



Insurtech
Insights

Unlocking the SME opportunity



In partnership with

 fintechOS

Introduction

This report will be of interest to every insurance organisation operating in the small- to medium-sized enterprise (SME) market, from large established businesses seeking to stay ahead of fast-changing trends, to challengers looking to disrupt markets through superior technology and sharp focus.

Although SMEs comprise the vast majority of businesses in the UK, Europe and North America, they have historically been under-served in insurance terms¹, as insurers have opted to concentrate on the corporate market with its greater premiums.

Data, analytics and automation are making it possible for insurers old and new to offer and service policies for SMEs more efficiently and profitably. This research offers a snapshot of the SME landscape and the strategies that insurers are deploying to open up this relatively untapped market.

In this report, our panel of industry leaders explain how you can capitalise on the following opportunities:

1. Automation and analytics are enabling carriers and brokers to deliver the mass customisation needed to serve diverse SME markets
2. Partnerships with trade associations and other professional service providers are an important route to building visibility and credibility
3. Marketplaces are transforming how brokers and carriers trade
4. SME customer experiences must prioritise ease, speed and simplicity – learnings from the retail sector will apply to SME customer journeys
5. SMEs are under-served compared with retail and corporate customers – there is untapped growth available

We hope you enjoy this review of SME insurance issues and that its insights support your organisation as it develops and hones its SME strategies.

With thanks to

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¹ <https://www.igi-global.com/article/influence-of-business-competitiveness-on-smes-performance/230349>

Foreword by FintechOS



The SME market is only now beginning to gain its rightful share of attention from the insurance industry. Personal-lines and commercial-lines insurers have focused on well-known markets, but have traditionally left SMEs somewhere in the middle and

underserved by both. Complex policies and buying processes, expensive premiums and (whether justified or not) a poor reputation for paying claims have not helped to win the trust and business of this large, untapped market.

With radical changes in efficiency and scalability from digitalisation, and new segmentation and analytics capabilities provided by new technology, addressing the SME market becomes not only viable, but also profitable.

Digital platforms can be used to address diverse markets with better-segmented products and policies more likely to appeal to SMEs. Letting the customer more easily provide data during a digital quotation journey means algorithms can instantly match and offer product options, with all the underwriting work having been upfront in the product design. Taking advantage of the same new technology platforms, insurers addressing new SME segments can use the digital customer data to gain real-time oversight of risk exposures and other performance KPIs.

Another moment of truth in SME insurance is where the business needs to make a claim. The claims experience should be just as convenient as taking out insurance in the first place. Well-designed digital platforms for SME insurance will deliver this and reap the benefits of improved loyalty and retention.

Marketplaces are becoming increasingly prevalent, be they commercial insurance e-trading platforms like the UK's iMarket, price aggregators or agent/MGA portals. Managing multiple presences can be made easier through digital data and product management systems which incorporate APIs, providing a single point of control for products and pricing, as well as the ability to tune offers to individual channels.

Leveraging modern technology to tackle the SME opportunity does not require a “big bang” replacement of legacy infrastructure to be able to develop the required capabilities. The steps to get there can be relatively small, innovating incrementally. Demonstrating value early, teams can build momentum towards further digital transformation goals. FintechOS technology helps established insurers and financial institutions achieve this acceleration: via a powerful but easily adopted low-code/no-code platform, businesses are able to move ahead of the pack to unlock major competitive opportunities such as SME insurance.

The claims experience should be just as convenient as taking out insurance in the first place

Karl Lawless

VP Insurance, FintechOS

The SME environment is characterised by huge diversity

The term “SME” itself encompasses an enormous array of different types and sizes of businesses. In the UK, for example, 99% of all companies are SMEs, employing 77% of the workforce². The trend is represented around the world, too. In most developing countries, SMEs make up a central part of the economy³.



At the smaller end, these include sole traders whose needs and buying behaviours resemble those of retail consumers. The UK’s first insurtech unicorn, Zego, was founded to serve ‘gig economy’ drivers for whom traditional commercial motor policies are prohibitively expensive. At the other end of the spectrum, there are mid-size corporates with hundreds of employees and dedicated HR and procurement departments. In between these extremes sits the SME heartland: owner-operated businesses that may have a few employees but lack the knowledge and time to make complex and time-consuming insurance decisions.



Paul Tully

“Small family-run businesses are similar in nature to individual policyholders in the way they buy and use their policy. If you’re looking at mid-size companies, then it’s probably more like the big corporates, where you may have a head of finance, responsible for procurement, thus, wanting to show that they’re getting good value out of the policy.”

