vero

Insurance with insight

2025 SME Insurance Index

INSIGHTS ILLUMINATED

Contents

Introduction

In a world of escalating risks and constant change, effective risk management has never been more essential for Australian businesses.

It's clear that brokers play an essential role in times like these – when business owners and operators are faced with so many decisions, they can be overwhelmed by the weight of it all, which can lead to inaction.

In the wise words of one former American President, Theodore Roosevelt, "In any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing".

As economic pressures, technological advancements and emerging global challenges reshape the landscape, businesses are increasingly looking to the insurance industry not just for coverage, but for strategic support in managing complex and evolving risks. Insurance brokers are at the forefront of this shift, with their expertise becoming integral to helping clients make informed decisions and protect what matters most.

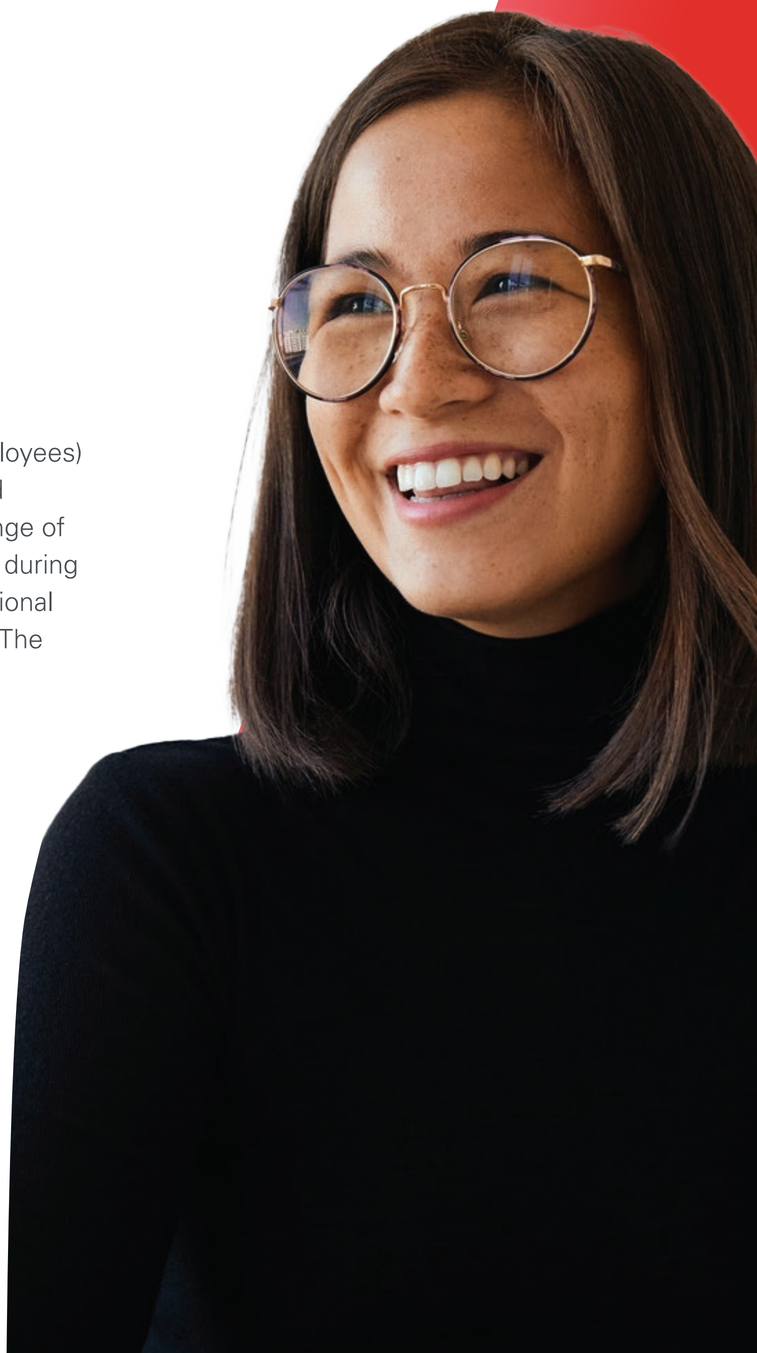
Now in its 14th year, the Vero SME Insurance Index captures the attitudes, behaviours, and needs of insured businesses we surveyed across Australia, highlighting our commitment to proactive risk management. This year's report delves into key areas shaping the sector: how brokers' roles are evolving to meet changing client expectations, the crucial practices and processes businesses employ to manage risk, and the ongoing challenge of underinsurance as costs rise. We also explore emerging risks – from the integration of electric vehicles and renewable energy sources to the rise of AI – highlighting the dynamic role brokers play in helping businesses navigate these new frontiers.

We trust the insights from this year's report provide a valuable perspective on current trends and opportunities, reinforcing the critical role brokers play in supporting action, resilience and growth across Australia's business landscape.

Anthony Pagano
Head of Distribution,
Commercial Insurance

Research methodology

This report is based on research involving 1,750 business owners and decision-makers from around Australia. The research was independently conducted and run in two stages:



Stage One
Quantitative Survey

A nationwide online survey of 1,500 SME (up to 199 employees) and 250 large business (over 200 employees) owners and insurance decision-makers was conducted, covering a range of business types and locations. The survey was conducted during September 2024 and the data was weighted by organisational size to current Australian Bureau of Statistics (ABS) data. The survey covered:

- general business **sentiment**;
- attitudes towards **insurance**;
- insurance purchase **process**;
- purchase channel **(broker or direct)**;
- attitudes towards insurance **brokers**;
- **demographics**.

Respondents were screened to ensure that they were responsible for making insurance decisions for their businesses. Quotas around state and business size ensured that representative samples were obtained.

Businesses were divided into five groups:
Where the data was not insightful, Large and Very Large were combined for simplicity.

MICRO	Business which employ **1-4 individuals**
SMALL	Business which employ **5-19 individuals**
MEDIUM	Business which employ **20-199 individuals**
LARGE	Business which employ **200-499 individuals**
VERY LARGE	Business which employ **500 or more individuals**

Stage 2
In-Depth Qualitative Interviews

A series of interviews were conducted with 10 business insurance decision-makers representing a mix of business sizes, types, attitudes to insurance, insurance purchasing channels and demographics. These sessions were held online during December 2024.

A NOTE ON THE LARGE BUSINESS DATA IN THIS REPORT

We have included 250 insurance decision-makers from large businesses within the results. A larger sample size makes the results more statistically distinct; however, we have ensured the total results accurately reflect the wider Australian market by applying appropriate weighting. According to ABS data, large businesses represent less than 0.2% of all Australian businesses, and this proportion has been carefully maintained in the results.

https://www.abs.gov.au/statistics/economy/business-indicators/counts-australian-businesses-including-entries-and-exits/latest-release#data-download

Significance tests were conducted at a confidence level of 95%:
▲ Denotes significantly higher than other segments.
▼ Denotes significantly lower than other segments.

This research was conducted by Fuller (formerly BrandMatters). See www.fuller.com.au

Chapter 1

Setting the scene: How broker usage and satisfaction is changing

For 14 years, the Vero SME Insurance Index has tracked the insurance purchasing behaviour of Australian businesses, enabling us to keep track of the role of brokers in the ever-changing insurance landscape. Every year we track several key measures, including purchase channel, satisfaction levels, attitudes towards insurance and brokers, and claims experiences.

The last year has been another challenging one for businesses, dominated by continued inflationary pressures, sluggish growth and ongoing international instability. We know that many businesses are doing it tough, with around half claiming that their revenue has declined over the last year. This is especially true for smaller businesses, which make up the majority of the Australian economy. SMEs have been disproportionately impacted, facing greater challenges in managing rising costs and maintaining profitability. Despite this, most of our key measures haven't shifted over the last 12 months. In this chapter, we set the scene for the current context by exploring three key measures that have shifted – broker usage, satisfaction and reasons to use a broker.

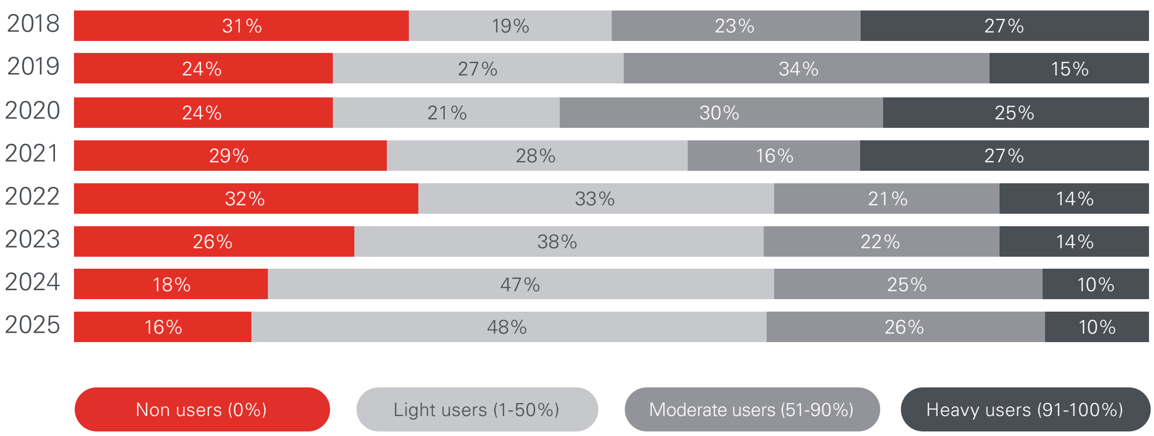
49%

of businesses' turnover has decreased in the last year

Businesses are continuing to use a mix of channels to purchase their insurance

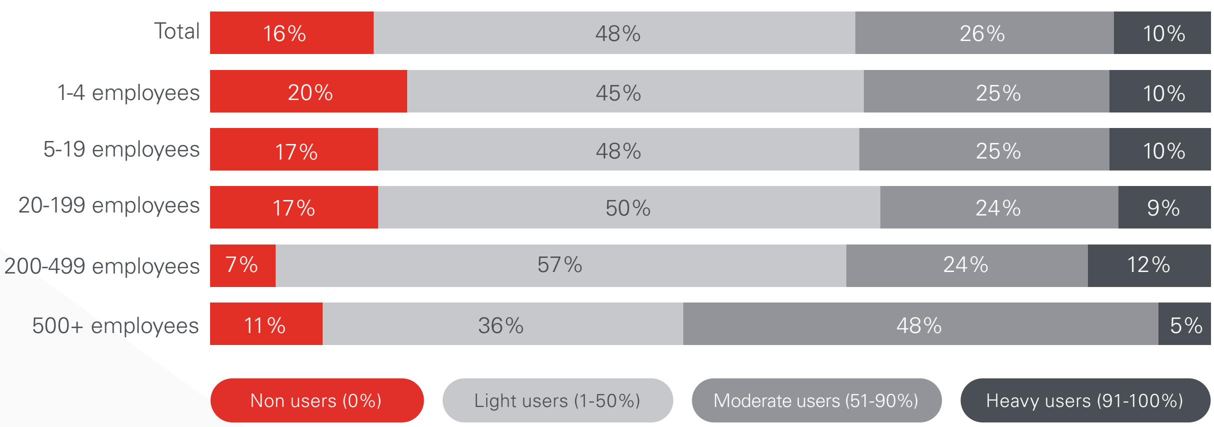
Over time, we have seen a significant shift towards businesses claiming to use a mix of channels to purchase their insurance. Back in 2018, just over a quarter of businesses met our definition of heavy broker users – that is, they claimed to buy the bulk (over 90%) of their insurance through a broker – while 31% of businesses claimed to not buy any of their insurance through a broker. In the years since, both extremes have declined substantially. This year only 10% of businesses are considered heavy users and only 16% are non-users. Mixed usage is becoming the norm for Australian business, with 74% using a broker for some of their insurance, up from 72% last year (see figure 1.1).

