



Asteron Life
SME Insurance Index 2019



Asteron
Life



Introduction

Welcome to the 2019 Asteron Life SME Insurance Index.

When we think about SMEs, we naturally tend to focus on their business context. However, the interplay between personal and business matters is complex and intertwined for many small businesses. Business owners are highly invested in their businesses, not only financially but also physically and emotionally, and as a result their personal circumstances can have a major impact on the overall success of their business.

Life and disability insurance covers that are tailored to the needs of the SME are therefore particularly relevant. To help advisers gain better insight into the types of insurance covers SMEs have, Asteron Life surveyed over 900 business owners resulting in the 2019 Asteron Life SME Insurance Index.

In this Index, we explore the types of life insurance SMEs hold, how they use advice and make insurance decisions, how the claims process works for life insurance and the levels of trust in insurance companies and advisers.

These insights 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.

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The findings

The 2019 Asteron Life SME Insurance Index focusses on the general market landscape, including how:

- SMEs are focussed on the simplest life cover
- SMEs are unsure what value they get from using an adviser
- Advisers can have a positive impact on the claims process
- Trust in insurance and advisers is declining

These topics will be explored in detail in this report.



THE LIFE INSURANCE PURCHASING LANDSCAPE

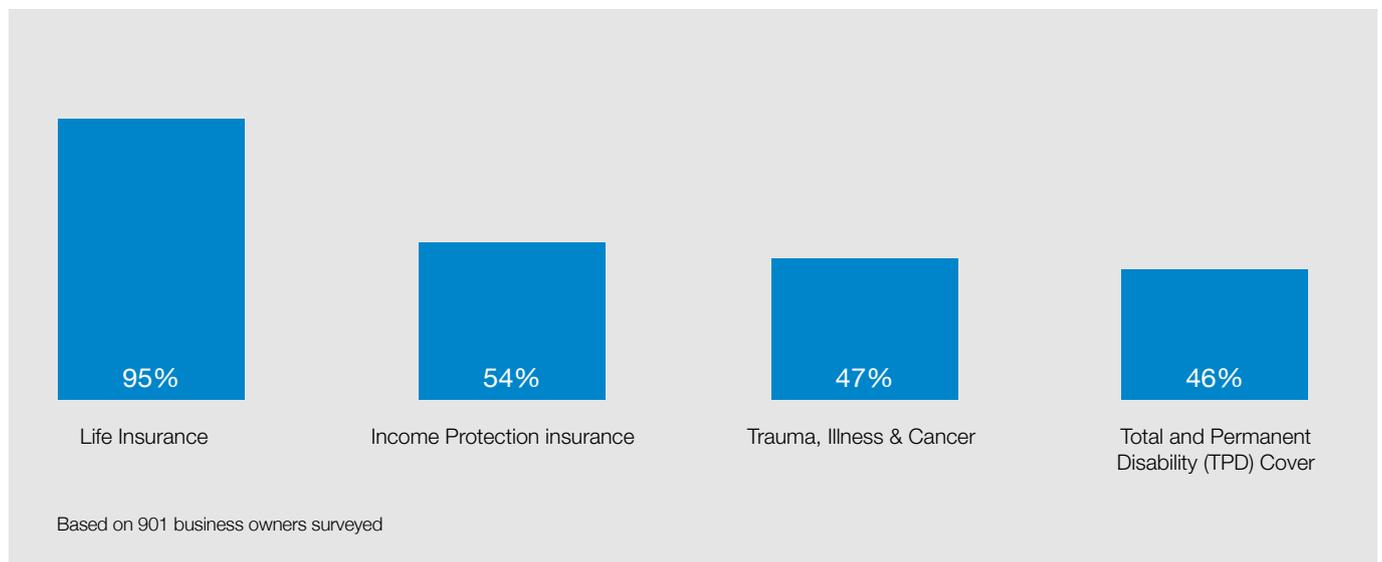
SMEs' life insurance purchasing behaviour is focussed on the simplest life cover

What types of life insurance policies are SMEs choosing?

The term "life insurance" covers a complex and valuable suite of covers, and yet the majority of NZ SMEs who choose to take out some form of life insurance are focussed on the simplest life insurance cover. In fact, 95% of all

of those who have some form of life insurance have life cover, compared to only 54% who have income protection insurance, 47% who have trauma cover and 46% who have Total and Permanent Disability (TPD) cover (see Figure 1.1).

Figure 1.1: Type of life insurance policies purchased by SMEs

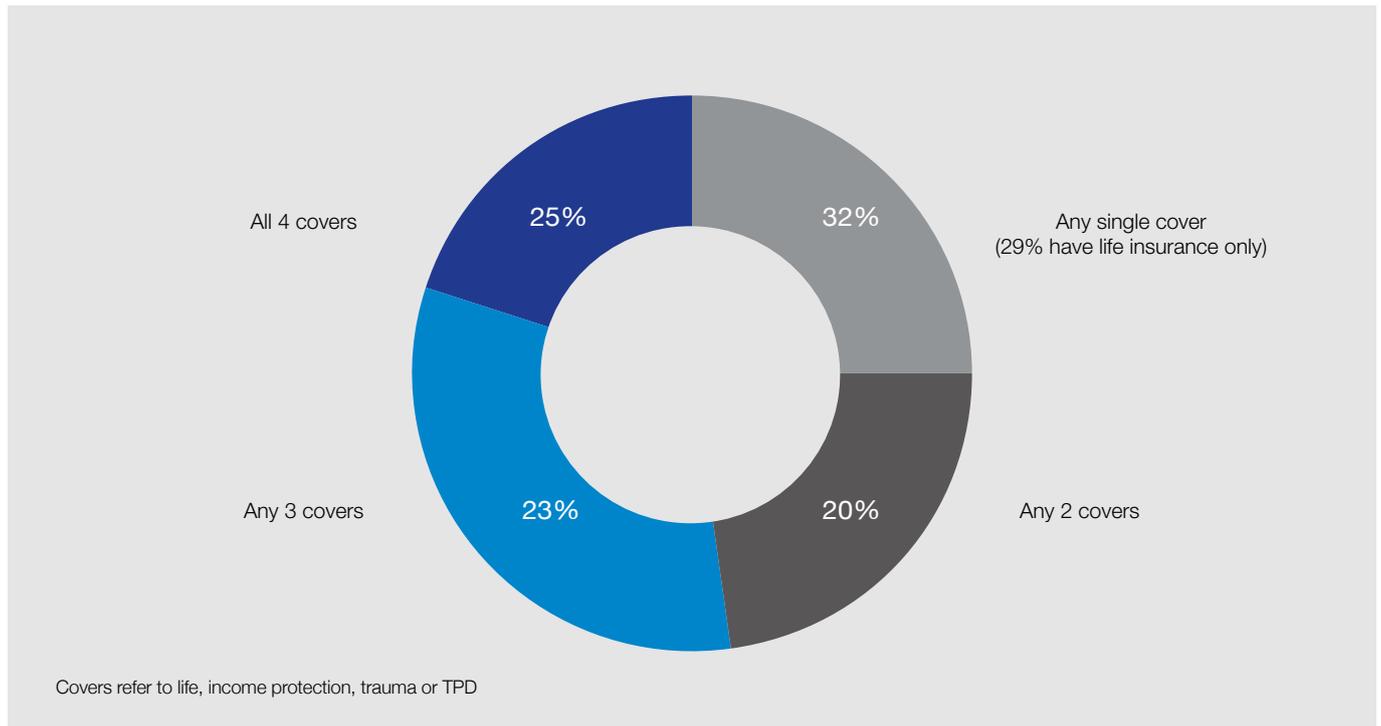


SMEs may not be properly prepared for adverse events

25% of SMEs claim to have all four life insurance covers, while 32% have just one cover, which is life insurance in almost all cases (see Figure 1.2). This suggests that many SMEs are missing out on some of the personal insurance covers which could make a significant difference to their

ability to cope with a range of life events, including serious illness and accidents. These additional covers could have particular relevance to SMEs, whose personal lifestyle would be significantly impacted in the case of an accident or serious illness of the owner or key personnel.

Figure 1.2: Number of life insurance policies purchased by SMEs



Demographics have little influence on life insurance purchasing behaviour

Take up of life insurance is often associated with significant life events such as taking out a mortgage or having children, and therefore we expected to see some clear demographic skews, for example towards those over 30. This appears not to be the case with SMEs as demographic differences between those who do and don't have life insurance are minor.

Females are slightly more likely to have some form of life insurance, with 36% of all females having some form of cover compared to 27% of males. Interestingly, age makes minimal difference. This suggests that there is acceptance of life insurance by SMEs that transcends age or gender.

Location has a moderate impact, with those from regional areas slightly more likely to have insurance at 36%, compared to only 28% of metro-based SMEs (see Figure 1.3). Business size is more influential, with sole operators considerably less likely to have any life insurance (see Figure 1.4). This makes sense, as those in larger businesses may have larger incomes to protect.