In addition to the diversity of characteristics, there is the diversity of SME insurance propositions. Most SMEs become familiar with business insurance through mandated purchases such as Directors and Officers policies. Property and Casualty is also widespread – 60% of gross premiums are written for that line – while health and pensions are a growth area among SMEs with one or more employees.

Until recently, SMEs have been relatively less attractive prospects for insurers⁴. Their diversity made them complex to underwrite – an expense not justified by their relatively small premiums.



Ranila Ravi-Burslem

“I think the small business market is really under-appreciated. Look at the volume of innovation that happens in the consumer space, by comparison.”

Because SMEs have traditionally been a lower priority for insurers or brokers, it has not always been easy for them to get affordable cover. Today, advances in underwriting, quote-bind automation and self-serve policy administration are making it viable to serve SMEs profitably at scale and are continuously improving the customer experience. Various start-ups are now focused on the SME market, offering cheaper cover and simplified buying experiences powered by automation, data and analytics.



² <https://www.mckinsey.com/industries/financial-services/our-insights/insurers-must-rethink-the-sme-segment-lessons-from-the-united-kingdom>

³ Applied Mathematics 2019, 9(3): 67-81

⁴ European Financial Systems 2018, Proceedings of the 15th International Scientific Conference 102-108

SMEs can be complex risk propositions

Due to their myriad nature, SMEs have historically been difficult for insurers to underwrite. Risk profiles vary significantly between SMEs with ostensibly similar characteristics. Given there are so many different elements that influence SME risk, it is not surprising that insurers have in the past shied away from tackling underwriting this complexity for the relatively small revenue opportunity.

SMEs have been particularly affected by market conditions in the past year. Since the start of the pandemic in winter 2020, revenues have declined for 71% of SMEs, and dropped sharply for 30% – particularly those at the smaller end of the market like sole traders and micro-SMEs.

Sole traders and micro-SMEs are particularly price-conscious. One-third of smaller SMEs view insurance as a product that they can cut to save costs.



SMEs are not as rigorous as large corporates in terms of accounting and compliance as they do not have the same resources available to create failsafe processes. Many SMEs are long established, and over the years have evolved their own ways of working that are effective but not transparent. Family ownership is common.

The smaller end of the market is dominated by freelancers and gig-economy workers whose businesses may be full-time or a side gig. It is not uncommon for such SMEs to hold multiple roles and to be working in more than one field at the same time, which makes categorisation difficult.

Take the example of a ‘virtual assistant’, a role which was originally used to describe administrators but today can include sales, marketing, copywriting, taking legal notes and even IT assistance. Or the ‘expatriate’, which used to be shorthand for senior executives at corporates, but today can include digital nomads working freelance from multiple locations. As the world of work and the market for skills changes, so does the definition of a business.



Rowan Bamford

“SMEs tend to perform less well from a risk profiling perspective than the bigger companies which are regulated and audited. That comes with having someone in charge of that function, which tends to come with scale.”



Bunty Aranja

“In the SME space you’re competing on very narrow margins. There’s a bigger focus to be able to add value through technology and through risk management.”



Janthana Kaenprakhamroy

“You have SMEs that are doing multiple jobs or doing different activities that are not related. Insurance usually stereotypes you into one single profession, right? What we’re able to do now is to allow customers to customise according to the percentage breakdown of their time across activities.”

SMEs' awareness of business insurance has been poor

In the past, awareness among SMEs of business insurance has been low. This is rapidly changing thanks to mandated insurance in some countries, while the pandemic has highlighted risks such as business interruption and injury. Even sole traders in manual occupations such as cleaners and delivery drivers are becoming aware of the need for insurance, and this large untapped market is opening up as insurers' ability to serve improves.



Helen Bryant

"We are seeing market growth in a number of sectors at present, including within professional services and trades such as IT specialists and business consultancy. On a similar vein within the retail space we are starting to see evidence of an accelerated trend towards online sales and I anticipate continued movement away from traditional high street retail risks in a post-Covid world. As always, insurers must remain alive to changing market conditions and react to ensure their propositions remain relevant."



Ranila Ravi-Burslem

"There was a real desire and opportunity to create simple, affordable employee benefit propositions for small businesses to consume very easily. The pensions revolution in the UK has really opened the eyes of the small business to employee benefits, and that will have only been reinforced by Covid. A lot of employers will be much more keenly aware of wellbeing and wellness, and that's a huge opportunity for growth."