Figure 1.1: Broker usage



This trend is even more pronounced amongst larger businesses. A significant portion of large businesses are what we consider to be either light or moderate users, while relatively few said they do not to use brokers at all. Specifically, 57% of large businesses (between 200 and 499 employees) are light users and 48% of very large businesses (over 500 employees) are moderate users. Light users are defined as those who buy between 1% and 50% of their insurance through a broker, whereas moderate are those who buy between 51% and 90% (see figure 1.2).

Figure 1.2: Broker usage by business size



As in previous years, direct purchase (using no broker) trends towards more straightforward or legislated products. The most common covers to be purchased direct include commercial motor vehicle, workers compensation and travel insurance (see figure 1.3).

Figure 1.3: Types of insurance bought through each channel

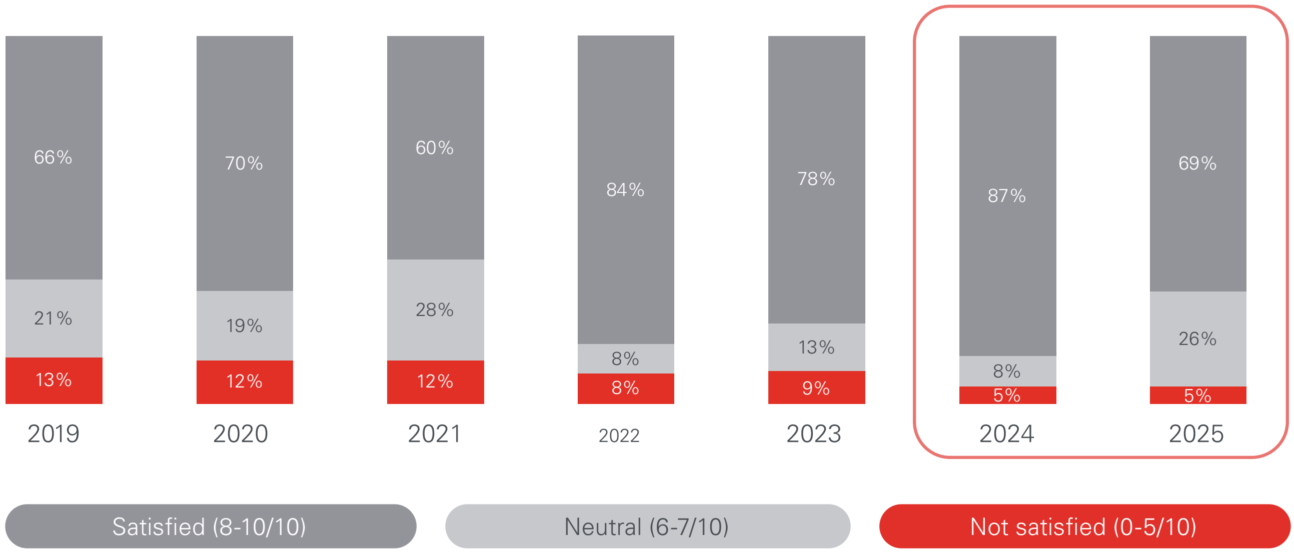
	Broker			Direct	
1	Professional Indemnity	39%	1	Commercial Motor Vehicle	54%
2	Business Interuption	38%	2	Workers Compensation	52%
3	Corporate Property (Industrial Special Risk)	37%	3	Travel Insurance	49%
4	Public Liability	36%	4	Commercial Property (including Fire & Theft)	48%
5	Marine (includes Inland Transit & Cargo)	35%	5	Machinery/Equipment Breakdown	47%

Insurance purchased directly may be viewed as far less complex products. However, these products represent important policies in a business' overall risk response. There is value in brokers having oversight of the entire client portfolio. So, what can brokers do to ensure they are involved with as much of their clients' insurance as possible? And how can they provide their clients with the benefit of holistic risk advice rather than simply providing one or two ad hoc policies?

Satisfaction with brokers has dropped from last year's record high levels

From the beginning of the Vero SME Insurance Index in 2012, we have asked businesses how satisfied they are with their broker on a scale of 1-10. Levels of satisfaction (with 'satisfied' defined as those who score their broker at least 8 out of 10) have generally been reasonably strong, but between 2022 and 2024 this number grew significantly, jumping to an all-time high of 87% in 2024. This year we have seen a decline in the level of satisfaction compared to last year's high, with 69% saying they are satisfied. While this number is a significant drop, 69% satisfaction is still a very strong score that compares favourably with satisfaction levels before 2022. Also notable is the fact that this decline is not due to increased dissatisfaction, given the number of businesses who score their broker five out of 10 or less is stable at 5%. Rather an increased number of businesses rate their broker at six or seven out of 10, demonstrating an increase in those who are neutral rather than dissatisfied (see figure 1.4).

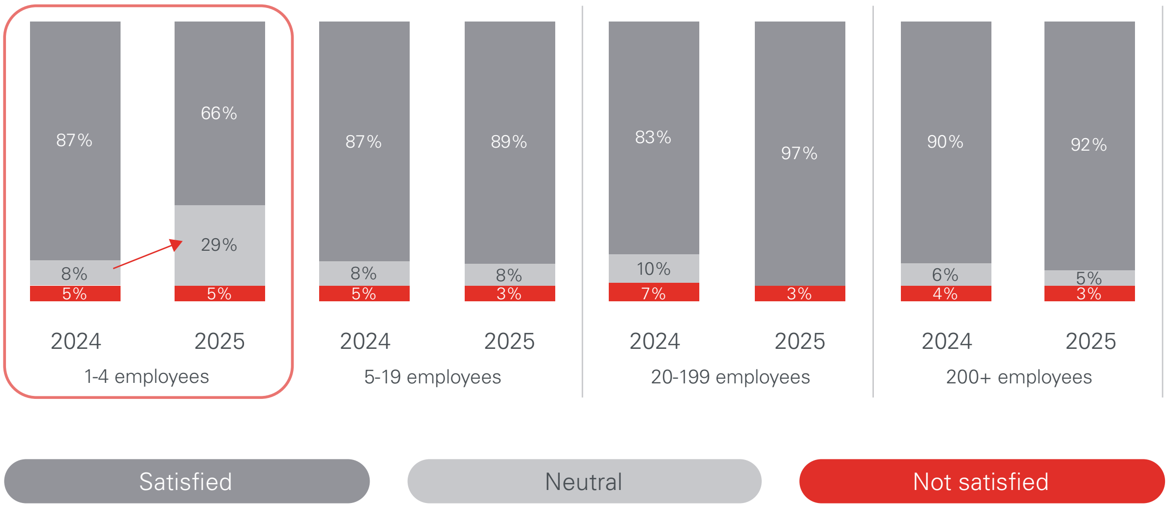
Figure 1.4: Broker satisfaction



Further analysis of the data highlights some notable drivers of this (decline in) satisfaction. Looking at business size, declining satisfaction is largely driven by micro businesses (those with between one to four employees), while satisfaction remains very high amongst larger businesses.

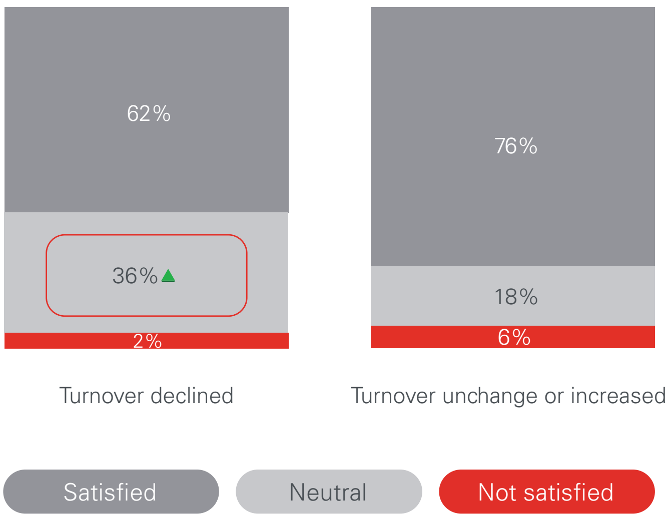
The data shows that dissatisfaction isn't increasing across any group, it seems an increased number of insurance decision-makers are feeling neutral about their broker (giving them a score of six or seven out of 10) (see figure 1.5).

Figure 1.5: Broker satisfaction by business size



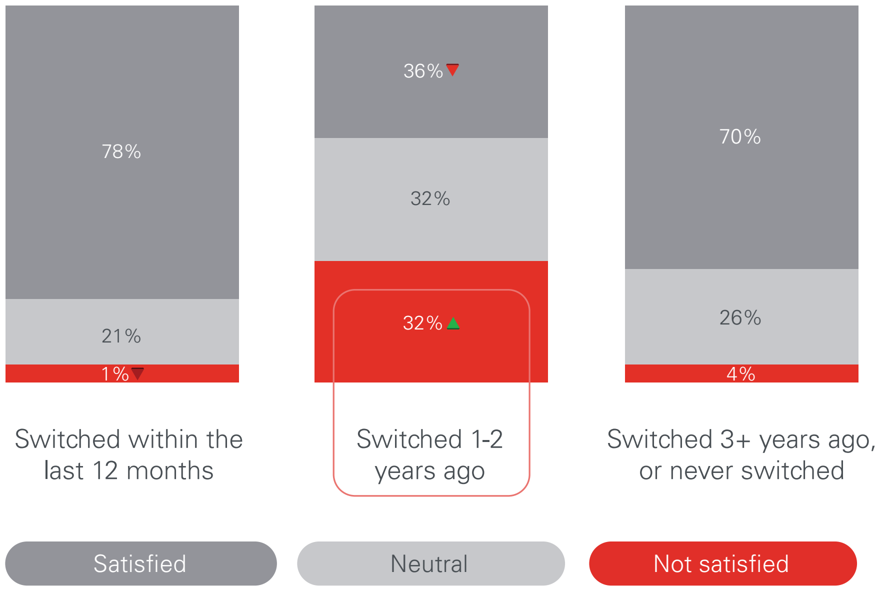
Another driver of this trend appears to be business conditions, with satisfaction levels apparently associated with declining business turnover. The data shows that 35% of businesses whose turnover has declined in the last year are neutral about their broker, compared to 18% of businesses whose turnover has stayed stable or increased (see figure 1.6). Businesses who are doing it tough seem less likely to engage their broker, and they may benefit from more attention and support.

Figure 1.6: Broker satisfaction by business turnover change



Turning to the length of broker relationships, we see an interesting pattern in the data. Those who started working with their broker between one and two years ago are less satisfied, with only 36% scoring their broker eight or more out of 10. While new broker clients and those who have been with their broker for more than three years are more satisfied (see figure 1.7). One possible indicator is a "honeymoon effect" in which broker clients are happy at first but start to feel less content after a year or two. To continue to demonstrate value beyond the first two years, brokers can consider reviewing service levels for clients throughout their relationship, and in particular focus on ensuring high levels of service continue beyond the first insurance cycle.