Figure 1.3: Demographics of SME and their life insurance purchasing behaviour

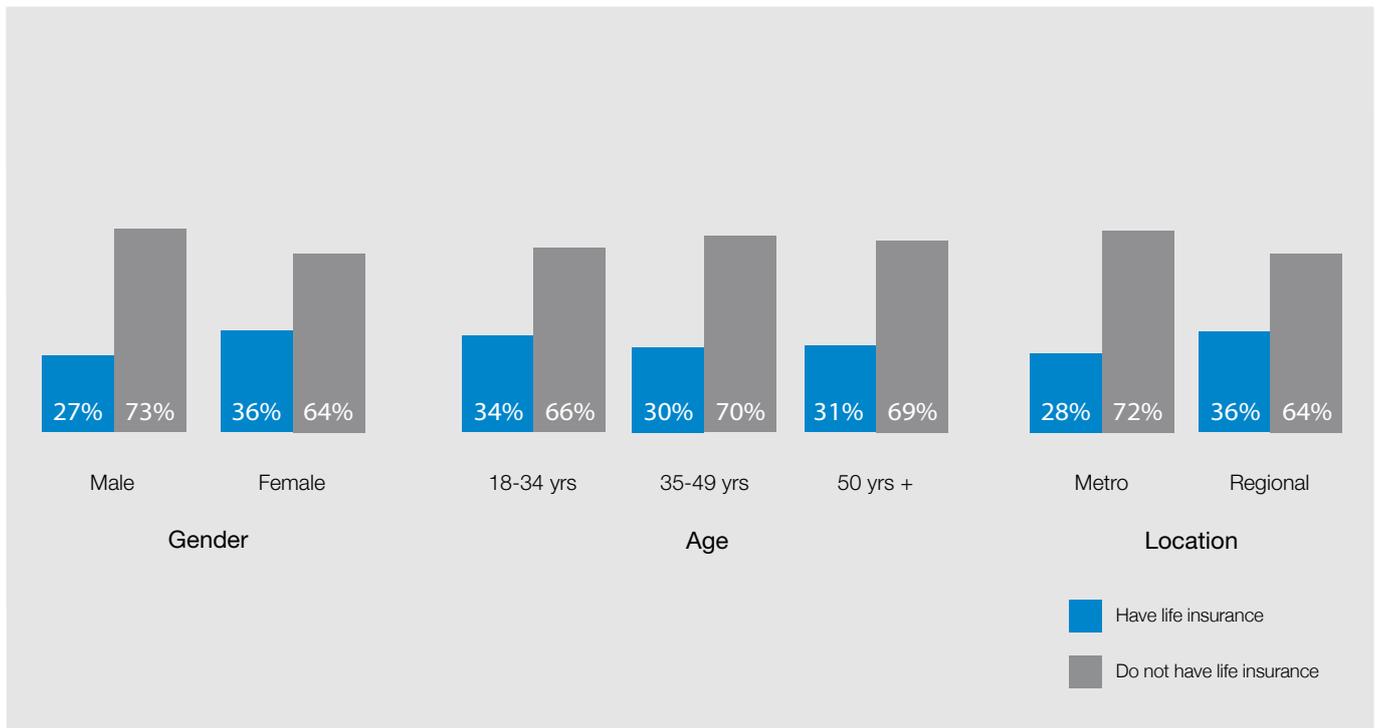
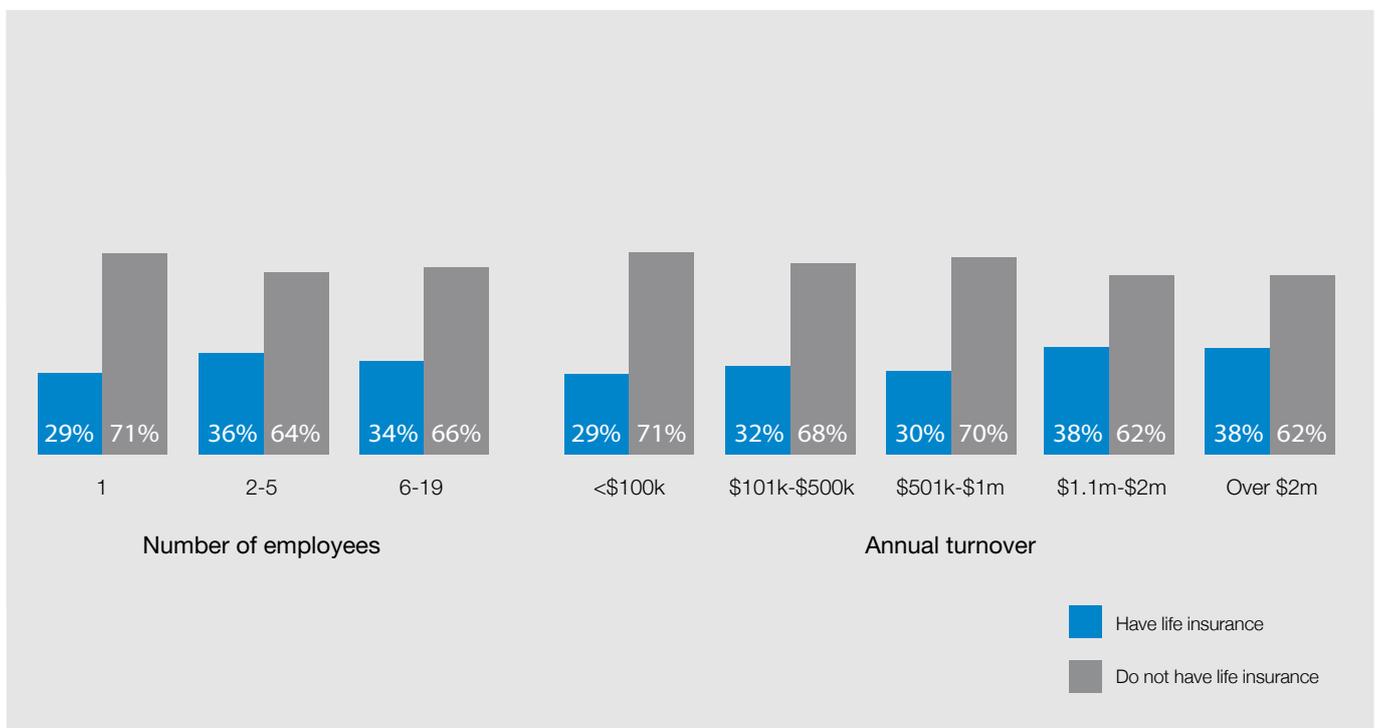


Figure 1.4: Impact of business size on life insurance purchasing behaviour

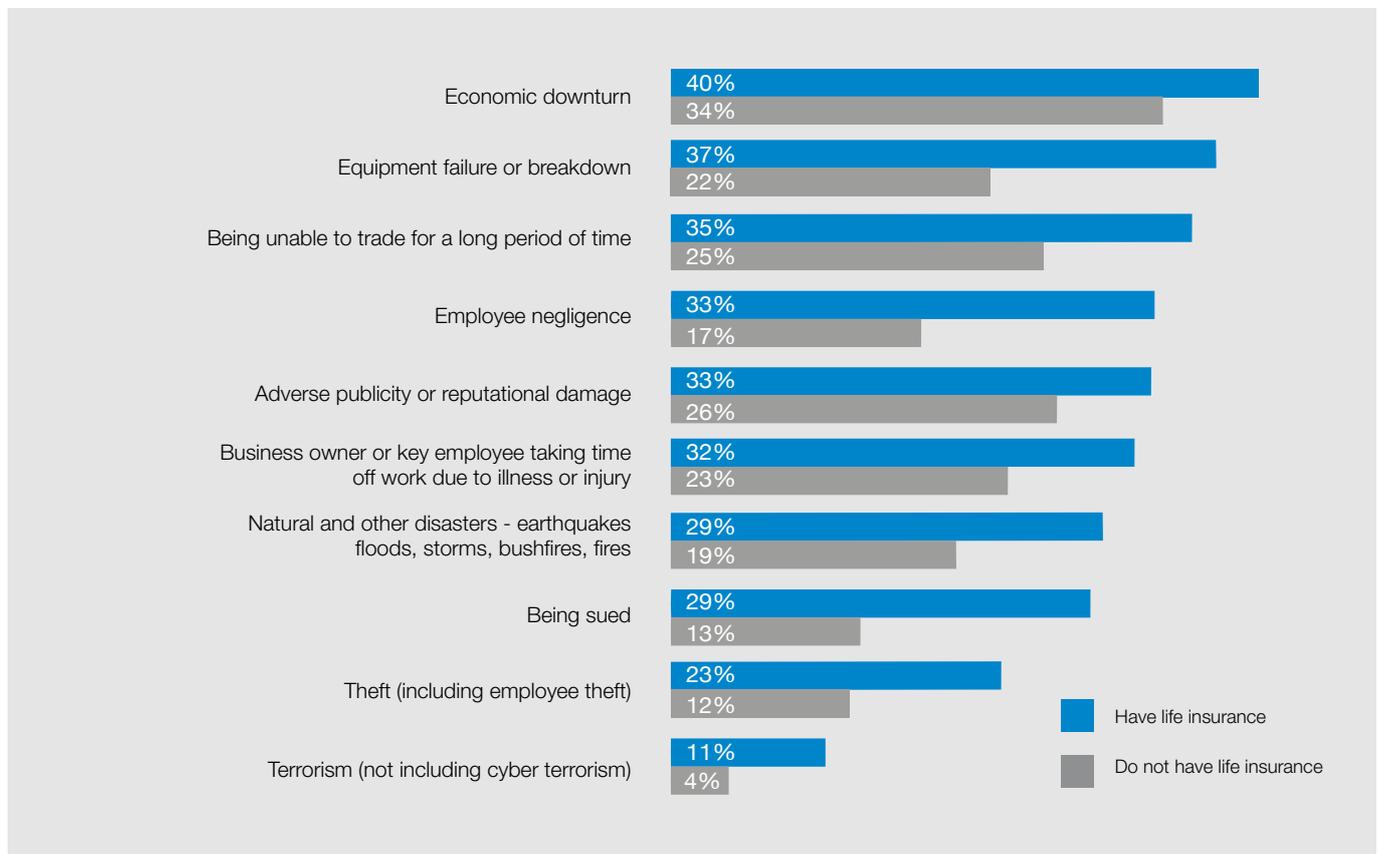


Those with life insurance are more concerned about a wider range of issues that can impact their business

A defining characteristic of those who have life insurance is that they appear to be concerned about many things. When asked about a range of different business risks, including economic downturn, equipment failure and being unable to trade, those who have life insurance are significantly more likely to say that they are worried. For example, 40% of those with life insurance are concerned about the risks of an economic downturn, compared to only 34% of those who don't have any life insurance (see Figure 1.5).

This would appear to support the hypothesis that those who are naturally more aware of the potential risks facing their business are more likely to take out insurance. As a corollary, this potentially means that those who don't have life insurance are more likely to be unaware of the risks that their business faces, suggesting that there may be a need for more education for some SMEs about potential risks and the actions that SMEs can take to protect themselves against risk.

Figure 1.5: SMEs overarching business concern levels – Life insurance vs no life insurance

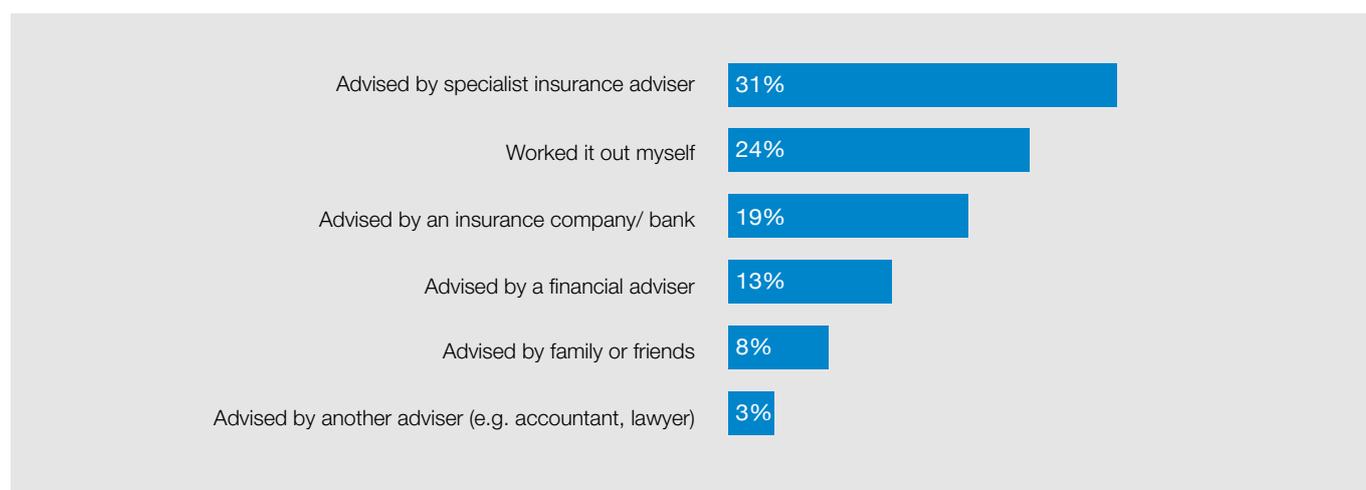


How do SMEs choose their life insurance covers?

