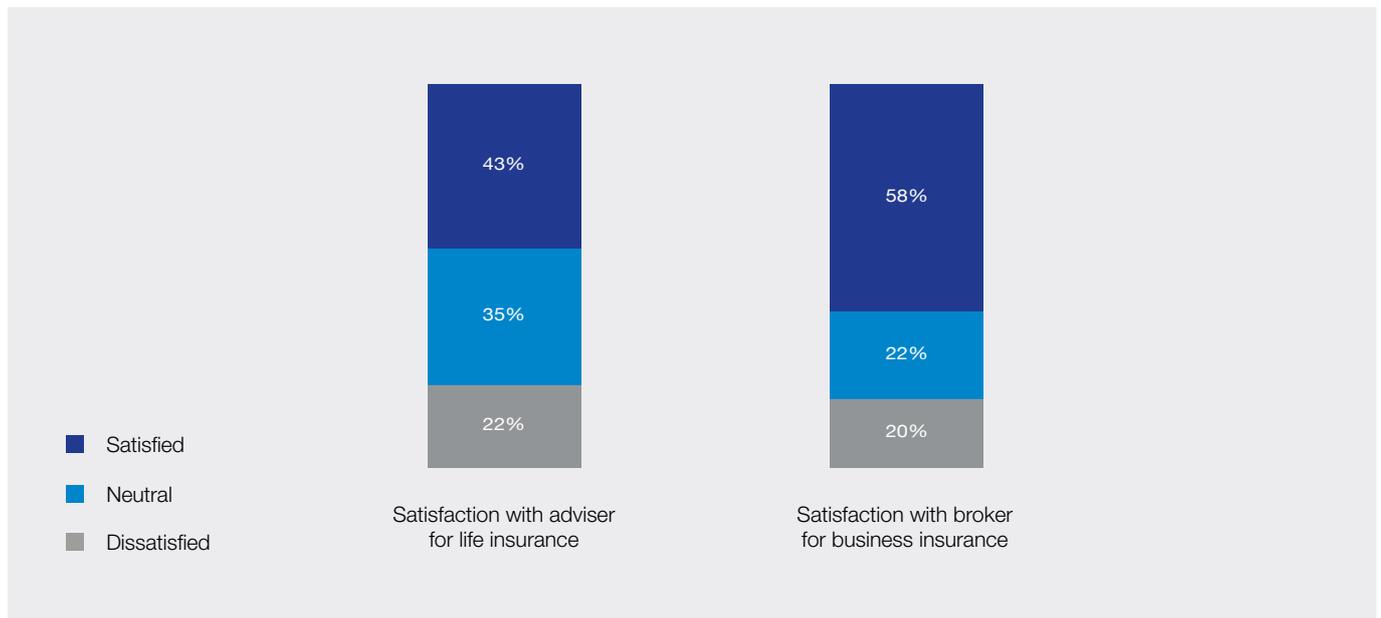
WHAT MAKES A SATISFIED CLIENT

Collaborative relationships and pro-active service can help build SME satisfaction with their advisers.

Financial advice is a relationship-business and therefore understanding the strength of adviser relationships is vital to the ongoing robustness of the profession.

To start with, how satisfied are SMEs with their life insurance advisers? Unfortunately, satisfaction levels are lower than the ideal. 43% of SME adviser clients say that they are satisfied with their adviser, compared to 58% who say that they are satisfied with their business insurance broker (see Figure 4.1).

Figure 4.1: Client satisfaction rates



There is an opportunity for advisers to improve satisfaction rates, so we have explored the differences between satisfied and dissatisfied adviser clients to understand what makes effective adviser relationships work. One of the most important characteristics is the level of involvement between advisers and SMEs during the insurance decision-making process.

The data shows that collaborative relationships lead to significantly higher levels of satisfaction than those in which SMEs say they haven't had much to do with their broker (see Figure 4.2). This suggests that working together with clients to make life insurance decisions and staying in regular contact can have a significant impact on client satisfaction.

Another important characteristic of a satisfied client relationship is the type of tasks that advisers undertake on behalf of their clients. The advisers of satisfied clients are far more likely to provide information such as analysis of insurance options and general information on insurance that could assist clients.

They are also more likely to provide proactive assessments, good value policies and work with insurance companies to ensure better outcomes for their clients (see Figure 4.3). In general, the data suggests that the advisers of satisfied clients do more than the basics, and are more inclined to do more complex, value-added tasks that demonstrate the advisers' expertise.