Figure 1.7: Broker satisfaction by when business last switched brokers

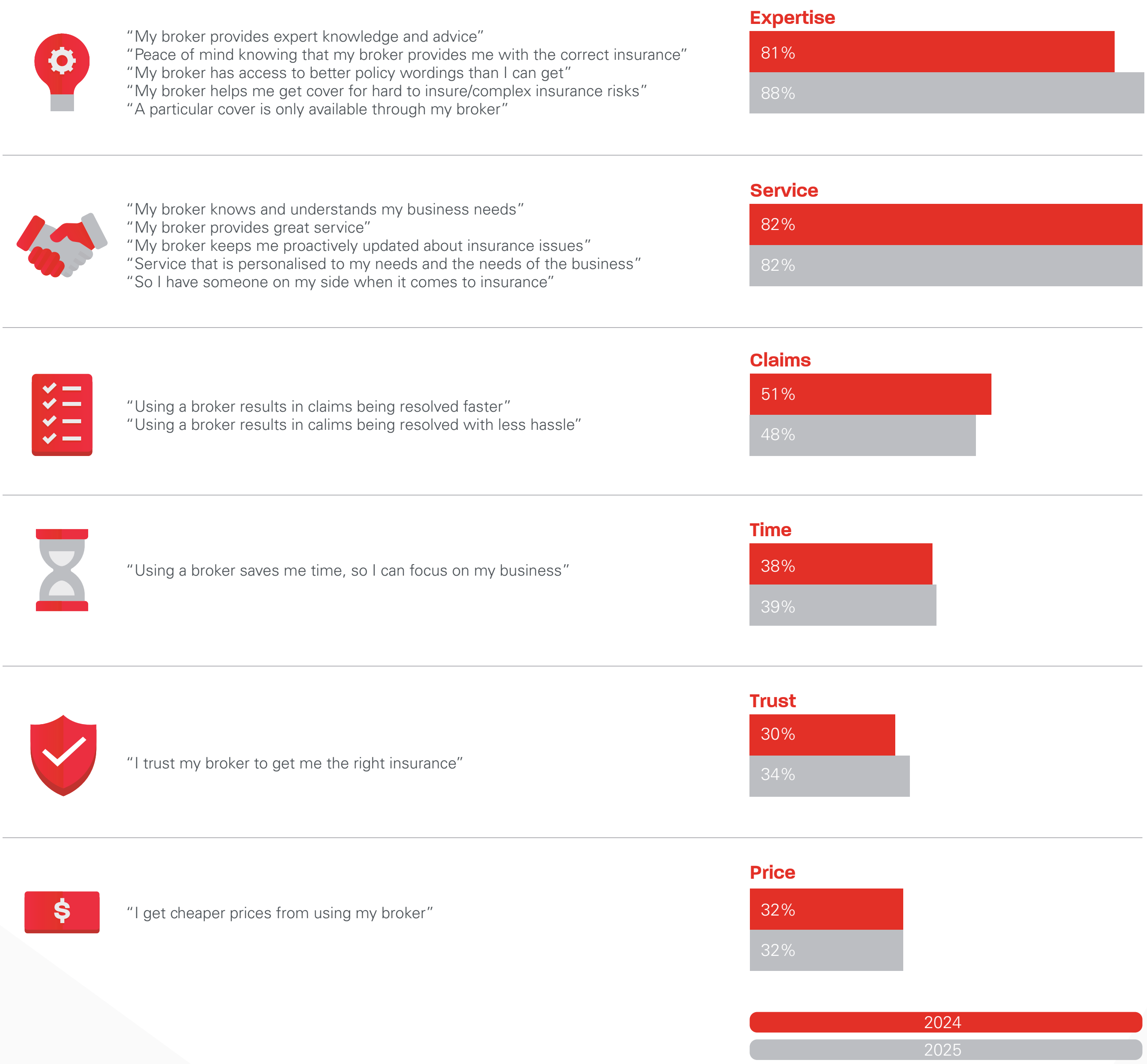


> **My preference would be to have everything through the broker. So therefore there's not a risk of missing something or not having something accounted for.**
>
> Michelle, Motor Repair,
> Medium Business, Medium Broker User

The importance of expertise is increasing

There are many reasons businesses choose to work with a broker, and expertise and providing good service have always been at the top of the list. While this overall trend is consistent this year, there has been a marked increase in businesses saying that factors such as providing expert knowledge and advice, providing the correct insurance, and access to better policy wordings, are reasons to work with their broker. These expertise-related factors are cited by 88% of businesses this year, up from 81% last year. 82% refer to service-related factors, such as understanding business needs and providing proactive updates, and is unchanged from last year (see figure 1.8). This suggests that the value of the professional, specialist expertise that only brokers can provide is more important than ever to Australian businesses, and that brokers can benefit from clearly demonstrating this expertise to their clients.

Figure 1.8: Reasons to work with a broker



What does this mean for brokers?

Insight Action

Insight:

An increasing proportion of businesses buy their insurance through a mix of channels, with more straightforward products dominating direct purchase.

Action:

An opportunity exists for brokers to gain a holistic understanding of an organisation's full risk matrix in order to provide the best possible service and risk advice to their clients. Such things help to demonstrate their value and increase client loyalty.

Insight:

Satisfaction with brokers has declined amongst smaller businesses with declining revenue and those who switched brokers one to two years ago.

Action:

The smaller business clients may require specific focus and attention from brokers. In particular, brokers should be aware of the possibility of a "honeymoon effect" and ensure that high levels of service continue beyond the first insurance cycle with a new client.

Insight:

Expertise is becoming an even more important reason for clients to work with brokers.

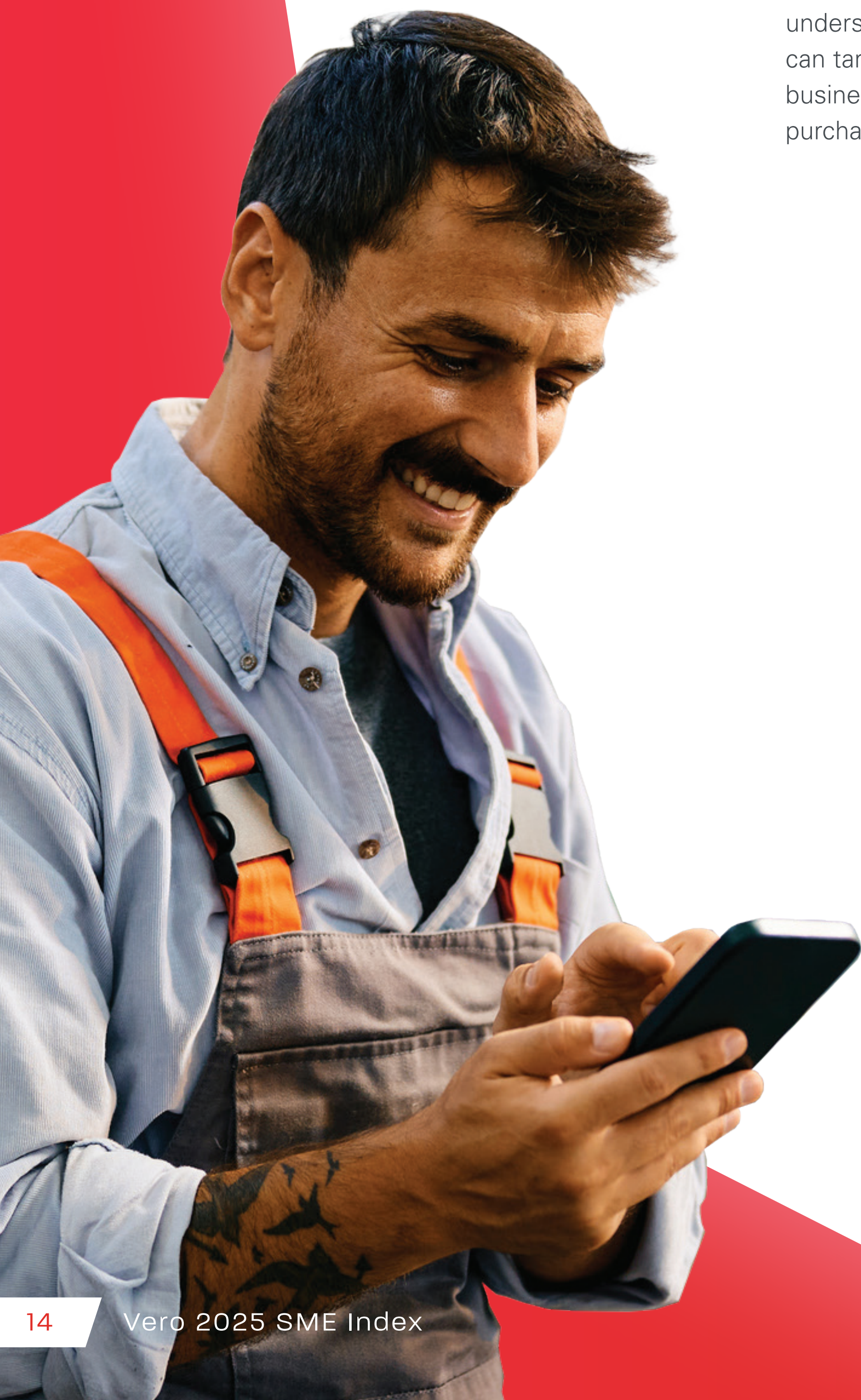
Action:

Any opportunities for brokers to demonstrate the value of their experience and specialist expertise they deliver to clients will enhance businesses' perceptions of brokers.

Chapter 2

What can brokers do to retain business and attract new clients?

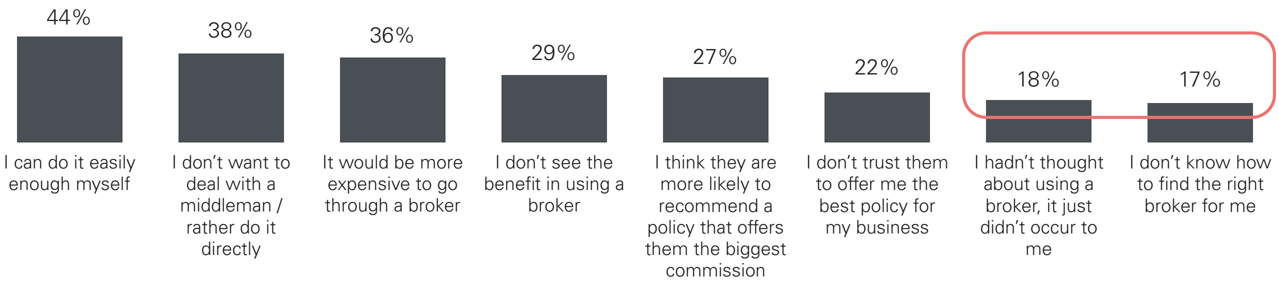
Most Australian businesses choose not to use a broker for at least some of their insurance. To understand what is driving this – and how brokers can target opportunities – we have explored business attitudes and behaviours around direct purchase, as well as a tendency to switch brokers.



Ease and a desire for independence, drive direct purchase

When asked why they don't use a broker for some of their insurance, 44% of businesses say that they can do it easily enough themselves, and 38% say they don't want to deal with a 'middle man'. Cost is a factor for 36% of businesses who fear that using a broker would lead to more expensive outcomes. Around one in five businesses hadn't thought about using a broker, and a similar proportion don't know how to find a broker (see figure 2.1).

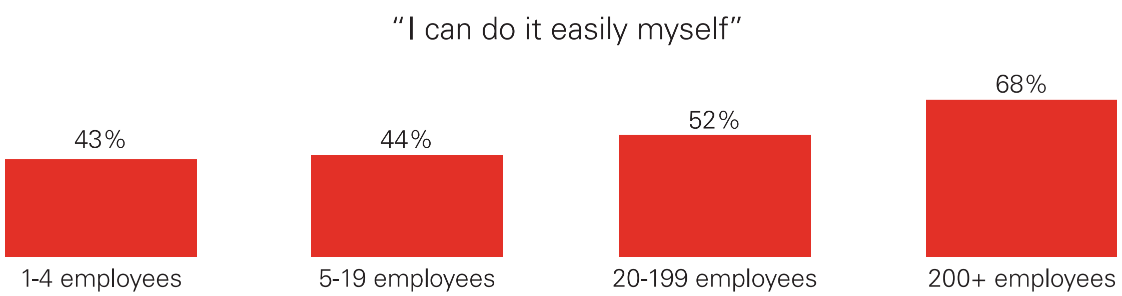
Figure 2.1: Reasons not to use a broker



Brokers have an opportunity to demonstrate that the expertise they deliver outweighs the ease of direct purchase. Larger businesses are more likely to say that it's "easy enough" to buy insurance themselves (see figure 2.2).