There are many different issues to consider when deciding on life insurance and given that the risks of making an incorrect decision can have a major impact on peoples' lives, it is instructive to understand how SMEs are deciding what type of cover they should take out and how much cover they need. Advisers, both insurance specialists and

more general financial advisers play a large role, together accounting for 34% of decisions. At the other end of the scale, a significant number of SMEs are making decisions on their life insurance with limited expert advice, where 24% say that they make the decision on their own and a further 8% rely on the advice of family and friends (see Figure 1.6).

Figure 1.6: SMEs decision making process when purchasing life insurance



Are SMEs receiving the advice they need, and do they understand the value that experts can play in their life insurance? We will explore this more in the following chapter as we uncover attitudes towards and usage of life insurance advisers.

In a nutshell

- 95% of SMEs with life insurance have the simplest life cover, whilst the prevalence of income protection, trauma and TPD insurance are much lower than life insurance.
- Females, larger businesses and those in regional areas are more likely to have life insurance.
- Those with life insurance are more likely to be more concerned about or aware of potential risks to their business.
- Almost half of SMEs seek advice from an insurance or financial adviser when making life insurance decisions, while around a third make their decisions on their own or with family and friends.



SMES ARE UNSURE WHAT VALUE THEY GET FROM USING AN ADVISER

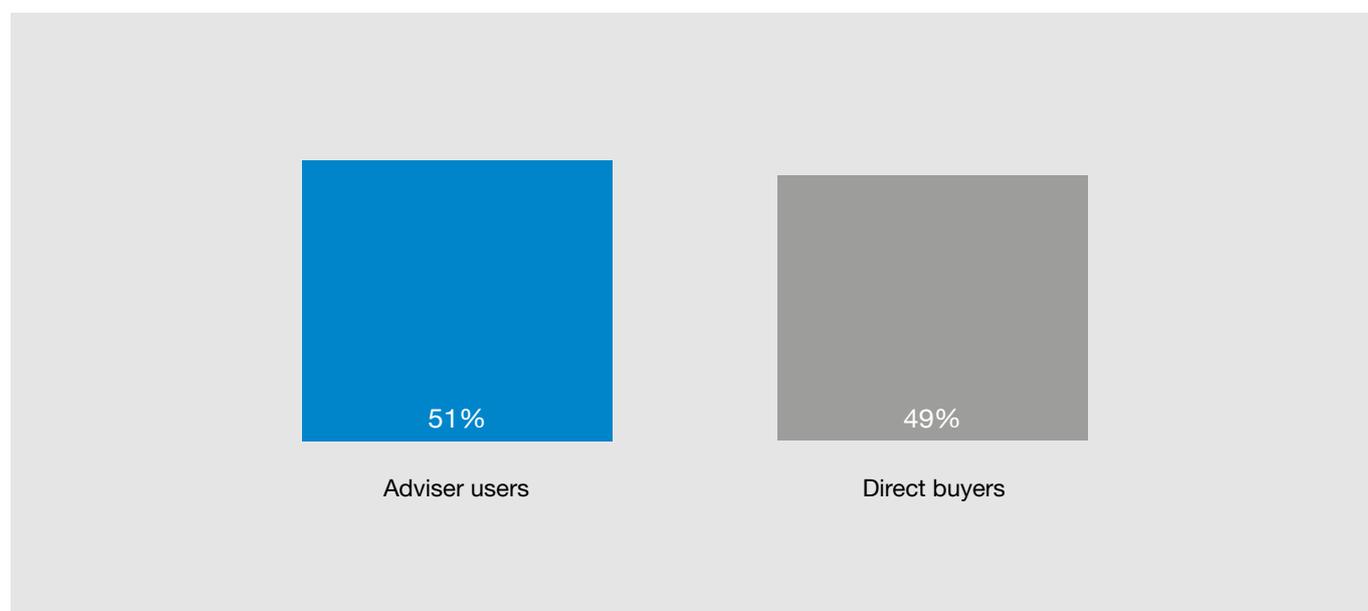
SMEs are experiencing some inconsistencies with their advisers' service offering, with mixed levels of satisfaction and a lack of understanding of adviser value and expertise

Half of SMEs are purchasing life insurance direct

When it comes to purchasing life insurance, SMEs are equally likely to use an adviser or purchase direct. 51% of our sample said that they purchase most of their life

insurance through an adviser, compared to 49% who said they mostly buy direct (see Figure 2.1).

Figure 2.1: SME adviser usage when purchasing life insurance



A profile of life insurance adviser clients

SMEs who use an adviser to purchase most of their life insurance are more likely to be:

- Female
- Higher turnover (over \$100K)
- Multiple life policy holders
- Less wary of the insurance industry
- Less price sensitive

The fact that those with advisers are more likely to hold multiple policies suggests that advisers may play a role in helping SMEs understand the importance of a broader range of covers.

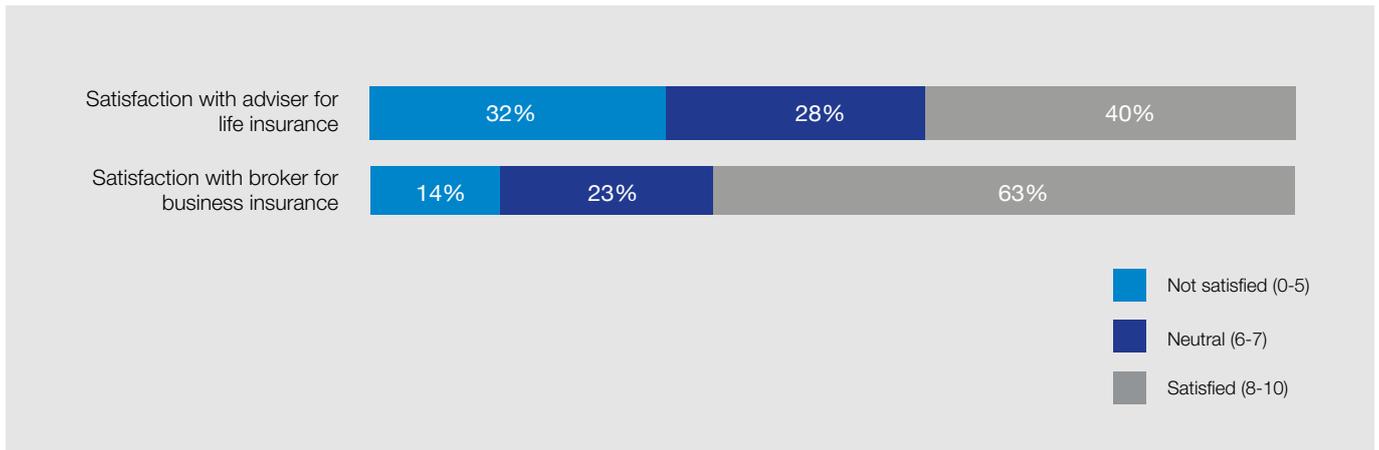
Why is it that life insurance holders are different in terms of their wariness towards insurance? Are adviser users less wary of the insurance industry because they have the support of a good adviser or are they more willing to use advisers because they are less wary of the industry? This is a classic “chicken and egg” conundrum, and unfortunately the data doesn’t reveal the answers to this. In reality, it is highly likely that both explanations play a role, with different SMEs having different experiences and different attitudes.

Satisfaction with life insurance advisers is relatively low

The data reveals that SMEs are far more likely to be satisfied with their business insurance broker than their life insurance adviser. Around 63% of SMEs are satisfied with their business insurance broker while only 40% of SMEs who buy their life insurance through an adviser are satisfied

with their adviser. At the same time, only 14% of SMEs are dissatisfied with their business insurance broker while 32% are dissatisfied with their life insurance adviser (see Figure 2.2).

Figure 2.2: Satisfaction with life insurance advisers and business insurance brokers



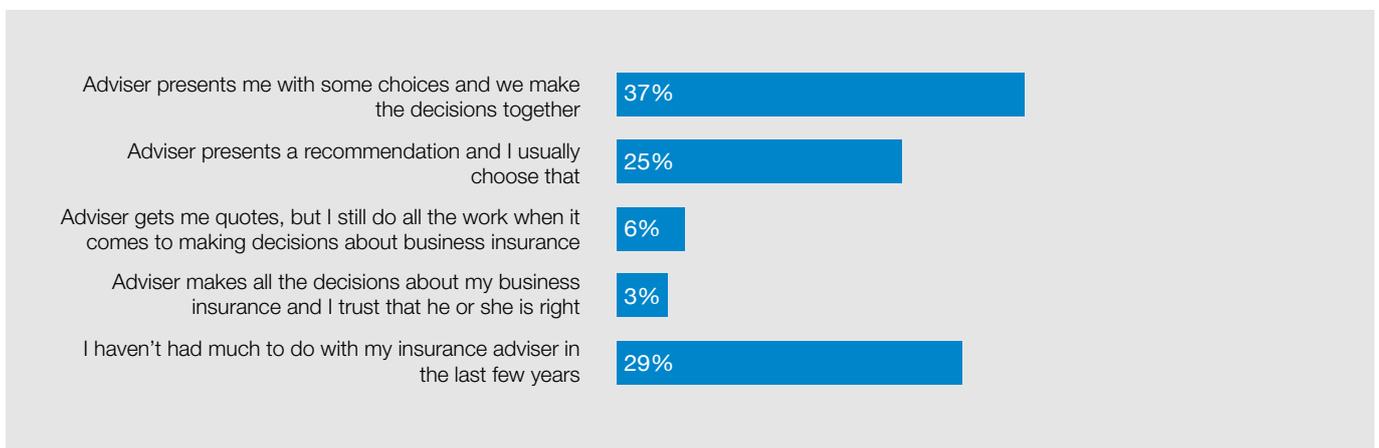
So, what is driving these high levels of dissatisfaction with life insurance advisers?

One potential explanation may lie in the level of involvement these advisers have with their SME clients. “Hands off” relationships appear to be common, with 29% of adviser clients saying they have little to do with their adviser, while only 37% say that they work together with their adviser to review their choices.

There is a clear correlation between levels of satisfaction and levels of involvement: only 16% of those who had little to do

with their adviser claim to be satisfied, compared to 51% of those who work together with their adviser (see Figure 2.3). While increasing personal contact with clients would seem to be one way to improve client satisfaction, this is not always easy for advisers with already heavy workloads and looking to simple ways to maintain contact without increasing time commitments is ideal. There may be opportunities for advisers to work more closely with insurers to leverage materials or communications insurers produce that could add value to customers and reinforce the adviser relationship.