Figure 4.2: Types of client relationship by satisfaction

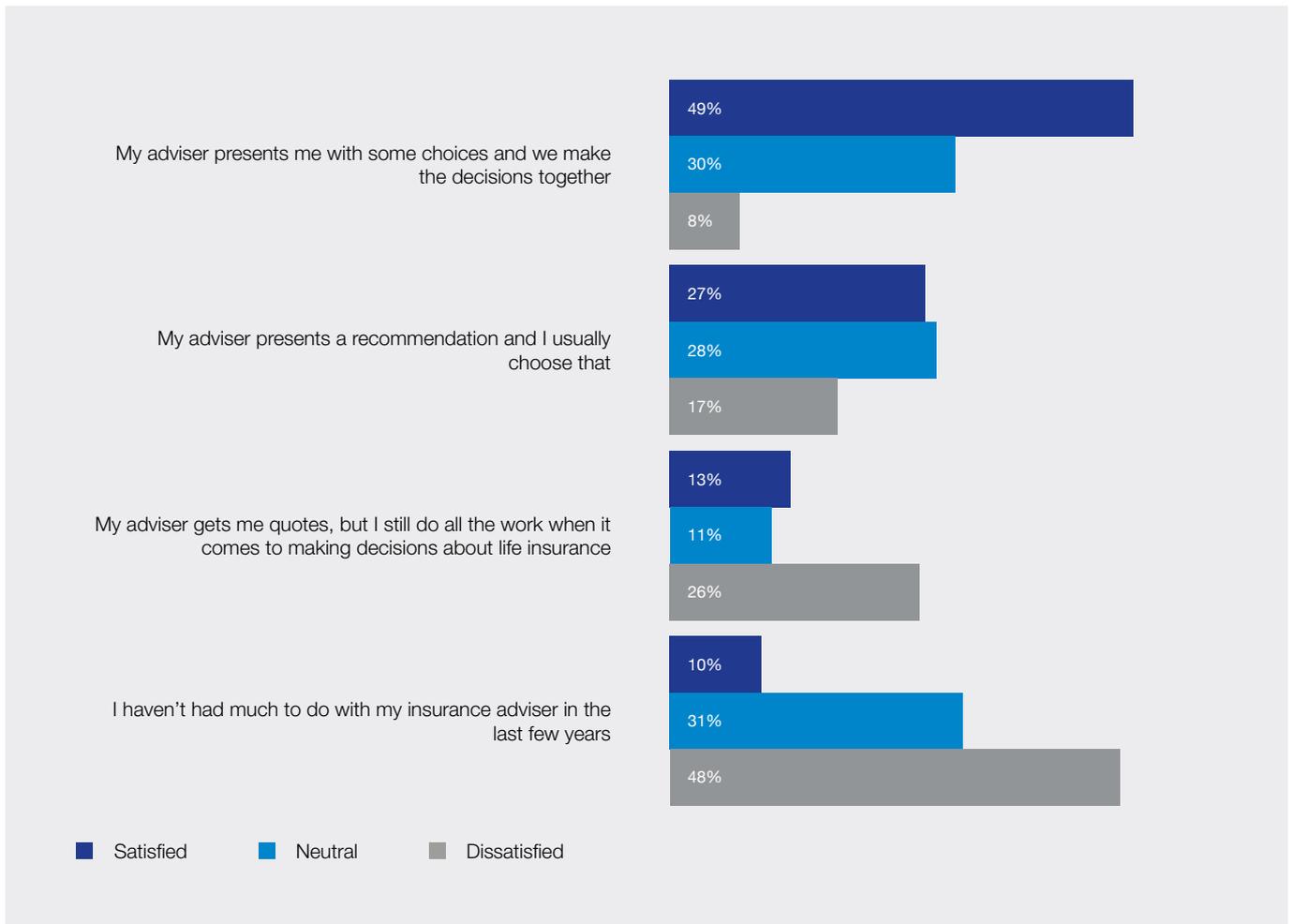
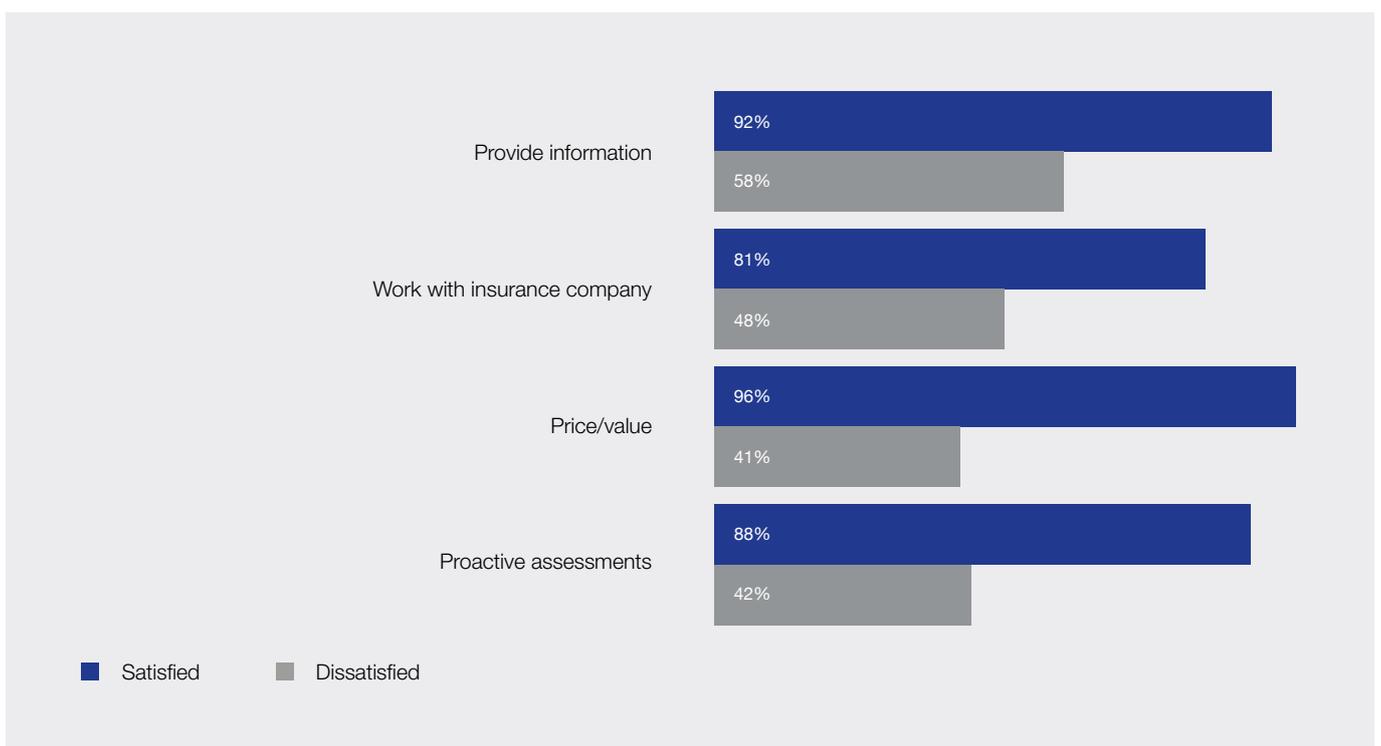