This suggests an even greater need for brokers to demonstrate the value of their specialised expertise to larger businesses, who may have insurance-focussed resources in-house, yet can still benefit from using a broker.

Figure 2.2: Reasons not to use a broker by business size



Despite the perceived ease of direct business insurance purchase, the Index points towards many factors that would encourage businesses to consider using a broker more often. Guidance-related factors, such as explaining recommendations and making it easy to understand, would be persuasive for almost all businesses. Expertise is also influential for around 86% of businesses – particularly providing expert knowledge and advice, as well as access to a diverse range of policy wordings (see figure 2.3).

Figure 2.3: Reasons to use a broker more

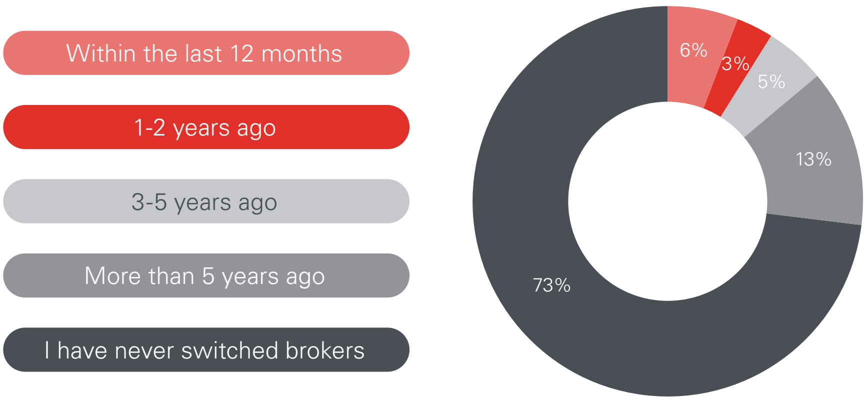
"Guidance on insurance issues" "A broker who explains their insurance recommendations thoroughly" "They make it simple and easy to understand insurance options" "Explains inclusions/exclusions/limits in policy wording" "Provides advice on Environmental, Social, and Governance (ESG) issues"	**Guidance**	96%
"A broker would provide expert knowledge and advice" "A broker has access to better policy wordings than you can get" "Knowing that the broker provides me with the correct insurance" "My business is becoming more complex, so my insurance needs are more complex also" "Having a broker that helps me get cover for hard to insure/complex insurance risks" "They perform a risk assessment of my business"	**Expertise**	86%
"Using a broker could save you time so you can focus on your business" "Using a broker results in faster responses to my queries"	**Time**	78%
"So you have someone on your side when it comes to insurance" "Being proactively updated about insurance issues" "More responsive service" "Service that is personalised to your needs and the needs of the business"	**Service**	72%
"Using a broker results in claims being resolved faster" "Using a broker results in claims being resolved with less hassle"	**Claims**	71%
"Getting cheaper prices from a broker" "Getting more quotes from a broker"	**Cost**	53%

By demonstrating guidance and expertise, providing advice, and explaining recommendations, brokers can demonstrate the value they provide over the ease of direct purchase.

Understanding broker switching behaviour

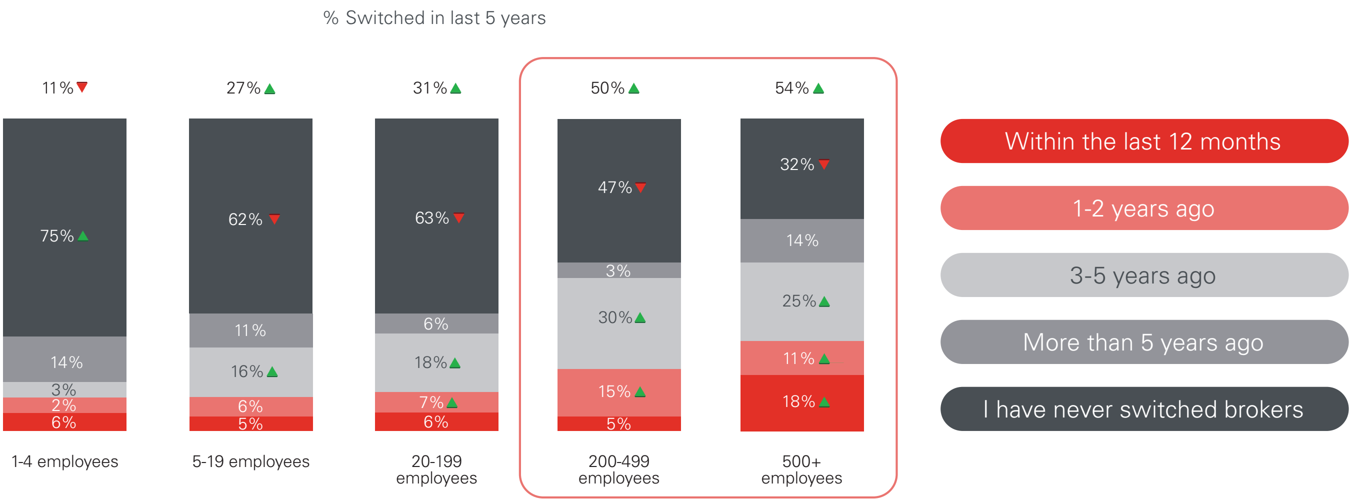
It is more efficient for businesses to retain existing clients than to attract new ones, so it is important to consider client retention as a business strategy. To explore this, this year the Index asked businesses who use brokers when they last switched brokers. While the majority of businesses have never switched (73%), almost a quarter have changed brokers at some stage, including almost 10% having switched in the last two years (see figure 2.4). Any switching behaviour represents a potential threat to brokerages, so what types of businesses are more likely to switch?

Figure 2.4: When businesses last switched brokers



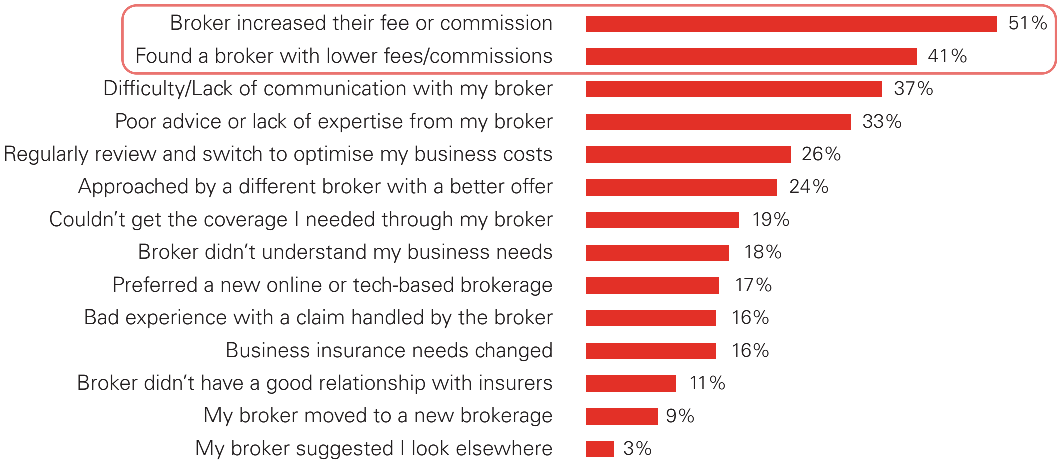
Larger businesses surveyed are significantly more likely to have switched brokers in recent years, while small businesses appear more loyal. Specifically, 20% of large businesses (with between 200-499 employees) and 29% of very large businesses (with over 500 employees) have switched brokers in the last two years (see figure 2.5). Larger clients are more open to switching, and therefore customer retention should be a focus for brokers in this area.

Figure 2.5: When businesses last switched brokers by business size



Many businesses who have recently changed brokers cite cost-based reasons behind their switch. For example, 51% said they changed because the broker increased their fee and 41% said they found a broker with lower fees. However, factors such as communication and expertise also play a role, with 37% saying they changed due to poor communication and 33% blaming "poor advice or lack of expertise" (see figure 2.6). For 17%, online brokerages provided a reason to change.

Figure 2.6: Reasons businesses switched brokers (in last 5 years)

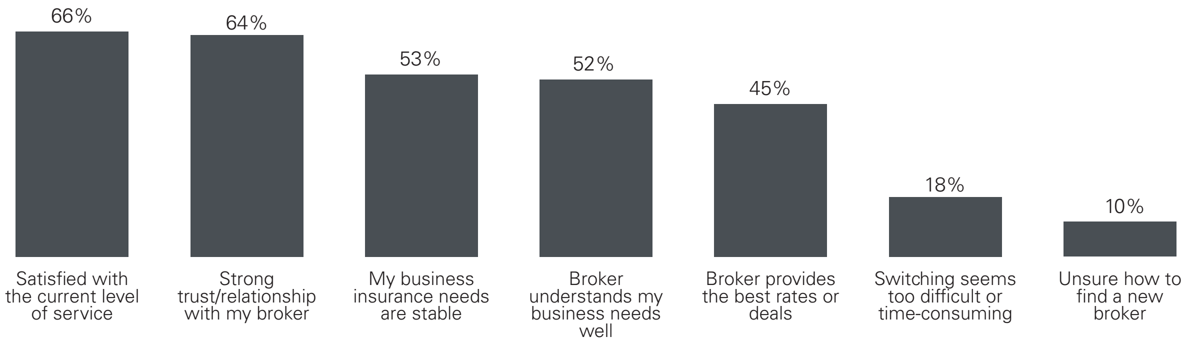


Cost provides a rational reason to shop around, but brokers can potentially overcome this by demonstrating value through expertise and strong communication. Brokerages should also consider developing online offerings to suit the demand, as some businesses find this compelling.

Good service and strong relationships drive loyalty

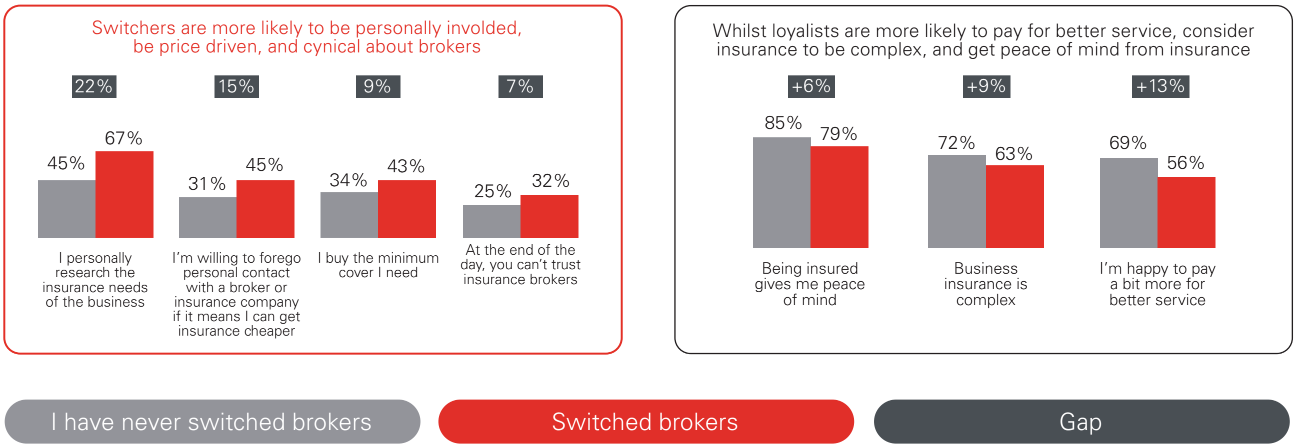
For those businesses that have never changed their brokers, good service and strong relationships are key factors. Specifically, 66% say they are satisfied with the current level of service they receive and 64% say that they have a strong relationship with their broker. Inertia doesn't appear to be a factor, with only 18% saying that switching is too difficult and only 10% saying they would be unsure how to find a new broker (see figure 2.7).