Figure 2.3: Type of relationship with adviser and satisfaction

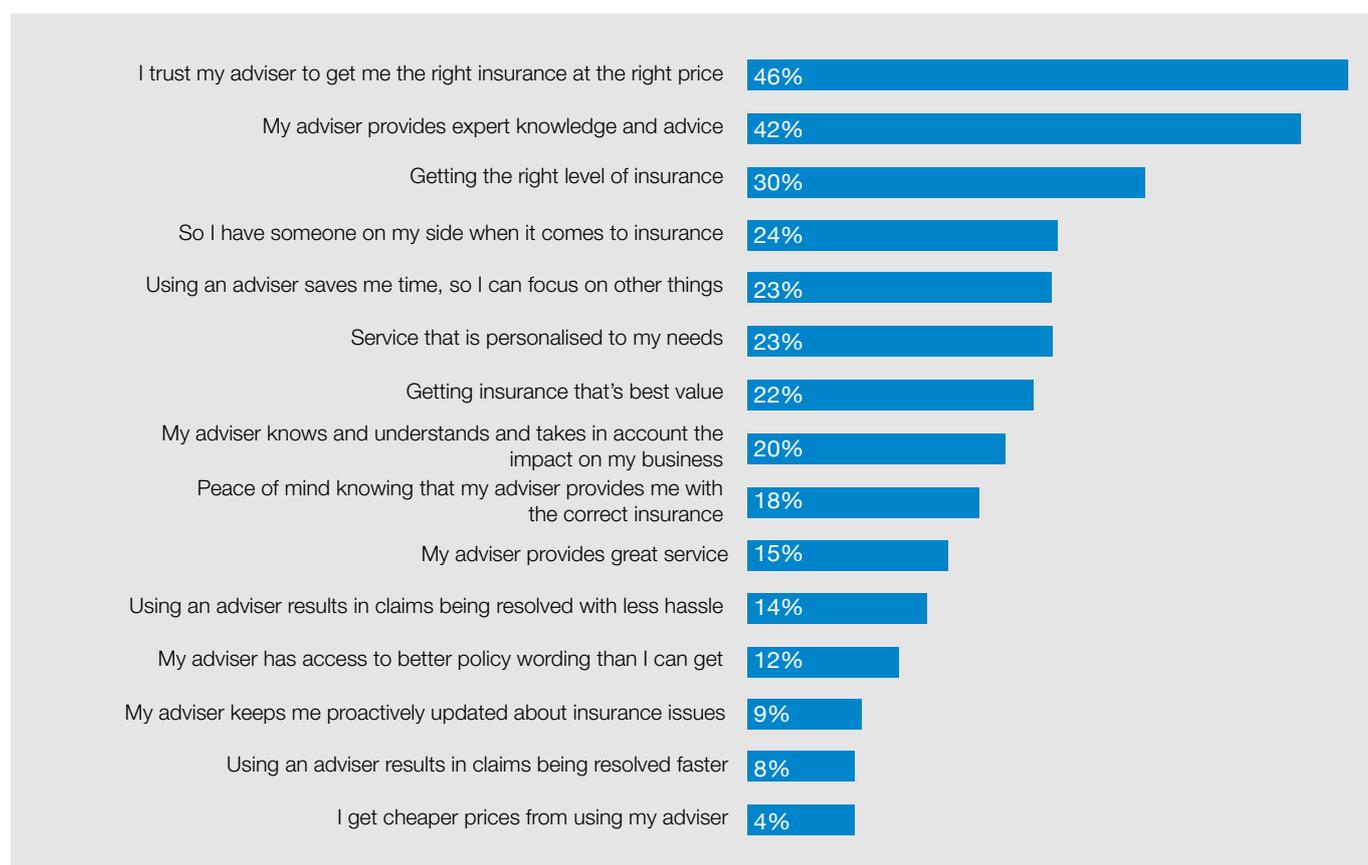


Satisfied and dissatisfied clients have different reasons to work with advisers

Overall, value and expertise are the dominant reasons SMEs cite for using an adviser to buy their life insurance. 46% say that they trust their adviser to get them the right insurance

at the right price, and 42% say that their adviser provides expert knowledge and advice (see Figure 2.4).

Figure 2.4: SMEs reasons for using an adviser



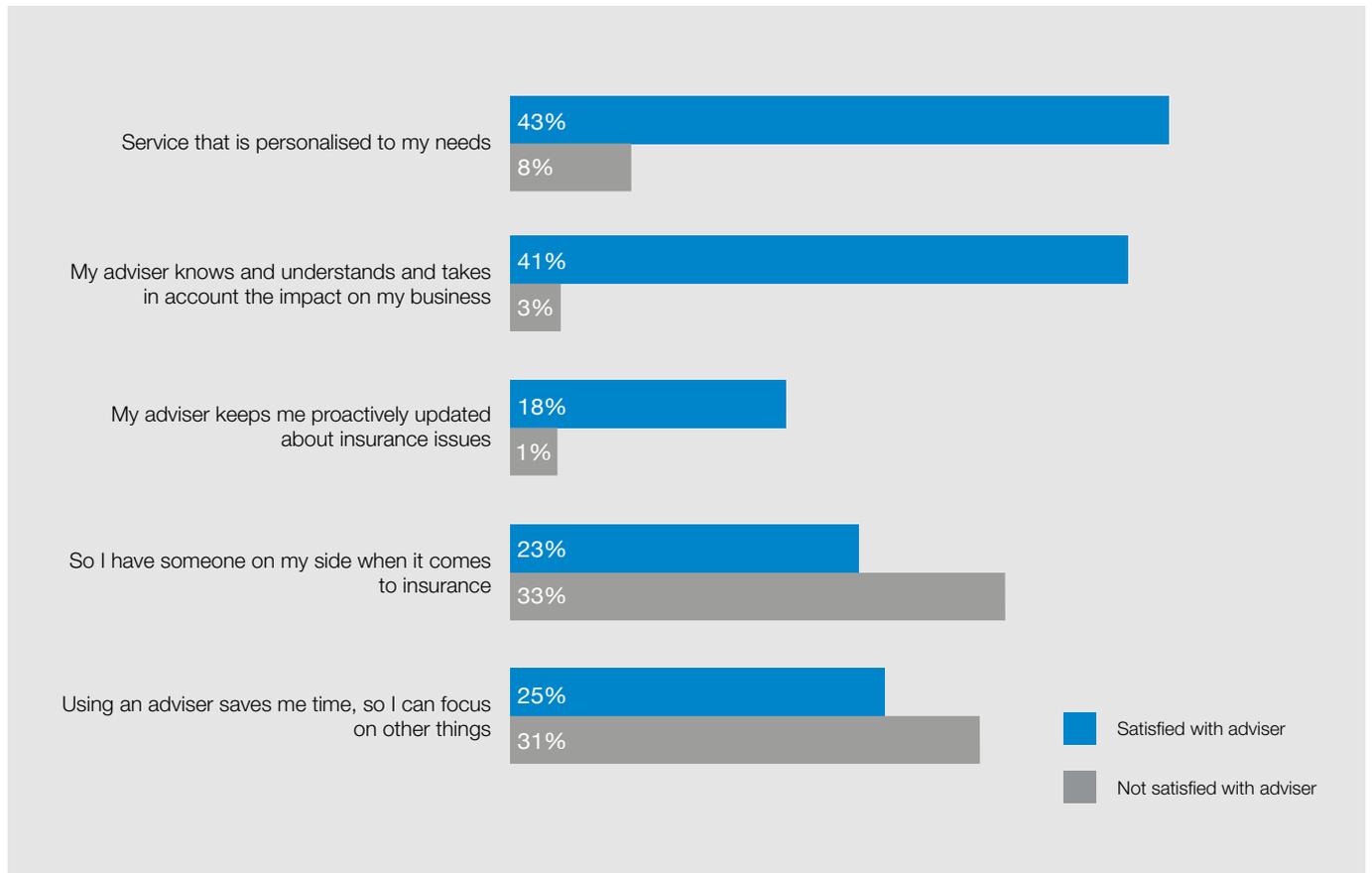
Interestingly, there are some clear benefits to using an adviser that many SMEs do not seem to appreciate. For example, advisers generally have access to markedly better policies than are available direct, and yet only 12% of SMEs say that this is a reason to use a broker. Similarly, only 14% acknowledge the role that advisers can play in the claims process as a benefit. This suggests that there is a need to educate SMEs about a wider range of the benefits that advisers can deliver to their clients.

However, significantly different motivations become apparent if we compare the reasons for using an adviser between those who are satisfied with their adviser and those who are dissatisfied. Satisfied clients are far more likely to value their adviser for personalised service and proactively

keeping them updated, and 41% of SME clients value their life insurance adviser because they know, understand and consider the impact of insurance on their business (see Figure 2.5). This suggests that advisers who take the time to understand both the personal and professional needs of SME clients are appreciated by their clients.

In contrast, dissatisfied clients are more likely to say that they use an adviser to have someone on their side and that their adviser saves them time (see Figure 2.5). This suggests that, for these clients, advisers provide a degree of convenience and potential support, without proactively helping to deliver SMEs a better insurance experience.

Figure 2.5: Reason to work with an adviser – Satisfied vs Dissatisfied with adviser