Figure 4.3: Tasks adviser performs by satisfaction

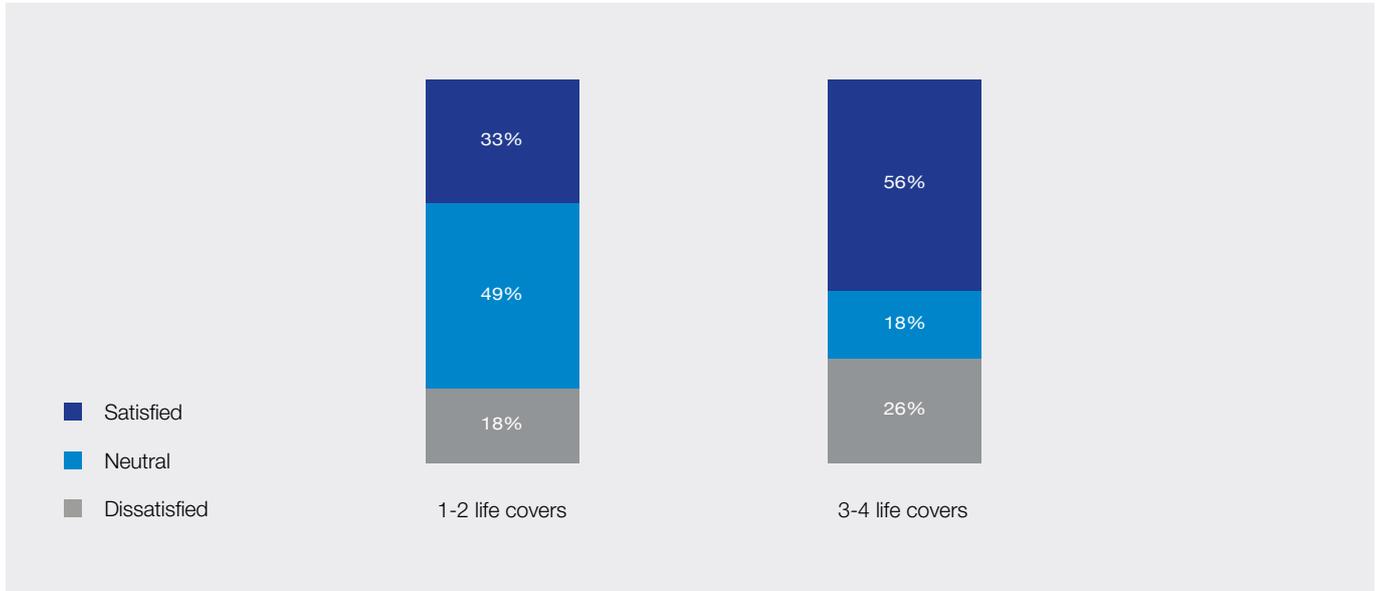


Client satisfaction is important for many reasons, and our data suggests that it also leads to better insurance outcomes for clients. Those who are satisfied with their adviser are more likely to have a broader range of life insurance coverage. Satisfied adviser clients represent 56% of those who have

three or four life insurance policies, and only 33% of those who have only one or two policies (see Figure 4.4).

An option available to Advisers to assist in increasing SME satisfaction and the number of policies held, is to contact their Asteron Life BDM for tips on cross-sell opportunities.

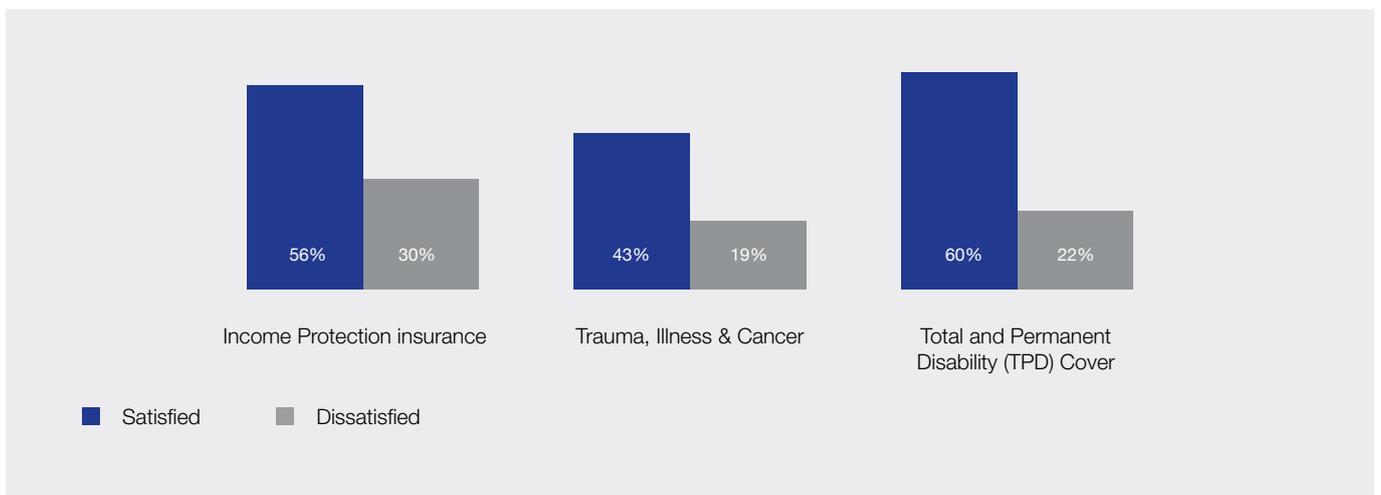
Figure 4.4: Client satisfaction by number of life insurance policies purchased



Importantly, satisfied clients are significantly more likely to have income protection and TPD covers (see Figure 4.5). This may suggest that having more policies is associated with having more in-depth, thorough conversations. It may also

suggest that satisfied adviser clients have more trust in their adviser and are therefore more willing to listen to the advisers' recommendations.