Figure 2.7: Reasons for never switching brokers



There are some notable differences in the Index's attitudinal statements between those who are loyal to their brokers compared to those who have switched brokers. Those who switch are more likely to be involved in insurance research, be price driven and be cynical about brokers. For example, 67% of switchers say they personally research their insurance compared to 45% of broker loyalists, and 45% are willing to forego personal contact to get cheaper prices (see figure 2.8).

Figure 2.8: Attitudinal statements by broker loyalists and switchers



Note: The gap represents how much more or less likely each group is to agree with these statements. Positive values indicate stronger agreement within that group.

Conversely, broker loyalists are more likely to be willing to pay for service – 69% compared to 56% of switchers; and 72% understand that business insurance is complex, compared to 63% of switchers. Building trusted relationships, while also demonstrating expertise and service may help clients to remain loyal – for example by helping businesses understand the complexities around insurance cover with what is and isn't included, as well as explaining the rationale behind their recommendations.

What does this mean for brokers?

Insight Action

Insight:

Switching brokers is more common behaviour amongst larger businesses.

Action:

Brokerages could consider implementing customer retention strategies, especially for larger businesses who may regularly review their insurance purchasing arrangements.

Insight:

Many businesses say that they buy at least some of their insurance direct because it's easy enough to do it themselves, however they could be persuaded to use a broker more if they received extra guidance and expertise.

Action:

There is an opportunity for brokers to gain a greater share of their clients' insurance portfolios by demonstrating the added value and specialist knowledge they deliver to clients, over and above any cost savings or convenience. Consider using relevant examples of loss scenarios to demonstrate the nuances.

Chapter 3

Investigating underinsurance and business decision-making on the cover needed

Underinsurance poses a critical risk for businesses, especially in the current inflationary environment. While this is well understood within the insurance industry, this year's Index explores some of the behaviours and attitudes towards underinsurance to identify the role that brokers can play into ensuring businesses are adequately covered.

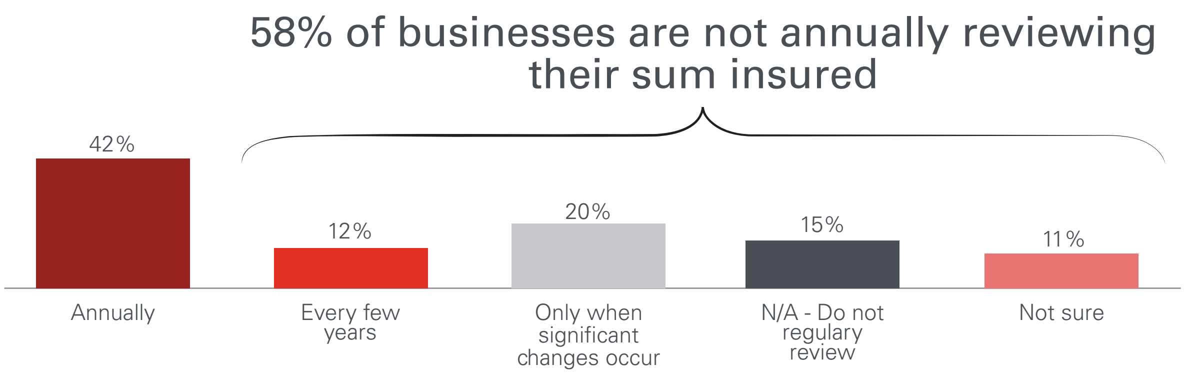
> **"I probably don't look at the sum insured for my policies as much as I should. I tend to look at what it's going to cost me to insure it more than what the amount that I'm insured for probably."**
>
> Kathleen, Conveyancing, Small Business, Light Broker User

Less than half of Australian businesses review their sum insured annually

While 42% of businesses review and adjust their sums insured annually, 58% claim to do this less often, including 15% who do not review at all and 11% who aren't sure (see figure 3.1).

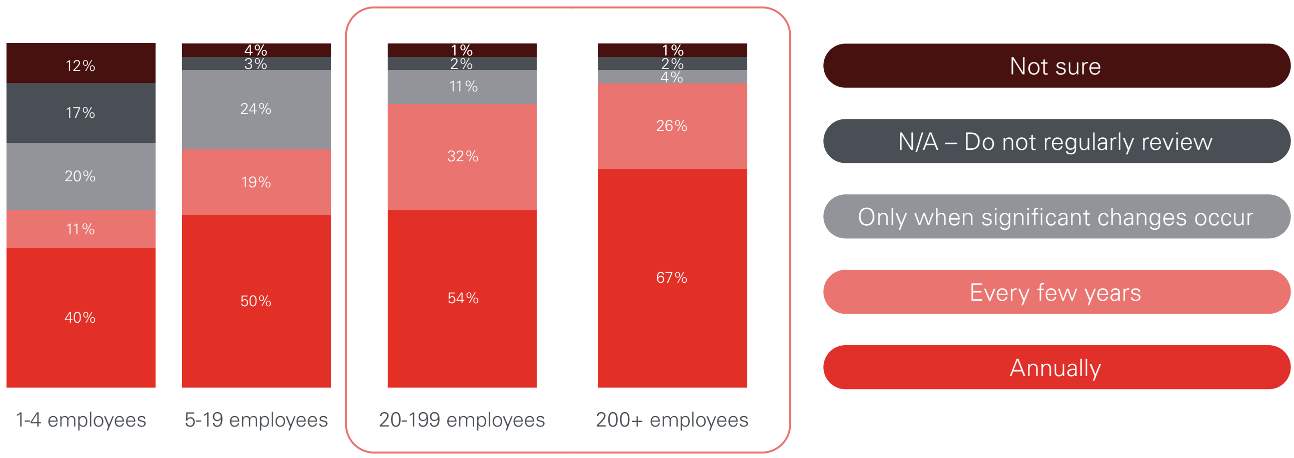
With inflationary pressure still impacting the economy and cost of living, this highlights a need for education around the importance of reviewing sums insured.

Figure 3.1: Frequency of reviewing sums insured



While larger businesses are more likely to review annually, 46% of medium businesses and 33% of large businesses review less frequently, suggesting that education is required for businesses of all sizes (see figure 3.2).

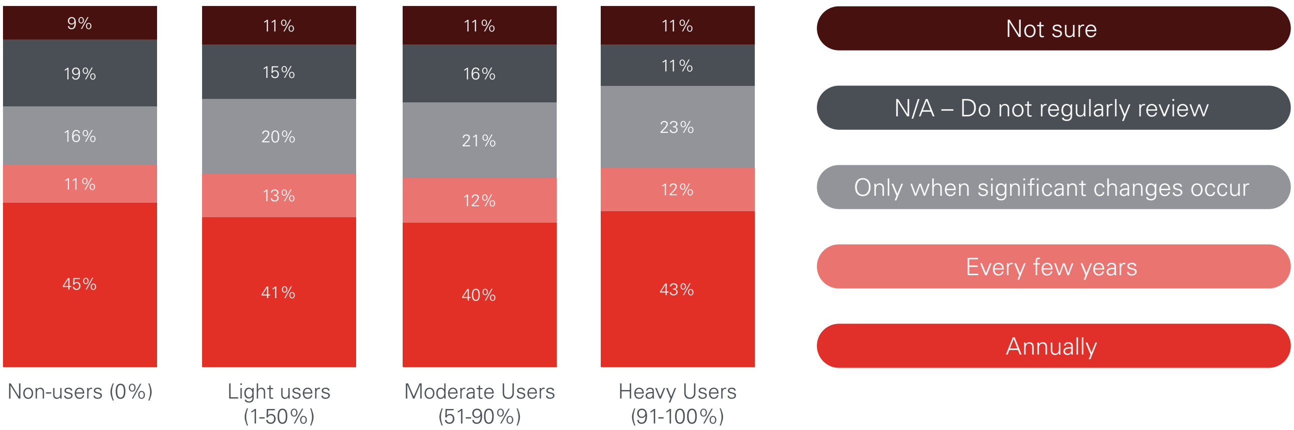
Figure 3.2: Frequency of reviewing sums insured by business size



There doesn't appear to be a notable difference between broker usage and annual reviews of sums insured. Only 43% of heavy broker users review annually, compared to 44% of non-users, which provides an opportunity for brokers to encourage clients to review their sum insured more regularly (see figure 3.3). It is important to note that this data is based on what businesses perceive to be happening and businesses may be missing the fact that some brokers are reviewing their sums insured. By overtly communicating this process to clients, brokers have an opportunity to demonstrate their expertise and value add.

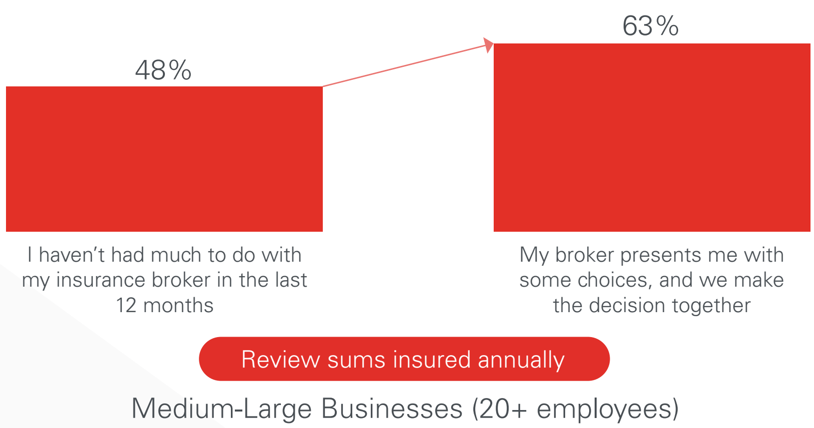
For lighter broker users, brokers may be able to demonstrate further expertise by offering to review other policies that these businesses buy direct.

Figure 3.3: Frequency of reviewing sums insured by broker usage



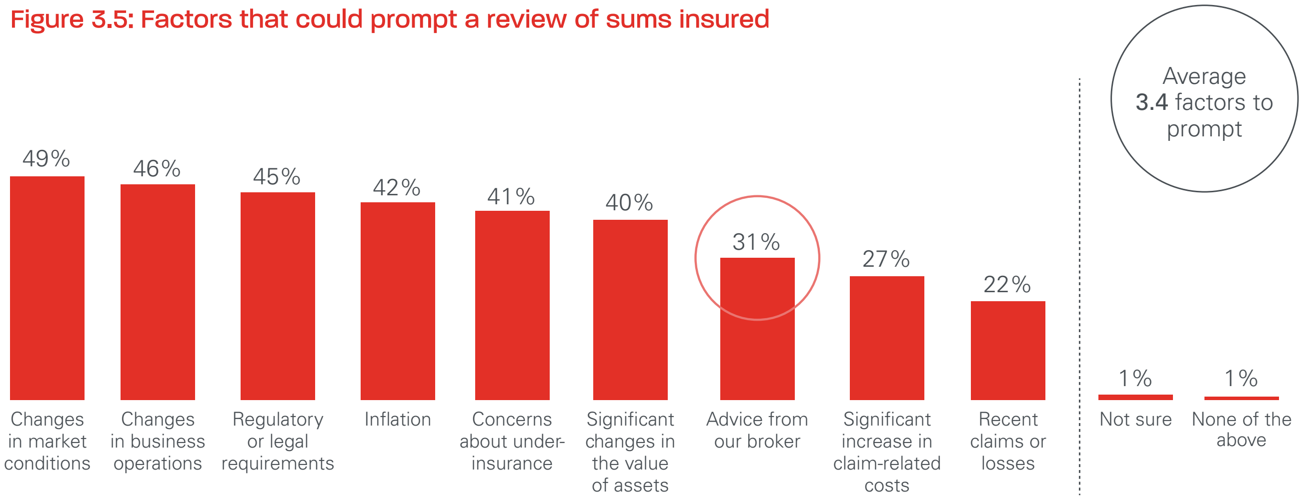
While using a broker doesn't appear to directly influence the frequency with which businesses review their sums insured (at least from the business's perspectives), there is evidence that brokers can have a positive impact through collaborative relationships. Those businesses who work together with their brokers to make insurance decisions are much more likely to review sums insured annually at 63% compared to 48% without contacting their brokers (see figure 3.4). This is another valuable demonstration of the broker's role in effective insurance coverage and a reminder that regular contact may help to ensure more frequent reviews.