Janthana Kaenprakhamroy

"Two decades ago, many freelancers would go without insurance. But today it's more common to ask everyone that we're working with to have some sort of insurance – we wouldn't allow them to do the work without it. Everyone who is in business, or has clients, will need insurance."

Building relationships for customer retention

All insurers and brokers grapple with the challenge of how to build a relationship with customers with whom they may only interact infrequently. The right approach to content marketing can help here, showcasing the expertise of the insurer with advice for small businesses.

For brokers Customer Relationship Management (CRM) analytics help pinpoint conversion targets and cross-sell opportunities.



Helen Bryant

"We're seeing an increasing trend of customers seeking reassurance throughout their insurance purchase process which is driving innovation in online journeys, particularly in the Bancassurance space. For example the provision of statements such as 'customers like you bought...' recognises similarities that a customer may have with other businesses insured by that provider, creating a sense of reassurance in the purchase."



18%

of SMEs plan to stop using brokers after the pandemic

It is increasingly possible to underwrite SME risks quickly

Thanks to data, analytics and automation technology, it is increasingly possible to underwrite SME risks quickly and efficiently at scale. This allows insurers to offer policies that are more personalised around each policyholder's specific context and unique nuances. It also enables more flexibility to be incorporated into products, which are able to shift dynamically as the SME's own business evolves.



Ranila Ravi-Burslem

"It'll be much more customer-centric propositions, starting from customer need rather than channel preference, product structures or risk profiles."

SME policyholders are usually first acquired through mandatory insurance such as Directors and Officers coverage. From there, the opportunity exists to cross-sell other products such as cyber, business interruption and credit risk. Predictive analytics help identify lucrative cross-sell and up-sell opportunities.



Buntly Aranja

"There's some very easily computable insurances that you can start hanging onto traditional lines. For example, we started selling cyber alongside our policies pretty rapidly. There's a big focus on cross-sales internally."

While the SME market will continue to be dominated by intermediaries, for simpler SME propositions there are growth opportunities in direct distribution and we may even see online aggregators enter the market, as has already happened in the retail space. Such propositions have an in-built appeal particularly for micro-SMEs, which are highly cost-conscious and value a simple, painless purchasing experience.

As a broker and insurer, adding value through expertise is the best defence against price commoditisation. Many small business owners lack understanding of risk, which is an opportunity for insurance professionals to act as business advisers. Align your marketing communications, content and customer experience to showcase your understanding of what keeps small business owners up at night, highlighting how insurance can help them grow and protect against unexpected costs and interruptions.

For smaller insurers and brokers, focusing on a specific niche is a route to specialisation – for example working with professional drivers, or with charities.

Commercial insurers have historically concentrated on corporates and therefore the SME market (particularly micro-SME) is comparatively underserved. As with corporates, SME insurance distribution is mostly intermediated. For carriers and brokers alike, the following strategies are essential to success.

Covid is further changing the landscape

The pandemic has changed insurance, just as it has changed consumer behaviour, supply chains and the shape of our working lives. The rise of home working is stimulating demand for products such as cover for home office equipment. The pandemic has also accelerated the movement away from physical and premises-based risks to non-tangible risks such as IP or fraud, a trend that is highly likely to continue even when lockdown rules are eased.

Reports of insurers not paying out Covid-related claims have rattled the confidence of SMEs, although there are signs that the industry will weather the storm. Trust, however, will always be an important feature of relationships in this market.



Helen Bryant

"Covid-19 has altered ways of working, most likely permanently, resulting in a significant rise in the number of individuals predominantly working from home. Many property policies will already extend to provide a level of cover for home working (many on a temporary basis), but insurers will need to consider whether they wish for their covers to also provide a permanent solution where they don't already."

Enhancing customer journeys

Carriers and intermediaries are working closely together to streamline processes that lead to superior customer experiences. Not surprisingly, the MGA model has found great success in the SME market.

Brokers have not had the same access to capital as carriers to back large transformation programmes, but equipped with a rich understanding of the customer, and driven by the need to stay relevant, they are leading the way in customer experience.



Bunty Aranja

“A customer who logs into our website, or comes across a digitally transactable product, should quickly and easily get an idea of what our key selling points are and what sort of price range they might be looking at. And essentially, it’s up to us to keep them engaged from that point onwards.”

Online policy-administration platforms now allow customers to conveniently self-serve 24/7. MGAs equipped with automated quote and bind processes are able to source and sell with speed and simplicity comparable to retail.

Brokers have access to vast amounts of data collected from clients, which offers massive potential for optimising every part of the value chain.