Figure 4.5: Type of life insurance policies purchased by client satisfaction



In summary

- SME satisfaction levels with their life insurance adviser are relatively low.
- Satisfied clients are more likely to have collaborative relationships with their advisers, and more likely to have advisers who undertake complex, added-value tasks on their behalf.
- Higher satisfaction is associated with better insurance outcomes, with satisfied clients more likely to have more than one cover, and more likely to have income protection and TPD cover.

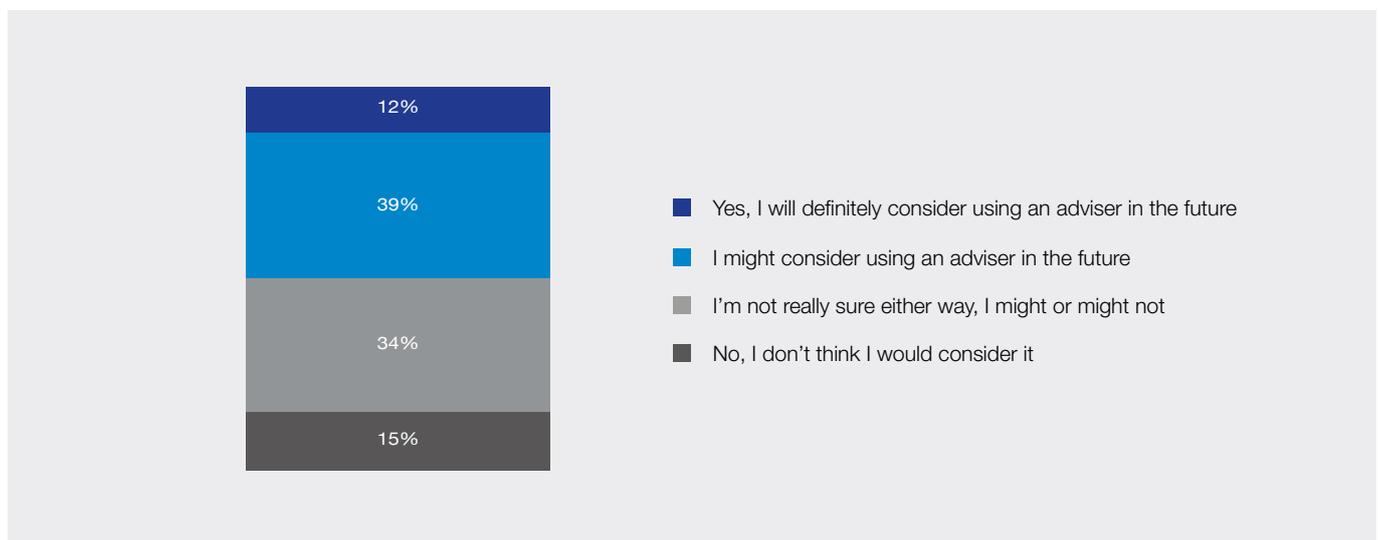
UNCOVERING OPPORTUNITIES AMONGST DIRECT BUYERS

Many direct buyers are open to using an adviser, which represents an opportunity for advisers to grow their business.

Adviser usage remains steady, with around 55% claiming to have purchased most of their life insurance policies through an adviser, and 45% buying direct. While direct purchase is relatively high, our data suggests that there is considerable scope for adviser usage to grow. Over half of direct buyers say that they would definitely or might consider using an

adviser to purchase their life insurance in the future, and only 15% reject the idea of using an adviser (see Figure 5.1). SMEs under 50 years of age, females and those with higher levels of education are even more likely to consider using a broker. This means that advisers can feel optimistic about the prospect of attracting new, younger clients.