Figure 3.4: Frequency of reviewing sums insured by broker relationship (medium-large businesses only)



Many events can prompt a review of a business's sums insured, such as changes in market conditions and changes in business operations. Only 31% say that advice from a broker would prompt a review (see figure 3.5). Brokers have an opportunity to clearly advise clients on the importance of annual reviews of sums insured, and potentially to explain that brokers conduct this important work on behalf of their clients.

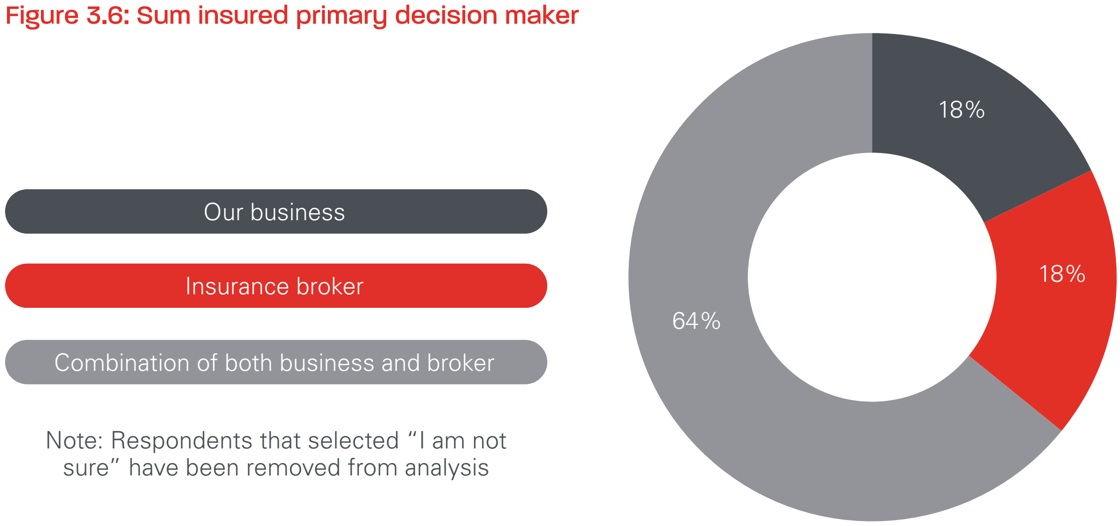
Figure 3.5: Factors that could prompt a review of sums insured



Decision-making roles on sums insured vary

While most broker users (64%) say the decision about the sums insured is shared between brokers and the business, a substantial proportion (18%) say they primarily make the decision on their own (see figure 3.6). This suggests that many businesses may not be considering expert advice when making this important decision. In reality, these businesses may have brokers who are involved in decision-making, but they are making the final decision based on what insurance they need for their business.

Figure 3.6: Sum insured primary decision maker

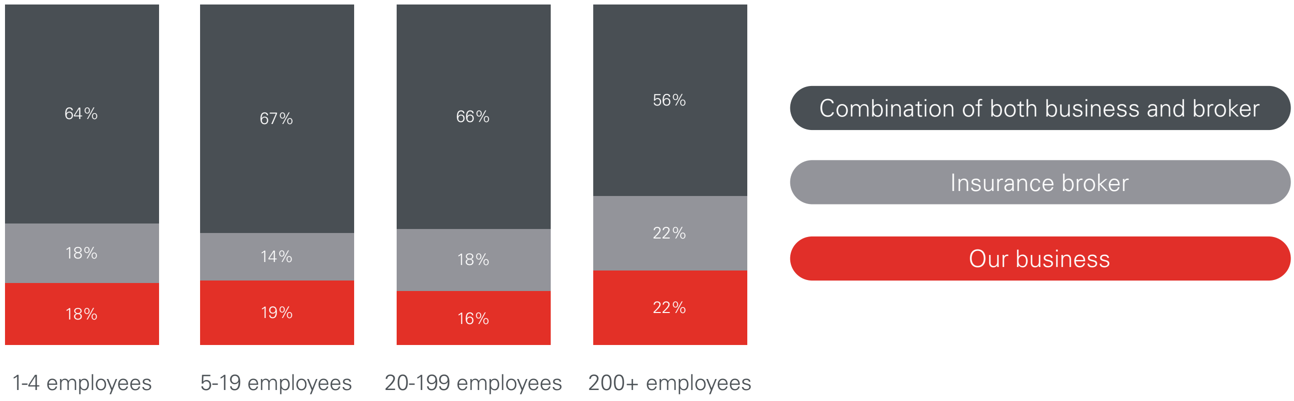


Note: Respondents that selected "I am not sure" have been removed from analysis

This behaviour does not vary significantly by business size, and larger businesses are even more likely to say that they are the primary decision-makers on sums insured, potentially because they have insurance specialists in-house (see figure 3.7).

Once again, it is important to remember that this data reflects business perceptions, and these businesses may have brokers who are actively involved in making recommendations.

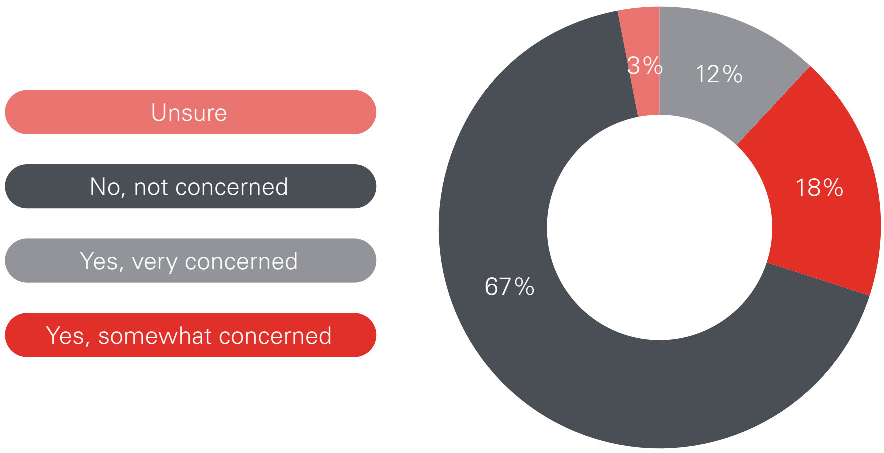
Figure 3.7: Sums insured primary decision maker, by business size



Most businesses aren't concerned about underinsurance

Even when provided with an explanation of what underinsurance is, over two-thirds of businesses say that they are not concerned about underinsurance, highlighting a need for education about the critical risks of underinsurance (see figure 3.8).

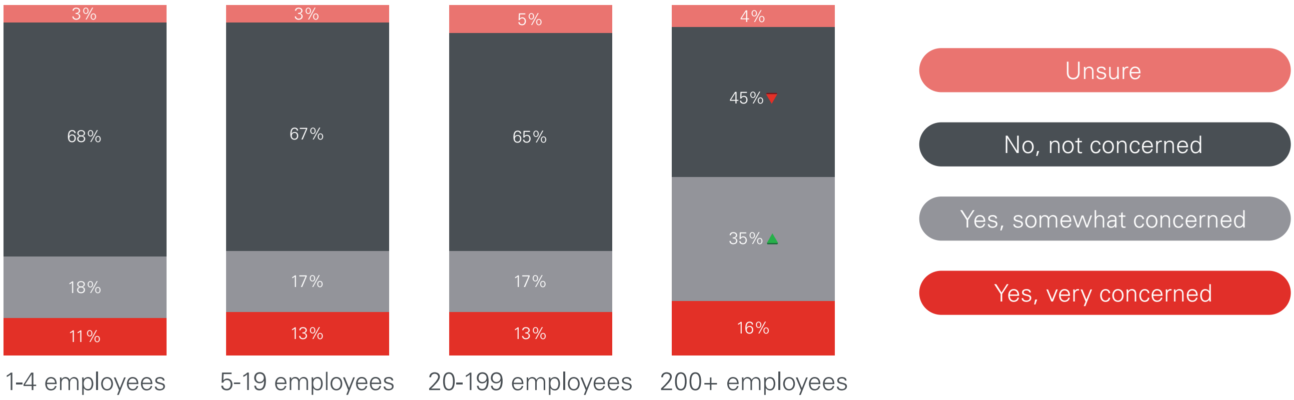
Figure 3.8: Underinsurance concern



Larger businesses are the most likely to be concerned about underinsurance, perhaps reflecting a deeper level of understanding about insurance and a more comprehensive approach to risk management.

Even so, just under half are unconcerned, signifying that education could benefit all business sizes (see figure 3.9).

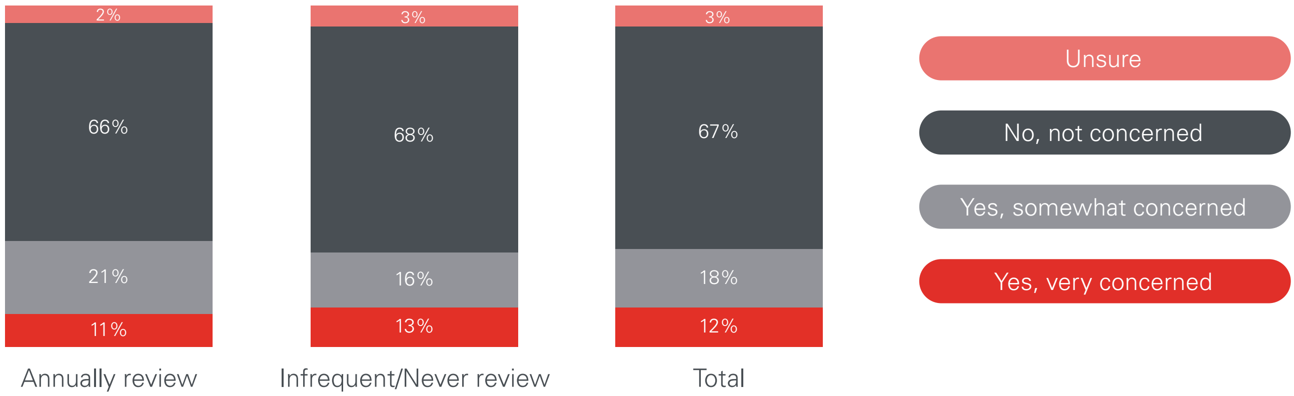
Figure 3.9: Underinsurance concern by business size



Could it be that this lack of concern is driven by business decision-makers who feel confident due to their robust processes and comprehensive reviews of their insurance needs? While this may be the case for some businesses, the Index data shows that 66% of businesses who review their sums insured annually are not concerned about being underinsured.

However, an even higher proportion of businesses (68%) who infrequently or never review their sums insured are also not concerned about underinsurance (see figure 3.10). This is suggestive of a level of set-and-forget mentality and limited understanding about regularly reviewing sums insured in order to avoid the potential risks of underinsurance.