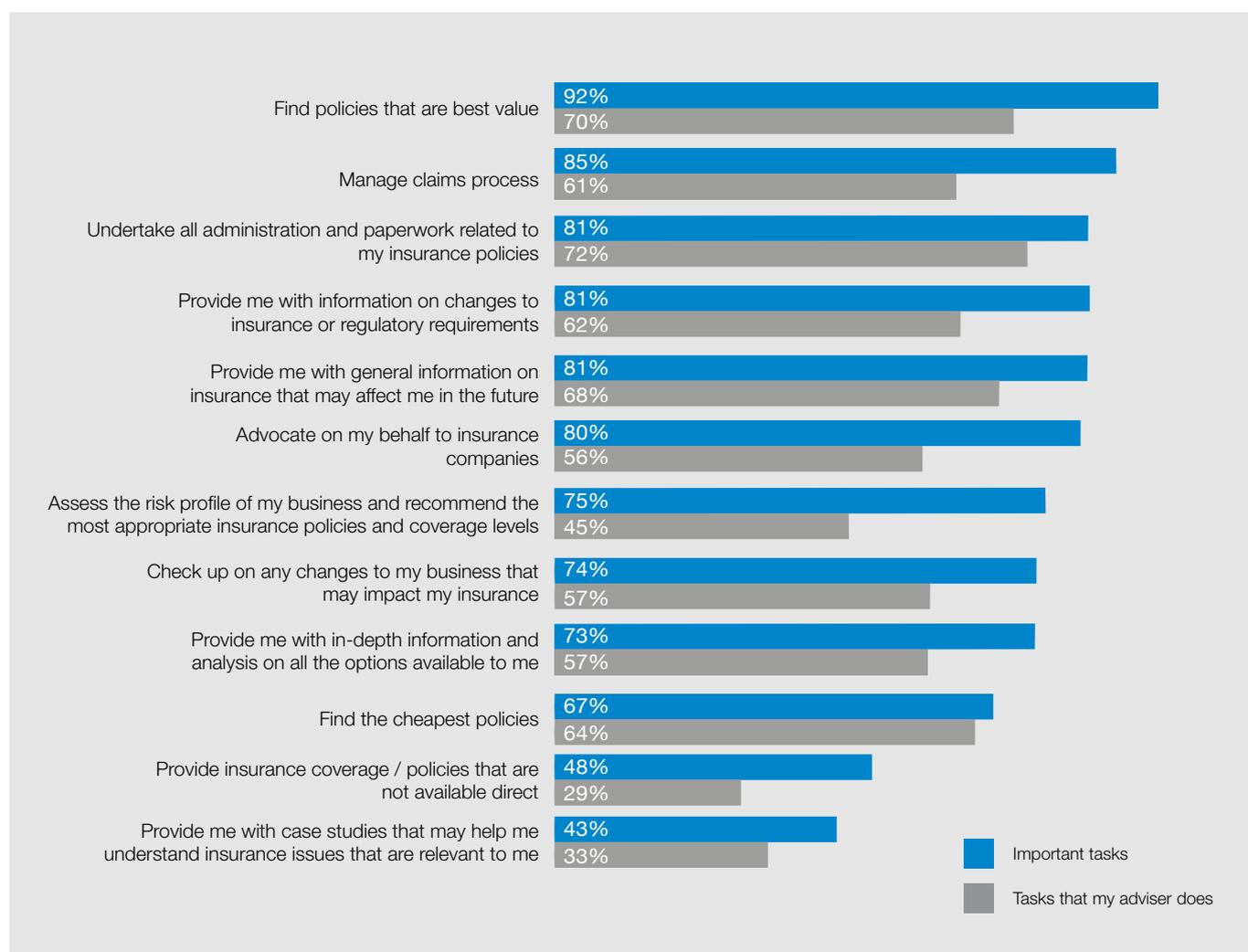


There is a gap between the services advisers provide, and the ones which SMEs value

Advisers can provide SMEs with a range of services, from straightforward administrative tasks to more involved analysis and assessment. While SMEs rate the majority of potential tasks as important, there are significant gaps between how many SMEs rate some tasks as important and those advisers whom actually deliver to those tasks.

For example, 92% of SMEs think it is very important that their adviser find policies that are of best value, while only 70% say that their advisers do this for them. Similarly, 81% would value their adviser providing information on their insurance, but only 62% say their advisers do this (see Figure 2.6).

Figure 2.6: Important tasks for advisers to perform



By mapping these tasks on a grid (see Figure 2.7), we have identified two main groups of tasks:

Essential tasks

These are important tasks that are delivered by most advisers and tend to be the fundamental tasks that are seen as a bare minimum for advisers to deliver. This includes:

- Finding policies that are best value
- Finding cheapest policies
- Managing claims
- Administration and paperwork
- Providing information on insurance and regulatory changes

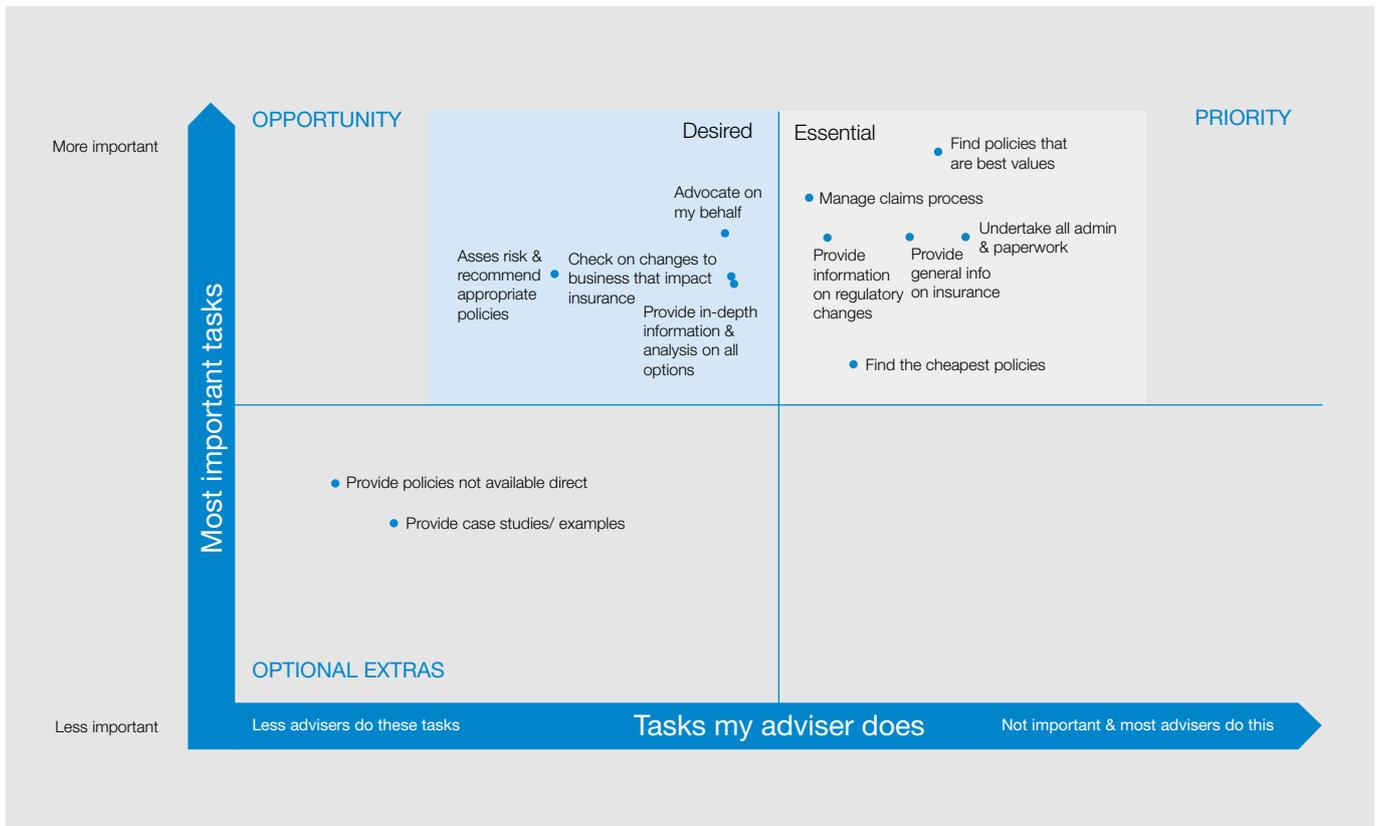
Desired tasks

These are important tasks that are being offered by a smaller number of advisers and tend to be tasks that require more analysis, engagement and specialist expertise, and tend to reflect a higher level of service and engagement. This includes:

- Assessing risk profile and recommending policies
- Advocating on a client's behalf to insurers
- Providing a client with in-depth information and analysis
- Checking up on changes to a client's business that impact insurance

This analysis suggests that most SMEs are receiving the tasks that are most important to them from their advisers. However, when it comes to more involved tasks, there is a significant gap between what is important to clients and what is being delivered by the majority of advisers. This means that focusing on more desired tasks would enable SMEs to get the most out of their experience with advisers.

Figure 2.7: Tasks undertaken and most valued by advisers



Reasons to buy life insurance direct

For those who choose to buy their life insurance direct from the insurer, there are a range of reasons not to use an adviser. However, the overwhelming theme is that SMEs simply don't seem to see a reason good enough. 26% say that they can do it easily enough themselves, while 20% would prefer not to use a middleman. 13% don't see the

benefit of using an adviser and 12% hadn't even thought of it (see Figure 2.8). This suggests that many SMEs do not understand the benefits that they would get from using an adviser, and that they are therefore associating with them with negative terms like "middle men".

Figure 2.8: Reasons to buy life insurance direct

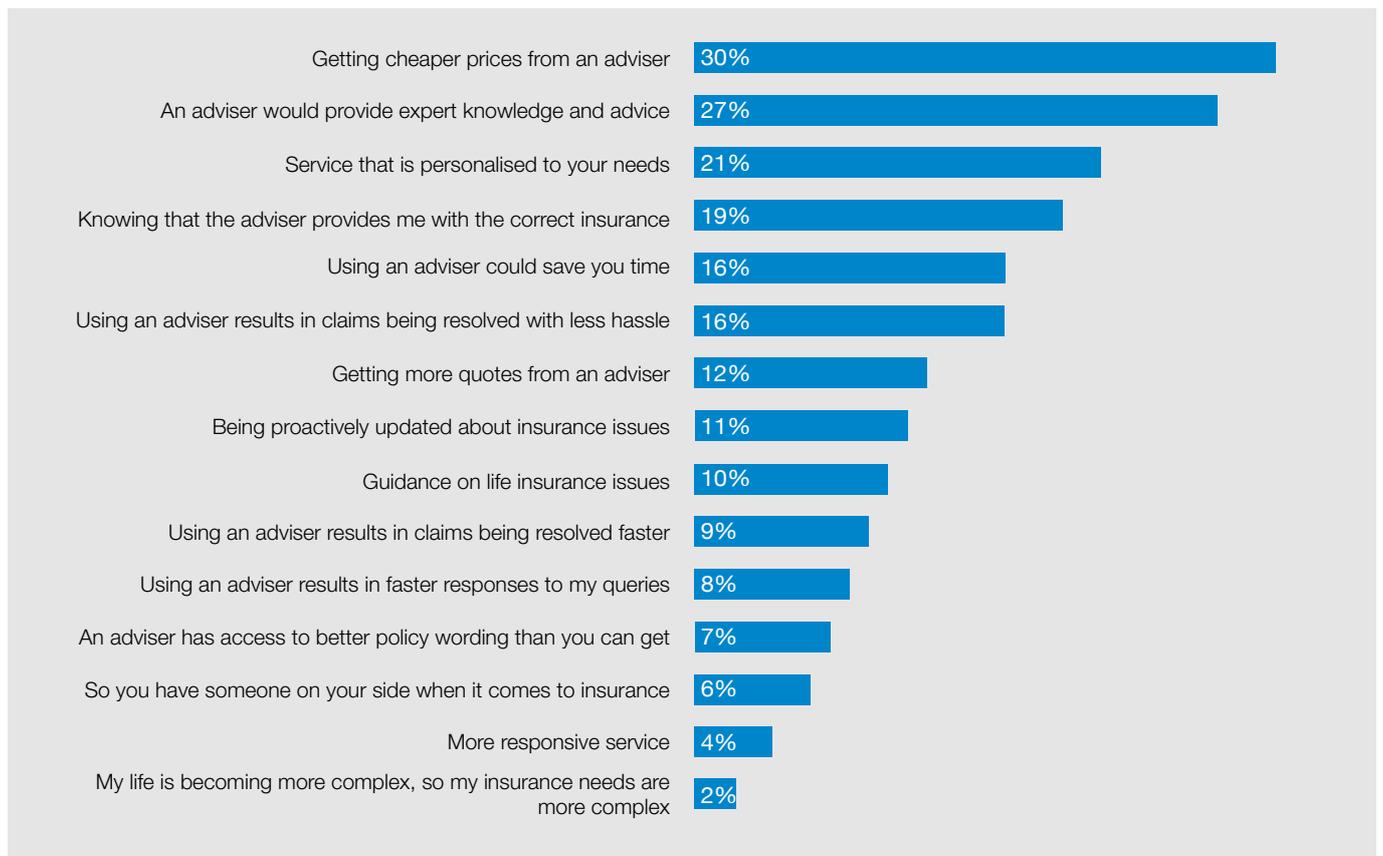


Expert knowledge and advice is a key reason for SMEs with life insurance to consider using an adviser

While these reasons suggest that lack of understanding is a fundamental reason not to use an adviser, there are also many factors that would encourage SMEs to consider using an adviser for their life insurance. Price is a motivator for 30% of SMEs and is very closely followed by expert knowledge and advice, which would prompt 27% of SMEs

to consider using an adviser. Personalised service would appeal to 21% of SMEs (see Figure 2.9). Combined, these two statistics suggest that there is considerable scope for life insurance advisers to attract more SME clients by giving them a reason to consider using an adviser.