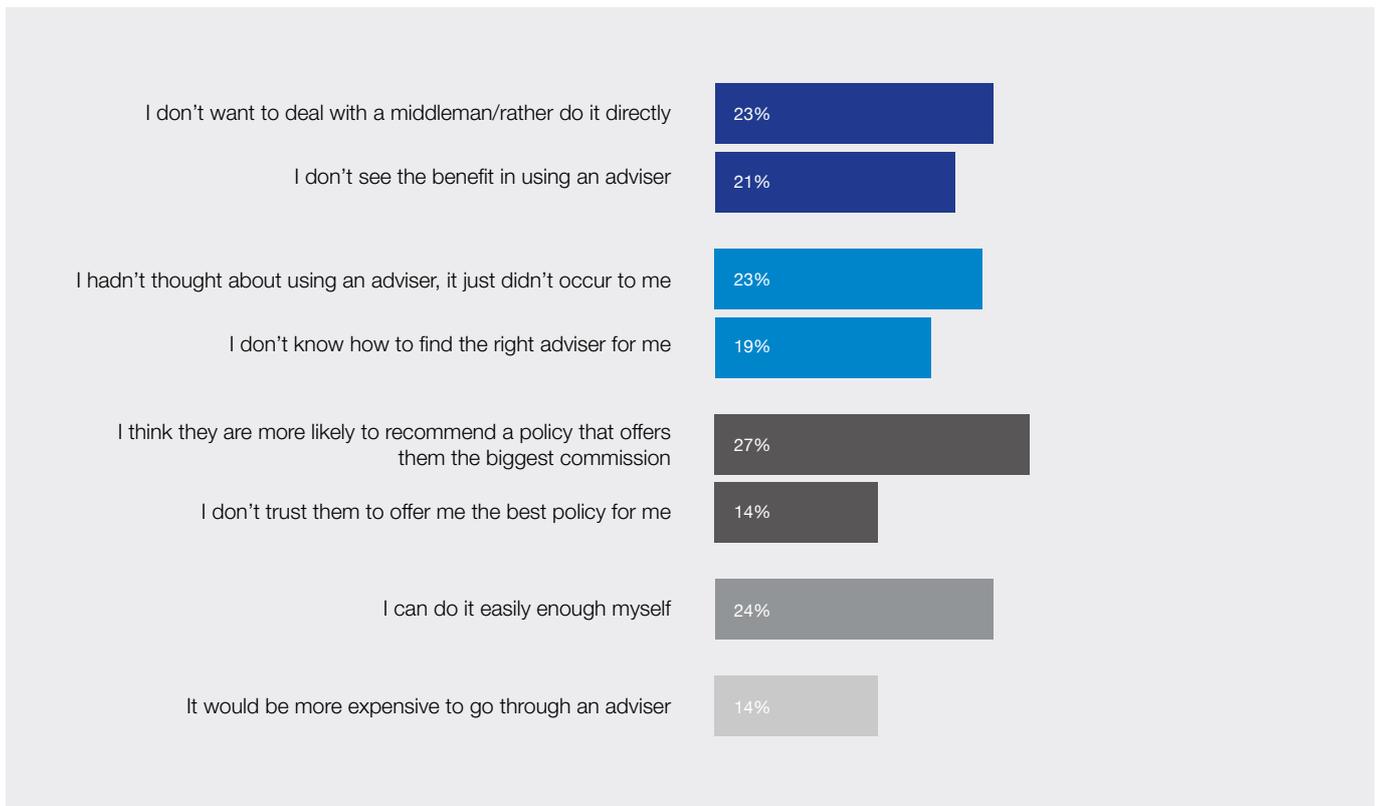
Figure 5.1: Adviser consideration (amongst direct buyers)



So how can advisers go about attracting SMEs who currently buy direct? An important first step is to understand the reasons that these buyers choose to not use an adviser. The major reasons come down to a lack of understanding of the benefits that advisers bring to their clients. 23% say that they don't want to deal with a middleman and 21% don't see the benefit of using an adviser. Awareness is a major barrier, with 23% saying that they simply hadn't thought of using a

broker and 19% saying that they don't know how to find the right adviser. Trust is also a significant obstacle to adviser usage – over a quarter of direct buyers think that brokers will recommend policies based on commission (see Figure 5.2). Clearly, the advice profession has a significant need to help SMEs understand the benefits of using an adviser as well as building familiarity and trust.

Figure 5.2: Reasons not to use an adviser



While respondents identify several reasons that demonstrate why they currently buy direct, the data also points to several factors that would persuade direct buyers to consider using an adviser. Demonstration of expertise would be a trigger to switch to using an adviser for 57% of direct buyers, with convenience and service also playing a role for many.

Price is also a factor, but still not as significant as expertise, suggesting that advisers can focus on demonstration of their expertise to attract direct buyers (see Figure 5.3).

Advisers seeking advice on how to best demonstrate their expertise to potential SME clients can contact their Asteron Life BDM for tips.