Bunty Aranja

“When I joined insurance, it was staggering to see the amount of value placed on relationships, and not so much on data. But we’ve seen a huge rise in the role of data scientists and actuaries in recent years.”

But how might that advantage change in the future? After the pandemic, 18% of SMEs plan to stop using brokers, and 16% plan to reduce their reliance on them. By contrast, 16% say they will use digital channels more⁵.

Insurers and brokers can tap into trade bodies



Ranila Ravi-Burslem

“Say I want to target the professional services market. What trade bodies exist? How can I get my messages out through people they trust?”



Janthana Kaenprakhamroy

“People recognise you as one of the members. That’s important because it builds trust.”



Bunty Aranja

“One thing we really added value on, and continue to add value on are producing and sharing industry-specific market insight. It’s a big relationship driver for us.”

Embedded insurance will drive future growth

Embedded insurance is the name given to combining insurance with other types of professional services. The most obvious example here is accountancy and accountants. Whereas SME owners and managers typically speak to an insurer infrequently, they may speak to their accountant every month, making the accountant a trusted source of information and advice for SMEs and a valuable channel for insurers to reach potential customers.

Some insurers have built platforms enabling accountants to procure insurance on behalf of their clients and provide risk-related advice. In this model, insurers enable accountants to create their own revenue streams based on the insurance proposition.

A well-established example of embedded insurance is bancassurance, a viable SME strategy for large carriers with the capacity to partner with banks.



Helen Bryant

“My experience of working in partnership with banks is that they have a developed understanding of their customers, allowing targeted refinement of a proposition to most effectively meet the needs and demands of that group.”

⁵ <https://www.mckinsey.com/industries/financial-services/our-insights/insurers-must-rethink-the-sme-segment-lessons-from-the-united-kingdom>

Creating simplicity

For carriers, the goal is to support distribution partners in ensuring that customer journeys are seamless and easy. Considerable investment is being directed to simplifying policy wording and reducing the number of questions required in the application process.



Helen Bryant

“Simplification of customer experience is a strategic theme for a number of UK insurers. Whilst I would reflect that the market is taking steps towards achieving this goal, there is still some way to go. For example, in time, I would like to see policy wordings redesigned to a level that make them as easy for our customers to understand as reading a newspaper.”

Simplicity is created via data enrichment, analytics and automation of workflows. Profiling data can be collected without asking the customer and in many cases can be more accurate than asking the customer. Predictive analytics help customers make the best decisions. Intelligence built into customer journeys offer content and advice to support the customer from purchase through to policy administration and claims.



Bunty Aranja

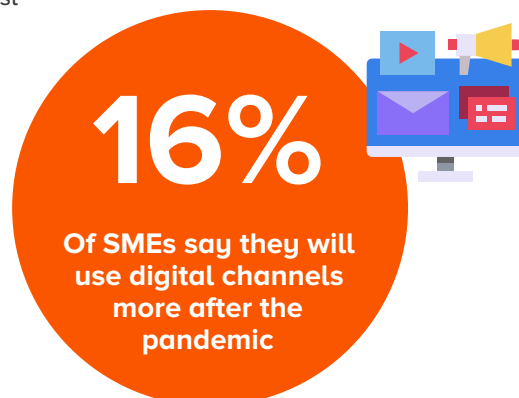
“You would get a new inquiry in and someone would manually put this information into a legacy trading platform, then send it offshore for someone to perform checks on, things like Companies House and regulatory databases. For smaller business earning us a few hundred pounds, this initial process has already taken a week. By automating the checks, we’ve cut that processing time to minutes from first contact to cover.”



Paul Tully

“We’re developing a broker portal that empowers the broker to do things more efficiently for their clients without the need to call us.”

In many instances, the same technology that is built to drive operational efficiency also improves customer experience. The rewards for investing in this technology are high.



Trading platforms are creating vast efficiencies

Insurance marketplaces such as iMarket in the UK are transforming how commercial insurance is bought and sold, making it far easier for brokers to find cost-effective propositions and for carriers to sell capacity. Some large carriers have established proprietary marketplaces through which they can offer packaged SME products, making it easier for brokers to find the most appropriate solutions for their clients.



Bunty Aranja

“We’re moving towards a single platform on the Salesforce cloud, fully API driven, which will allow us to transact wholesale and retail business internationally and find cross-sell opportunities.”



Helen Bryant

“Trading our products digitally allows us to provide immediate quotations and amendments to cover, supporting our brokers in providing a fast and cost efficient solution for their customers.”

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