Figure 2.9: Reasons to consider an adviser

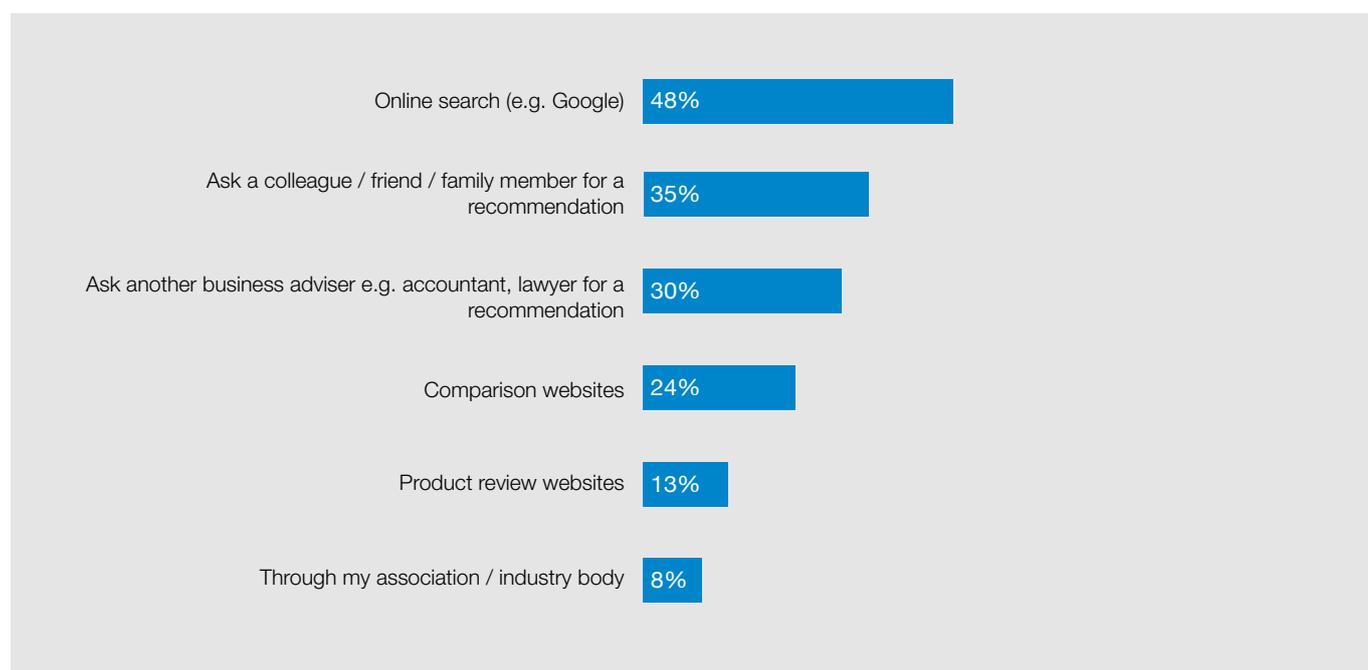


Personal and business networks are key sources SMEs would turn to if they were looking to change their adviser

By exploring how SMEs would go about finding an adviser, advisers can understand the best ways to attract new business. Unsurprisingly, Google plays an important role with 48% saying they would turn to online search to find an adviser. Word of mouth also plays a key role, with 35% claiming they would ask their personal network (friends,

family and colleagues) and 30% planning to ask the advice of another business adviser, like an accountant or solicitor (see Figure 2.10). This suggests that there is considerable value in cultivating word of mouth, potentially through formal referral strategies.

Figure 2.10: Key sources when finding an adviser



In a nutshell

- 51% of SMEs with life insurance purchase their life insurance through an adviser.
- Adviser users are more likely to be female, in larger businesses and less price conscious and sceptical about insurance.
- Satisfaction levels with advisers are relatively low, with only 40% claiming to be satisfied. Those whose advisers are more involved are more likely to be satisfied.
- The main reason to use an adviser are value and expertise, with satisfied clients also using brokers because of personalised and proactive service.
- There is a gap between the tasks that SMEs value and the tasks which advisers undertake on behalf of their clients. In particular, relatively few advisers undertake the more added-value tasks that demonstrate expertise
- The main reason not to use an adviser is a lack of awareness of the benefits of advisers.



ADVISERS CAN HAVE A POSITIVE IMPACT ON THE CLAIMS PROCESS

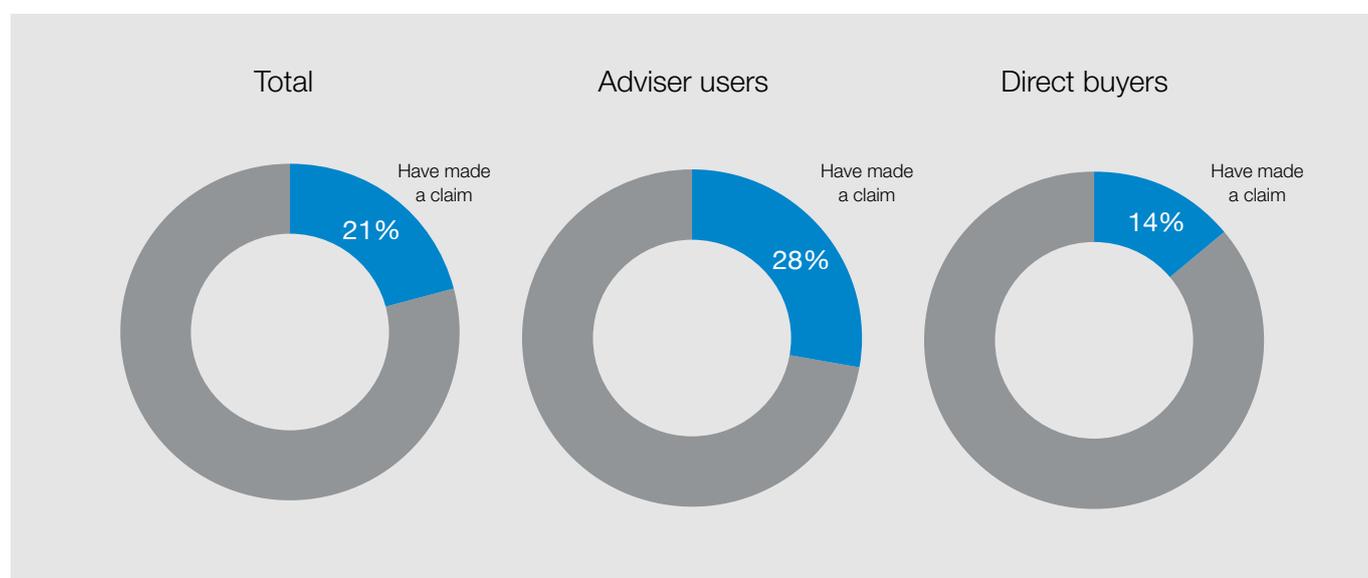
When advisers are more actively involved in the claims process, SMEs experience a better claim experience

More claims are being made by SMEs who use advisers' services

Claims are a key moment of truth for any insurance relationship. Around 1 in 5 SMEs have made a claim in the last 5 years, but this figure increases significantly for advised clients, with 28% of adviser users having made a claim, compared to only 14% of direct buyers (see Figure 3.1). This may suggest that SMEs who have a life insurance

adviser are more aware of their rights to claim and perhaps have greater confidence in submitting claims. This may also reflect the fact that those with advisers are more likely to have a broader range of life covers, and therefore more opportunities to claim.

Figure 3.1: Total life insurance claim levels for adviser users and direct buyers



The majority of SMEs with advisers say that their adviser managed the entire claims process

Advisers are often, but not always, involved in the claims process. Of those SMEs with an adviser who have made a claim, 54% say that their adviser managed most of the

process for them. 17% said their advisers gave some guidance but the SME managed most of the claim, and 29% said that their adviser wasn't involved at all (see Figure 3.2).

Figure 3.2: Advisers involvement in the claims process



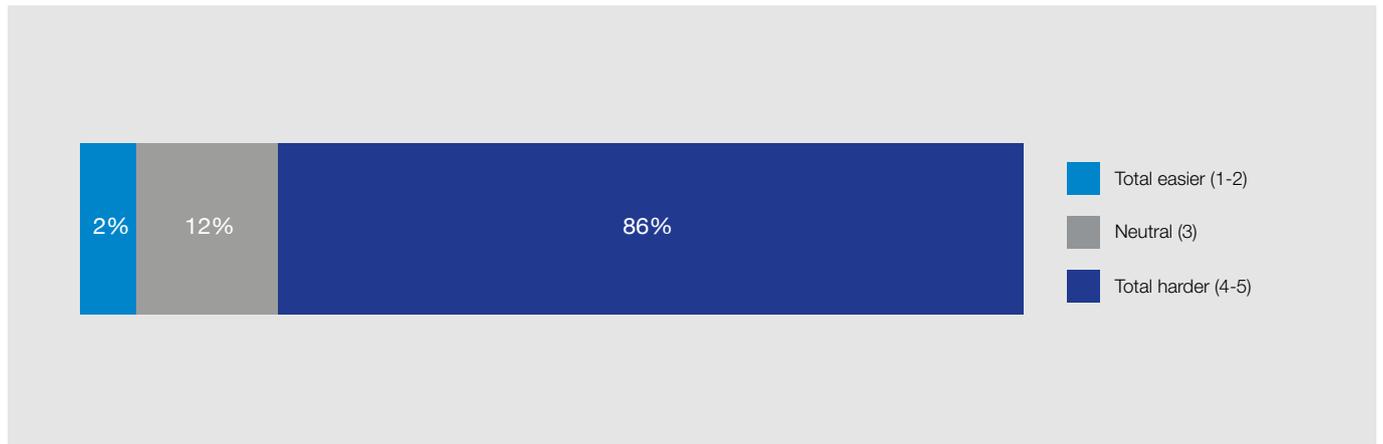
Advisers make the claims experience easier

The involvement of the adviser has the potential to make a significant difference to the experience for SMEs.

86% of those whose advisers managed claims say that the claims process would have been significantly harder

if the adviser hadn't been involved (see Figure 3.3). This suggests that there are many SMEs who could have a more satisfactory claims experience by working more closely with their adviser.