Figure 5.3: Reasons to consider using an adviser



In summary

- Over half of direct buyers would consider buying their life insurance through an adviser.
- Lack of understanding of the benefits of an adviser is one of the main reasons direct buyers don't use advisers.
- Expert guidance is a key trigger that would inspire direct buyers to consider using an adviser.

THE IMPORTANCE OF REFERRALS

Cultivating strong word of mouth can help attract direct buyers.

Knowing how to find the right adviser is a significant challenge for many SMEs, and as we saw in the previous chapter, 19% of direct buyers don't use an adviser simply because they don't know how to find the right adviser for them.

When asked where they would look to find an adviser, the importance of referrals and word of mouth becomes

apparent. 44% say that they would ask a colleague, friend or family member, while 25% would ask another business advisor such as an accountant or lawyer (see Figure 6.1). This means developing referral strategies is an important element for advisers to consider as part of their marketing plan.

Figure 6.1: Key sources for finding an adviser

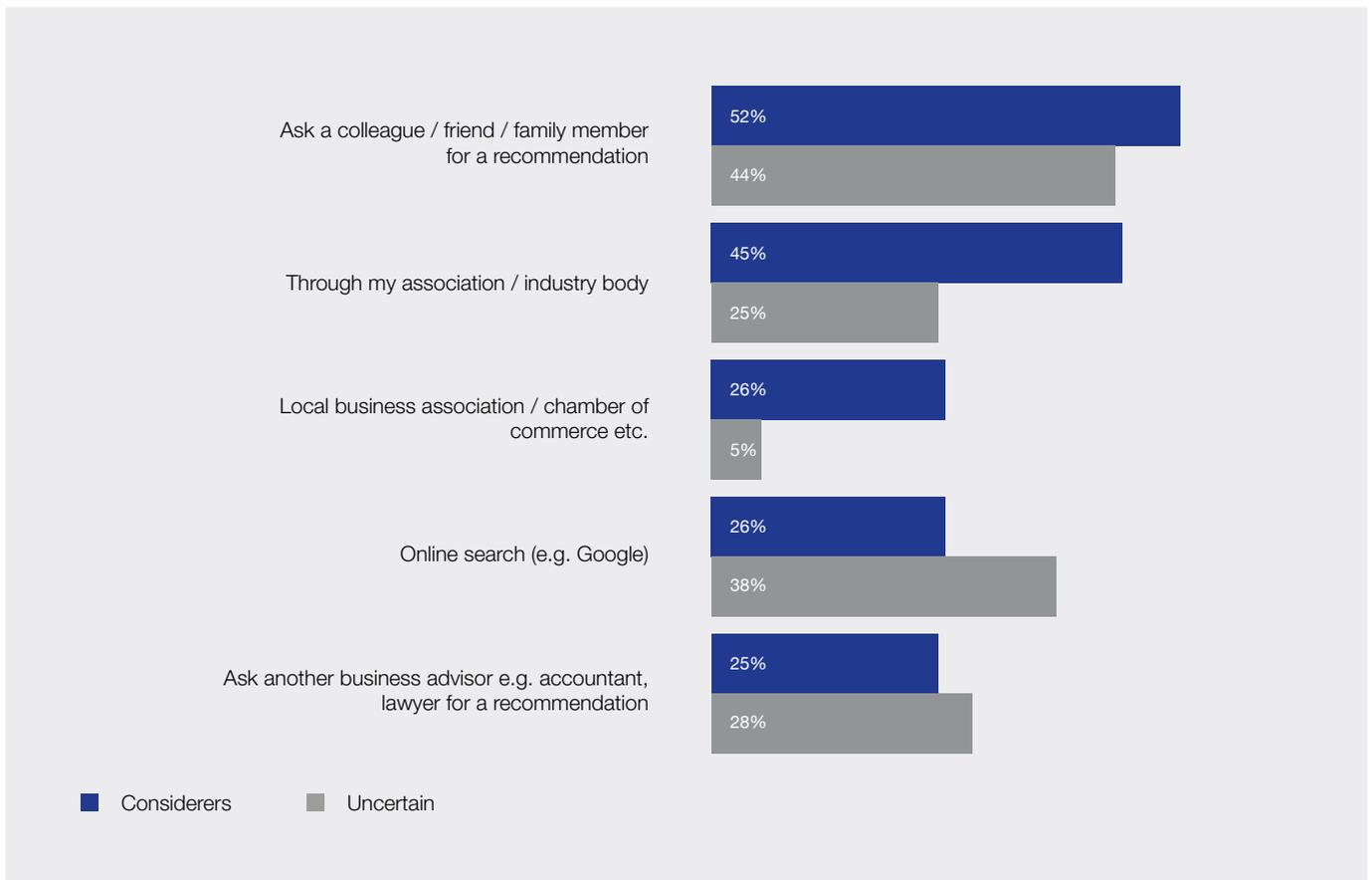


Word of mouth is even more important for those who are considering an adviser. 52% of considerers would ask friends or family for recommendations, compared to 44% of those who are uncertain whether they'd use an adviser in the future. Considerers are also significantly more likely to turn to their industry body or association. Conversely, those who are

uncertain whether they'd use an adviser are more likely to simply do an online search, perhaps indicating their lower level of engagement.

Advisers looking for advice on how to best demonstrate their expertise to potential SME clients can contact their Asteron Life BDM for tips.

Figure 6.2: Key sources for finding an adviser by consideration



In summary

- Word of mouth is one of the main ways SMEs would look for an adviser.
- Those who are considering using an adviser in the future are more likely to turn to personal contacts or their industry body.

WHAT THIS MEANS FOR ADVISERS

- There is a need to build awareness of covers beyond life cover to ensure SMEs fully understand the benefits and value of having these covers.
- Advisers should look at how to communicate positive messages directly related to the SME audience. For example, the value and feeling of security having Trauma, Illness & Cancer policies can bring for people who are financially dependent on their own health for a consistent income.
- Communicating the benefits of using advisers when making life insurance decisions ensures that SMEs are getting expert advice and not making potentially risky decisions on their own.
- The COVID-19 pandemic represents an opportunity for advisers to demonstrate the value of professional insurance advice by providing their expertise at a time where many are considering making potentially risky decisions about their life insurance.
- When communicating with prospective clients, advisers should focus on the value of expertise in delivering insurance coverage that is appropriate and that can help SMEs feel confident that they have the right cover.
- Advisers should consider keeping in regular contact with their clients and cultivating collaborative relationships in which advisers and clients work together to decide the best insurance cover for their clients' needs.