Figure 3.10: Underinsurance concern by frequency of risk analysis

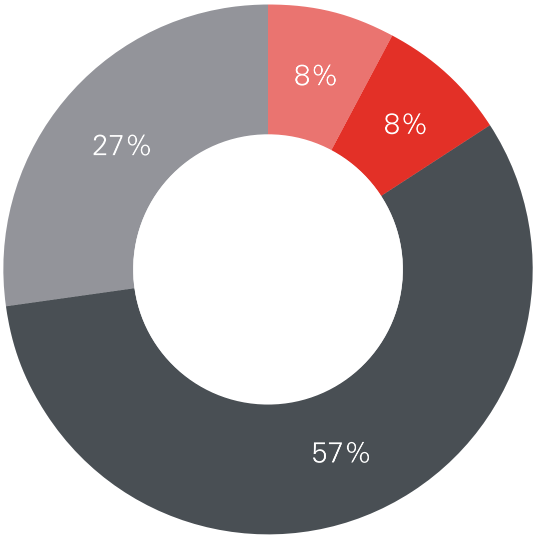


Underinsurance is an intentional cost-saving strategy for some businesses

Just under one in 10 businesses say that they are currently intentionally underinsuring to save money, while around a quarter claim to have used this strategy in the past (see figure 3.11).

Figure 3.11: Intentional underinsurance

- Yes, we currently intentionally underinsure to save on insurance costs
- Yes, we have previously intentionally underinsured, but we do not do this currently
- No, we insure fully to cover the full value of assets and potential losses
- Unsure

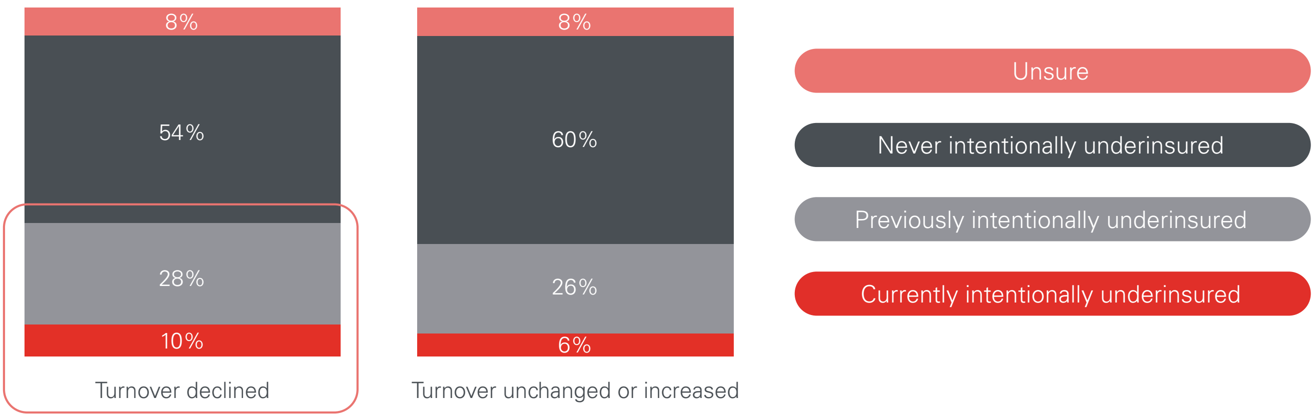


> **We had fire damage with one property and we were underinsured because we hadn't been proactive with the revaluation process, so the claim was scaled back.**
>
> **Lessons learned, felt that it was a costly mistake and it might be a sort of backdoor way to save on our premium, but in the event of a claim, it catches up with you. Whatever decision was made to defer the revaluation programme was very unwise. So that will never happen again.**
>
> John C, Disability Services, Large Business, Heavy Broker User

Unsurprisingly, there is a link to revenue and underinsurance. Businesses whose revenue declined in the last 12 months are slightly more likely to currently be underinsuring to save on costs, or have previously intentionally underinsured. Specifically, 10% of those with declining revenue are currently intentionally underinsuring, compared to only 6% of those with stable or growing revenues (see figure 3.12).

In challenging economic circumstances, underinsurance may be a deliberate choice, but it needs to be considered under the scrutiny of expert advice. While some insurance may be better than no insurance, premium savings could be artificial if the business needed to make a claim and is left short – for declining businesses this could prove to be their undoing.

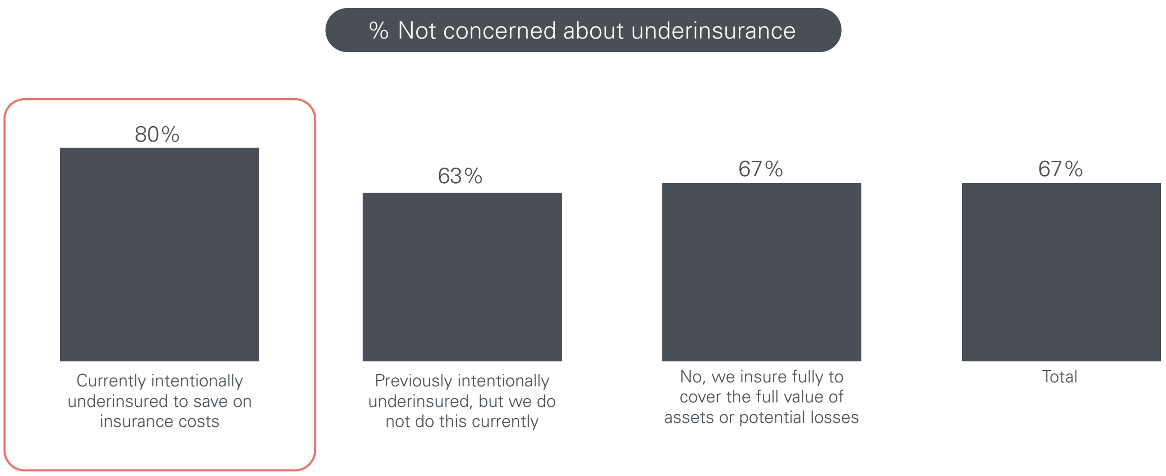
Figure 3.12: Intentional underinsurance by business turnover change



Those who intentionally underinsure to save money are the least likely to be concerned about underinsurance. 80% of those who intentionally underinsure say that they are not concerned about underinsurance (see figure 3.13).

This finding is a clear indication that many of those who underinsure may be making a conscious choice and are doing so seemingly without a full appreciation of the potential risks and consequences.

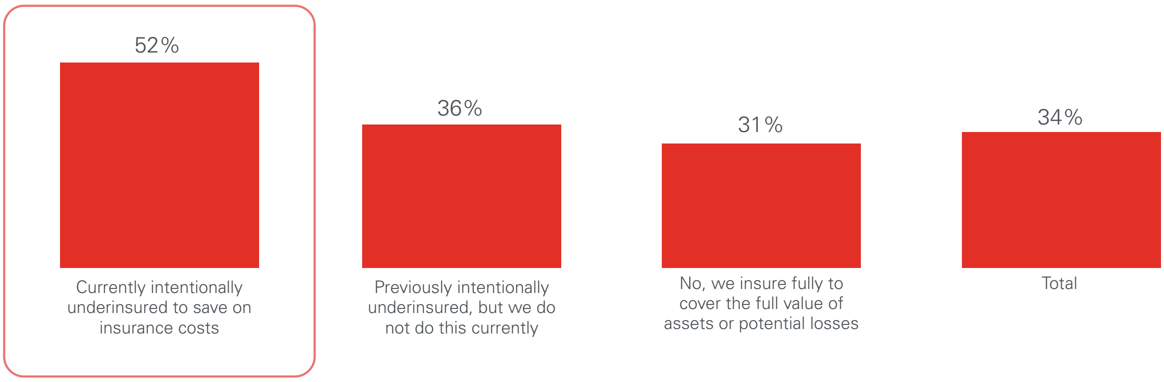
Figure 3.13: Proportion of businesses not concerned about underinsurance, by intentional underinsurance



This may be driven by cynicism, as over half of those who are currently underinsured also feel that insurance companies can't be trusted (see figure 3.14). To what extent can brokers help discourage deliberate underinsurance by cultivating trust?

Figure 3.14: Attitudinal statements by intentional underinsurance

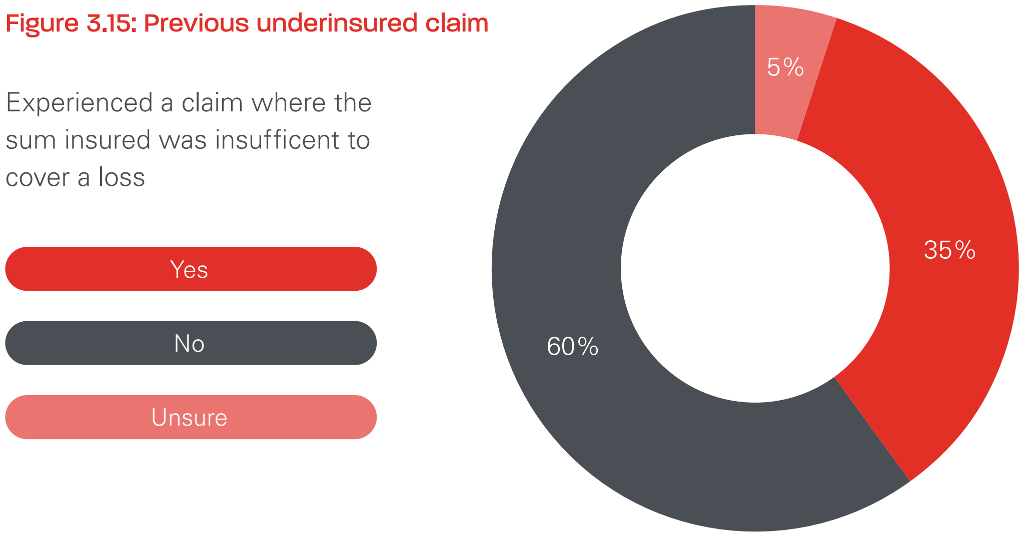
"At the end of the day, you can't trust insurance companies"



The impact of underinsurance on claims

Just over a third of businesses have been impacted by underinsurance at claims time (see figure 3.15). Larger businesses are more likely to have been impacted, which can be explained by the higher rate of claims for larger businesses overall.

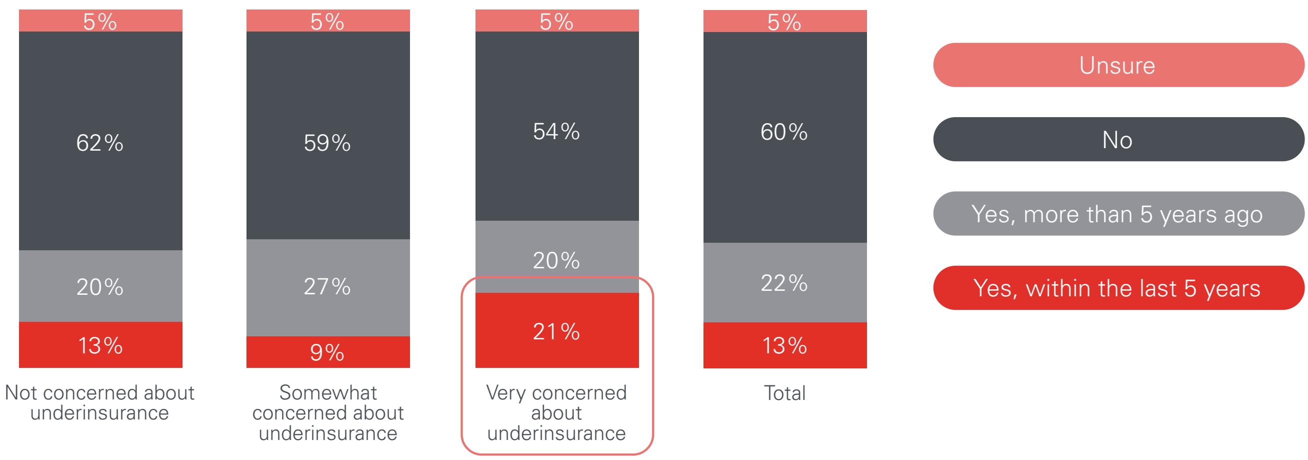
Figure 3.15: Previous underinsured claim



Having a recent underinsurance experience at claims time may lead to higher levels of concerns about underinsurance: 21% of those who have experienced a claim in which they've been underinsured in the last five years say that they are very concerned about underinsurance (see figure 3.16).