Figure 3.3: Adviser impact on claim experience

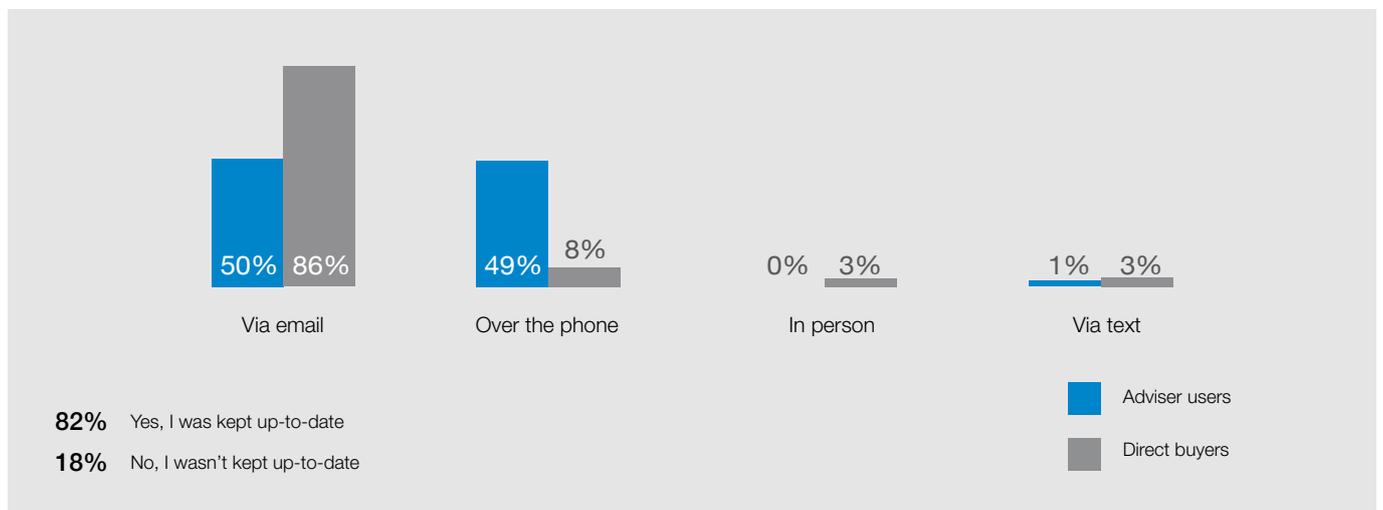


Strong communication remains a necessity through the claim process

Communication is vital in any claims experience, and it appears that most SMEs who have made a recent life insurance claim have been well-served in this regard, with 82% saying that they were kept up to date with the claims progress (see Figure 3.4). There is a marked difference,

however, in how SMEs like to be informed about their claims. Adviser users are equally likely to prefer email or phone contact, while direct buyers strongly prefer email contact. Neither in person or text message communications are preferred by SMEs (see Figure 3.4).

Figure 3.4: Communication during the claim process via channel preferences



There is potential to improve claims satisfaction and thereby improve adviser relationships

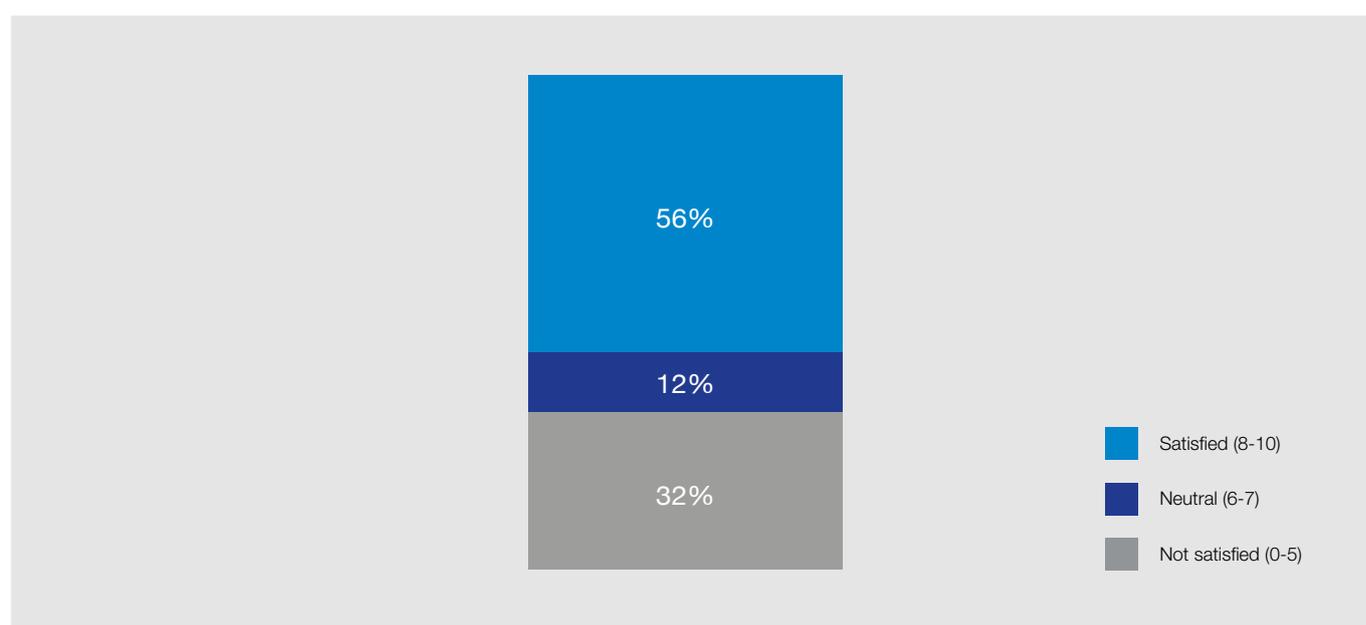
A majority of those who have made a claim are satisfied with their claims experience, with 56% scoring their experience between 8 out of 10. 12% are neutral, scoring 6-7 out of 10, while 32% are relatively dissatisfied, scoring 5 or less out of 10 (see Figure 3.5).

However, the life insurance claims experience is less satisfactory than the business insurance claims process for SMEs: 68% say that they are satisfied with their business insurance claim and only 13% are dissatisfied.

Being satisfied with the claims experience is correlated with overall adviser satisfaction, with those who are satisfied with claims more likely to be satisfied with their adviser.

Specifically, 40% overall are satisfied with their adviser however this figure rises to 64% if they are satisfied with their claim. This suggests that claims are an important time to focus on client relationships, as satisfaction at this important time is likely to lead to satisfaction overall.

Figure 3.5: Satisfaction with claim process experience



In a nutshell

- Adviser users are more likely to have made a recent claim than direct buyers.
- Satisfaction levels with the claims process are relatively low compared to business insurance claims.
- Brokers manage the claims process for just over half of adviser users who have made a claim, and this involvement tends to lead to a better claims experience overall.
- Direct buyers prefer email communications about their claims, while adviser users have an equal preference for email and phone communications.



TRUST IN INSURANCE AND ADVISERS IS DECLINING

SMEs are more likely to trust professionals who demonstrate expertise

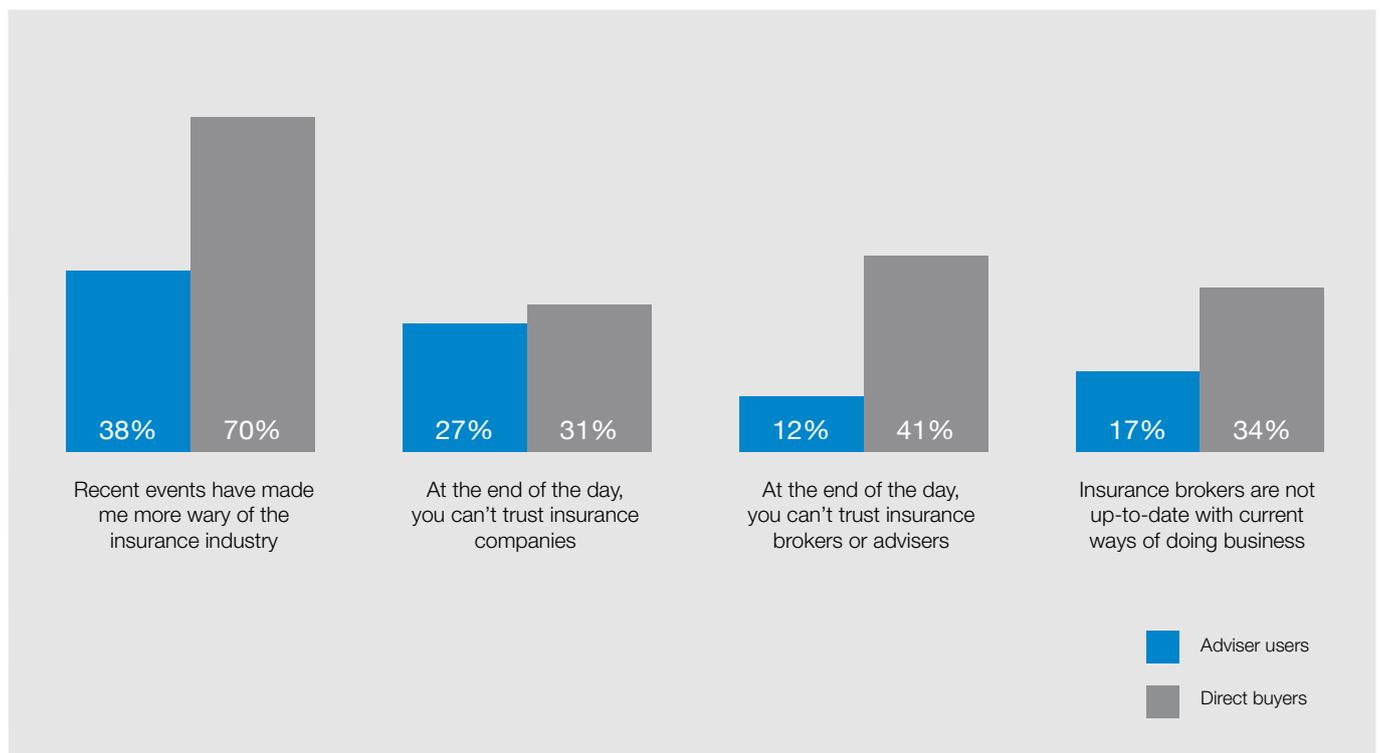
The decline of trust is a major trend in recent years, and this environment of declining trust makes it timely to examine some of the trust-related statements in the Index to see if this trend is being replicated in life insurance.

Asteron Life's sister study, the Vero SME Insurance Index which focusses on business insurance, has measured trust for the last 3 years. Earlier editions of the Index observed relatively positive levels of trust with both insurance companies and insurance brokers. However, this year's research shows a small but clear deterioration for business insurance respondents and similarly low levels of trust amongst life insurance respondents. Looking first at trust

in insurance companies, 29% of SMEs with life insurance say that they can't trust insurance companies, compared to 35% of business insurance respondents. Direct buyers are less trusting than adviser users.