- Advisers should also consider providing their clients with more than the basic tasks and present their clients with useful information and analysis that demonstrates their expertise. They should also consider communicating the process they undertake to demonstrate their expertise and industry knowledge.
- Advisers have an excellent opportunity to use their relationship to help clients understand the benefits of a broader range of life insurance covers.
- There can be a large difference between tasks that an adviser performs on behalf of their clients and what their clients actually perceive their adviser doing. Advisers may find it useful to have a level of transparency even when it comes to 'mundane' elements like sourcing different quotes to ensure the best fit for their client.
- The advice profession needs to ensure that SMEs understand the benefits of professional insurance advice through education and strong, consistent communication of why SMEs should use adviser channels to purchase their life insurance.
- Advisers should carefully consider their messaging, whether it be on a website or customer communications, and ensure they communicate what SMEs are looking for, such as a demonstration of expertise and the provision of professional advice.
- Life insurance is complex, and direct buying SMEs have let us know that expertise is something that would make them move to purchasing their insurance from an adviser, so make sure your messaging also communicates how you can simplify the process of buying life insurance and how it can work to their benefit.
- Creating case studies of common scenarios when it comes to life insurance claims, helps to educate SMEs on the benefits of having an adviser whilst also showing expertise in a relevant and grounded way. Including these on websites or social media sites demonstrates how advisers add value and can highlight the benefit of having different cover types.
- Referral strategies are important for advisers to consider when developing business growth strategies. Current satisfied clients are an excellent source of referrals, as are industry associations and other business advisors such as accountants and lawyers.

THE RESEARCH

This report is based on research involving 1200 business owners and decision makers from around New Zealand. The research was independently* conducted in two stages:

Stage One – Annual Quantitative Survey

A survey of 900 business owners and insurance decision makers was conducted, covering a range of business types, locations and sizes. The survey was conducted during December 2019 and the data was weighted by 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
- demographics

Stage Two – COVID-19 Quantitative Dip

A supplementary research survey followed including 300 business owners and insurance decision makers, covering a range of business types, locations and sizes. The survey was conducted during May 2020 and the data was weighted by business size to current Statistics New Zealand data. The survey covered:

- COVID-19 business impacts and changes
- business insurance changes made or considered
- the role of brokers during this time
- 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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