There are more striking differences if we look at trust in advisers. Overall, 26% of SMEs with life insurance say that they can't trust insurance advisers. However, those with advisers are significantly more likely to trust advisers than direct buyers, with only 12% of adviser users saying that they can't trust advisers, compared with 41% of direct buyers (see Figure 4.1).

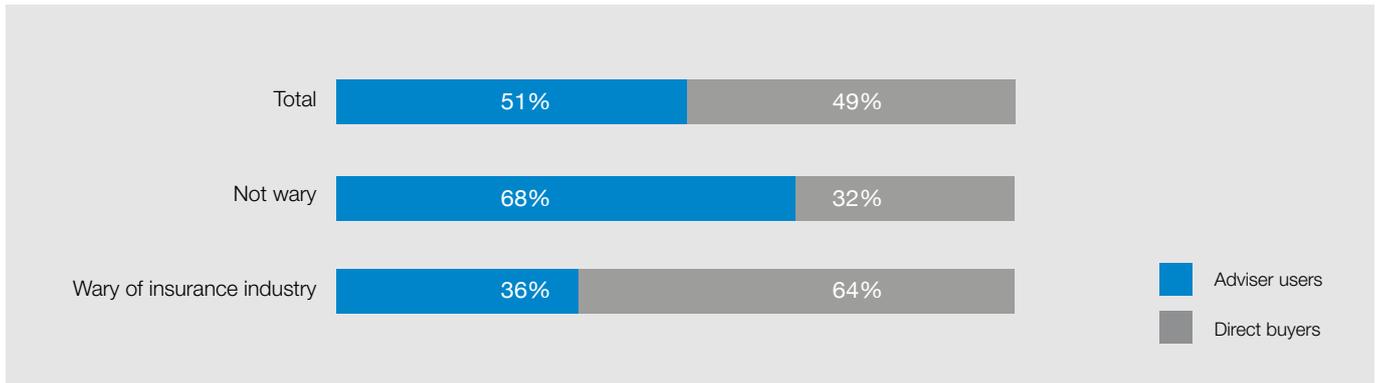
Figure 4.1: Trust levels toward insurance brokers and advisers



Skepticism towards the insurance industry is influencing buying behaviours

Those who feel wary of the insurance industry have markedly different buying behaviours to those who are less wary. Specifically, only 36% of those who claim to be wary of the insurance industry buy their insurance through an adviser, compared to 68% of those who aren't wary of the industry (see Figure 4.2).

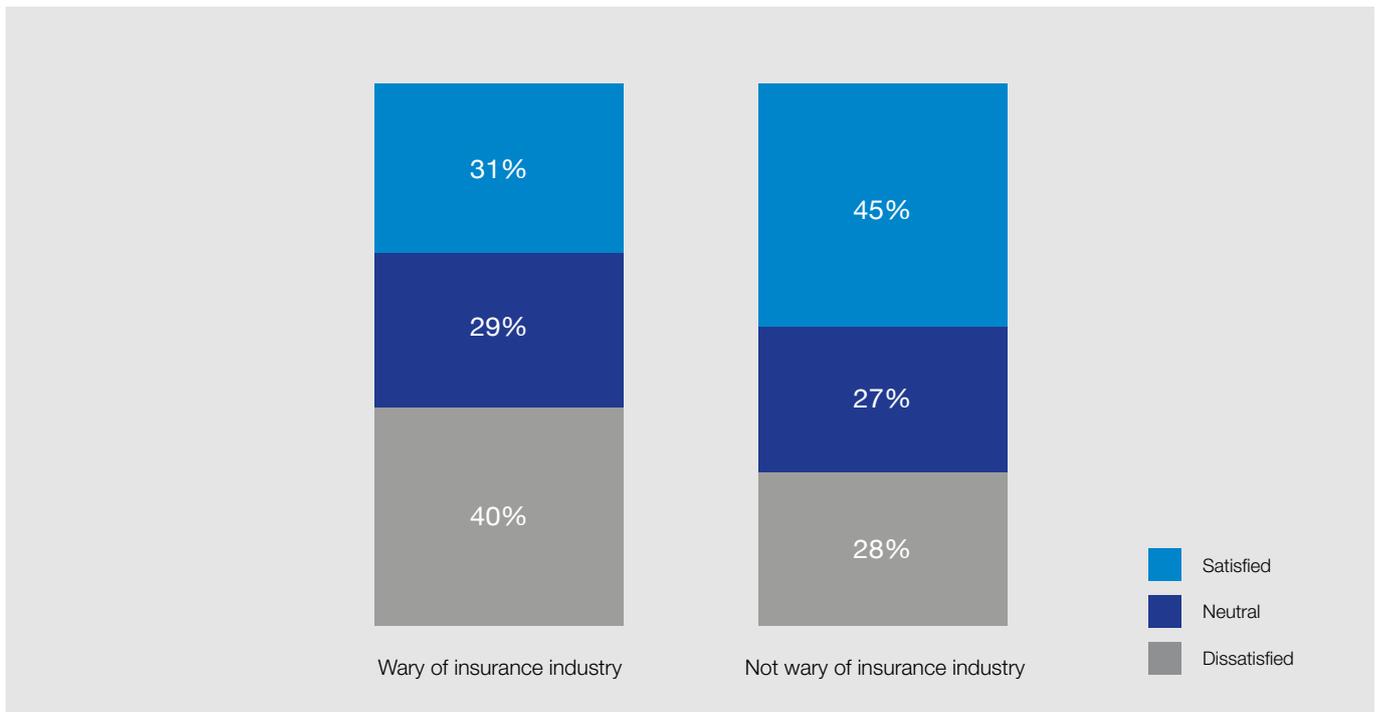
Figure 4.2: Adviser use: those who are wary of insurance industry



SMEs wary of the insurance industry are more likely to be dissatisfied with their adviser

There is also a clear link between trust and satisfaction with advisers. Only 31% of advised clients who are wary of the insurance industry are satisfied with their adviser, compared to 45% of those who aren't wary (see Figure 4.3).

Figure 4.3: Adviser satisfaction: those who are warier of insurance industry



For both of these measures, it is difficult to assess which factor influences which – is a lack of trust driving SMEs away from using advisers, or does having a relationship with an adviser help SMEs feel more trusting of the industry as a whole? Are SMEs who have more faith in the insurance industry more disposed to think favourably about their adviser, or does having a satisfactory relationship with an adviser build trust? Both factors probably play a role here and it could be argued that while some SMEs who have proactive and engaged advisers feel trust, others who have

more distant relationships with their advisers are moving away due to lack of trust. Additionally, it could be argued that having a relationship with an adviser may lead to better understanding of the industry overall, which could lead to higher trust.

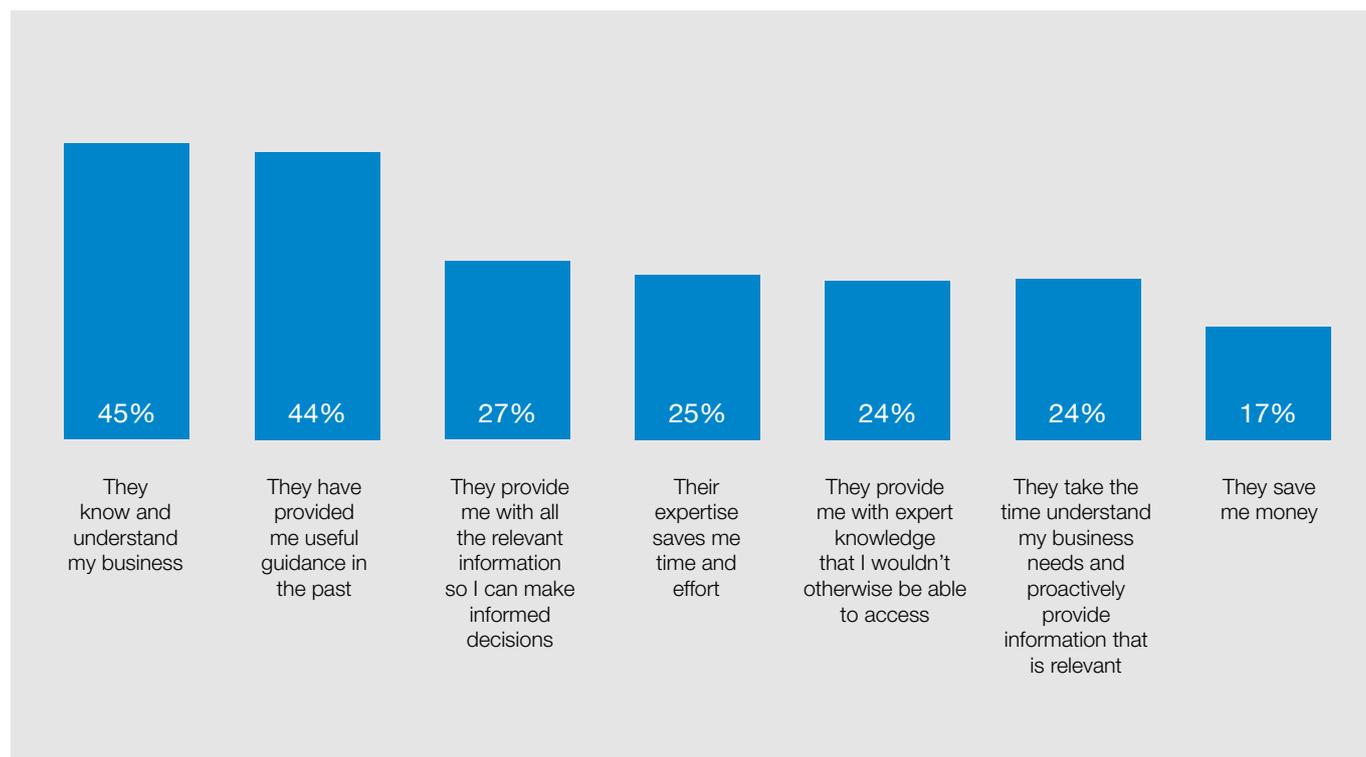
Overall, there is evidence that many SMEs feel wary of the insurance industry at the moment and this perspective of mistrust is a relevant factor for all those who deal with SMEs in the insurance space.

What makes advice trusted?

To further understand advice and how it delivers trust, this year for the first time we asked SMEs what makes them trust a broker or advisers' advice. It appears that a demonstrated understanding of their business and previous positive experiences are major factors, with around

half claiming that each of these factors are important in them trusting advice (see Figure 4.4). This suggests that building long-term relationships and taking the time to really understand businesses are valuable elements in the establishment of trust between advisers and their clients.

Figure 4.4: Advice trusted and valued most by SMEs



In a nutshell

- Declining levels of trust across developed societies are being reflected in reduced trust levels for insurance companies and advisers in New Zealand.
- Wariness of insurance industry is associated with an increased likelihood to be dissatisfied with advisers and lower adviser usage.
- SMEs are more likely to trust advice that demonstrates deep business understanding.



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.

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 2018 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

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

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