The experience of underinsurance is one that could be minimised – the Index findings suggest that greater understanding of the real-life impact of underinsurance could change attitudes. The implication for insurance experts is that sharing stories and case studies about underinsurance could help businesses better understand the risks and implications.

Figure 3.16: Previous underinsured claim by intentional underinsurance



What does this mean for brokers?

Insight Action

Insight:

Less than half of all businesses review their sums insured annually, and many larger businesses and heavy broker users do so even less often, if at all.

Action:

There is a potential gap in education about the importance of regularly reviewing sums insured, especially in an inflationary economy.

Insight:

Only a minority of businesses are concerned about underinsurance, with those who don't review their sums insured even less likely to be concerned.

Action:

Underinsurance may not be well understood by businesses. Brokers have a significant opportunity to provide expert guidance to help their clients understand the associated risks.

Insight:

If businesses have made a claim in which they haven't received a full payout, they are more likely to understand the risks of underinsurance.

Action:

Sharing real life stories and case studies about underinsurance may help to raise awareness and understanding of the risks.

Chapter 4

Understanding risk management processes and practices amongst businesses

As insurance professionals know, effective risk management is crucial for business resilience. Yet, despite the many types of potential threats, this year's Index shows that the minority of businesses undertake formal risk analysis or have structured risk management processes in place. This gap highlights an opportunity for insurance brokers to educate and support clients to proactively manage risks and safeguard their operations.

> **"My broker suggesting a risk analysis in a formal way would be really, really valuable. If they would come out and spend time doing a risk analysis and understanding our business it would be something we would find really beneficial."**

Niki, Property Developer,
Medium Business,
Medium Broker User

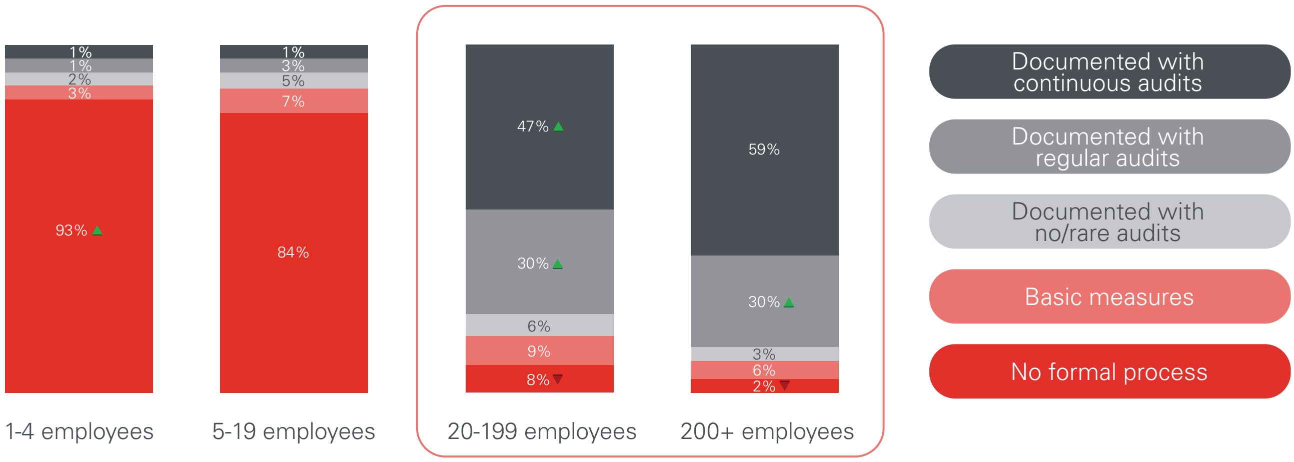
Business's approach to risk management

When asked about their business's approach to risk management, an overwhelming 90% say that they do not have a formal risk management process, and only 2% have the optimal documented risk management strategy with continuous auditing of controls (see figure 4.1).

Figure 4.1: Business's approach to risk management

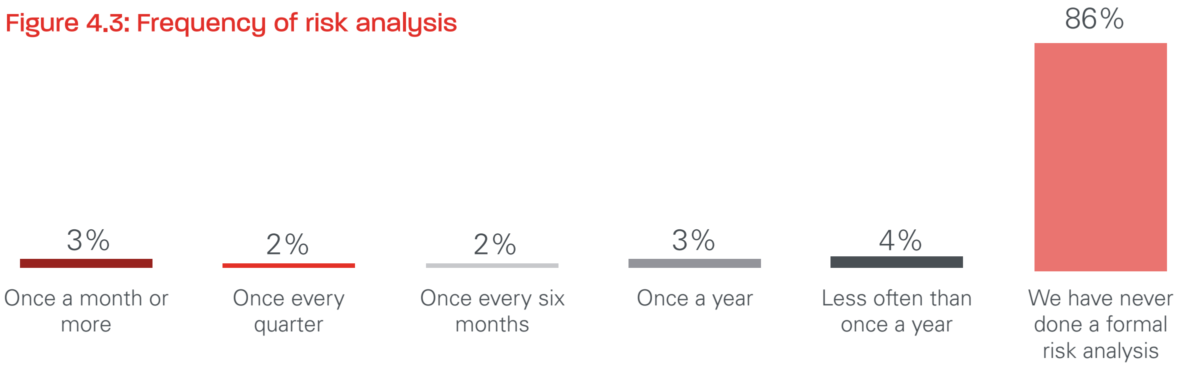
Business size has a significant impact on the likelihood of having a comprehensive risk management approach, with 59% of large businesses having a documented approach with continuous audits. However, even some larger businesses don't have a documented process – 17% of medium businesses and 8% of large businesses only have basic processes or none at all (see figure 4.2). This highlights the opportunity for brokers to educate and support small clients in adopting a more structured risk approach, as well as for brokers to act collaboratively with businesses of all sizes to cover a structured risk management process.

Figure 4.2: Business's approach to risk management by business size



Similar findings emerge when looking at the frequency of conducting risk assessments. 86% of businesses say they have never done a formal risk assessment, and only 10% conduct regular risk assessments (see figure 4.3).

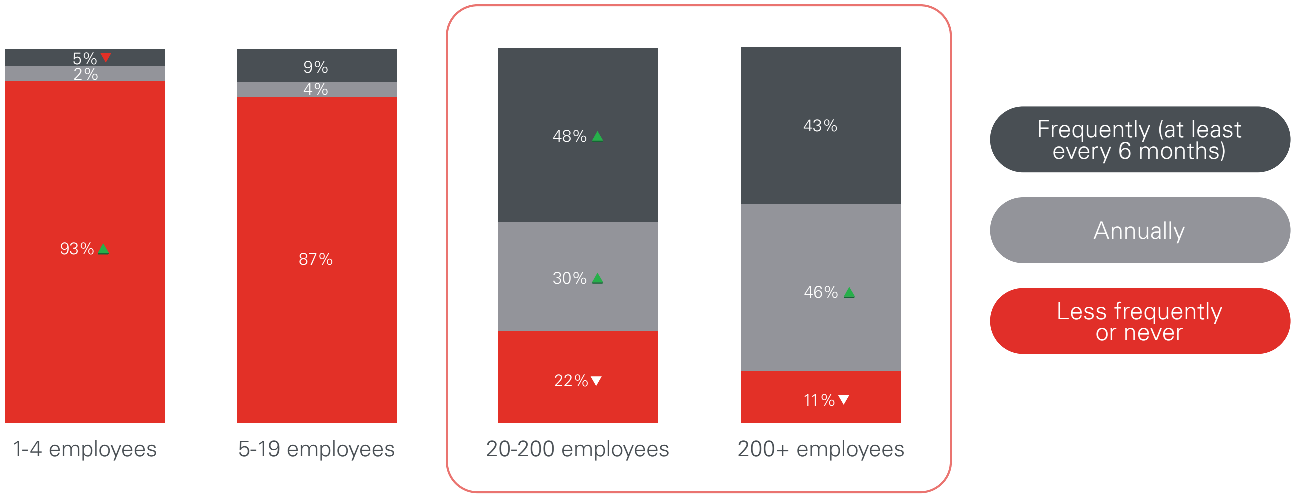
Figure 4.3: Frequency of risk analysis



There is a wide gap in the experiences of businesses depending on their size, with 89% of large businesses and 78% of medium businesses conducting reviews at least annually. However, there are still a significant number of larger businesses reviewing less frequently.

Specifically, 22% of medium businesses and 11% of large businesses say that they rarely or never conduct risk analyses, providing an opportunity for brokers to encourage clients of all sizes to implement formal risk analysis processes (see figure 4.4).

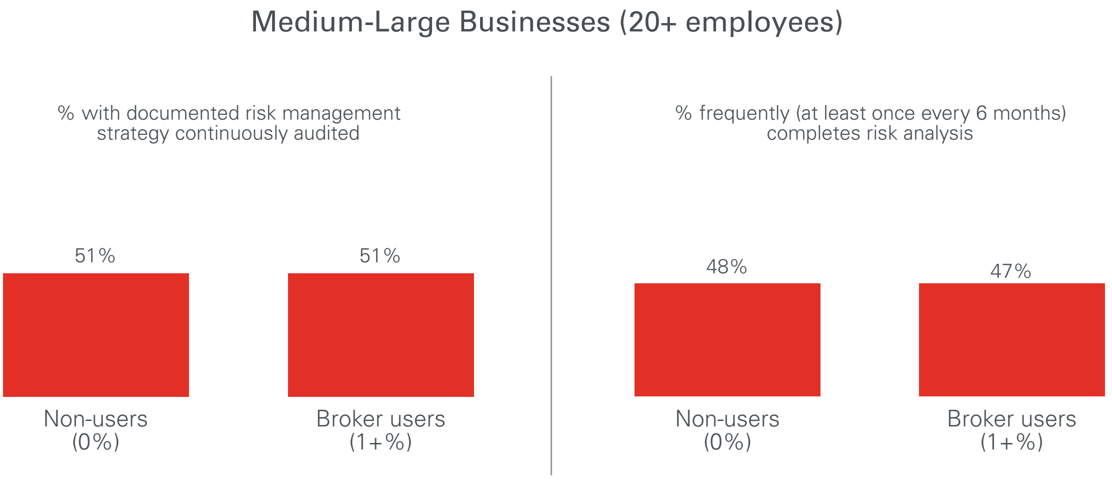
Figure 4.4: Frequency of risk analysis by business size



Broker usage doesn't appear to have an impact on risk management processes or analysis frequency, for medium or large businesses. The data shows 51% of both broker users and non-users have a continuously audited risk management strategy, while 48% of non-users and 47% of broker users complete frequent risk analyses (see figure 4.5).

This is contrary to what most would hope: given the relationship between brokers and clients, we would expect broker users to have a more mature risk management plan. This means that for some brokers, there is an important opportunity to demonstrate the value they deliver by helping clients understand the value of formalised risk processes and reviews.

Figure 4.5 Business's approach to risk management and frequency of risk analysis by broker usage (medium-large businesses only)



Having said this, the type of broker relationship does appear to make a difference. The clients of brokers who provide more proactive guidance and expertise are more likely to have structured risk management strategies. For example, 65% of those who say their broker helps them with advice when their business model changes have documented strategies, compared to 53% of those who don't.

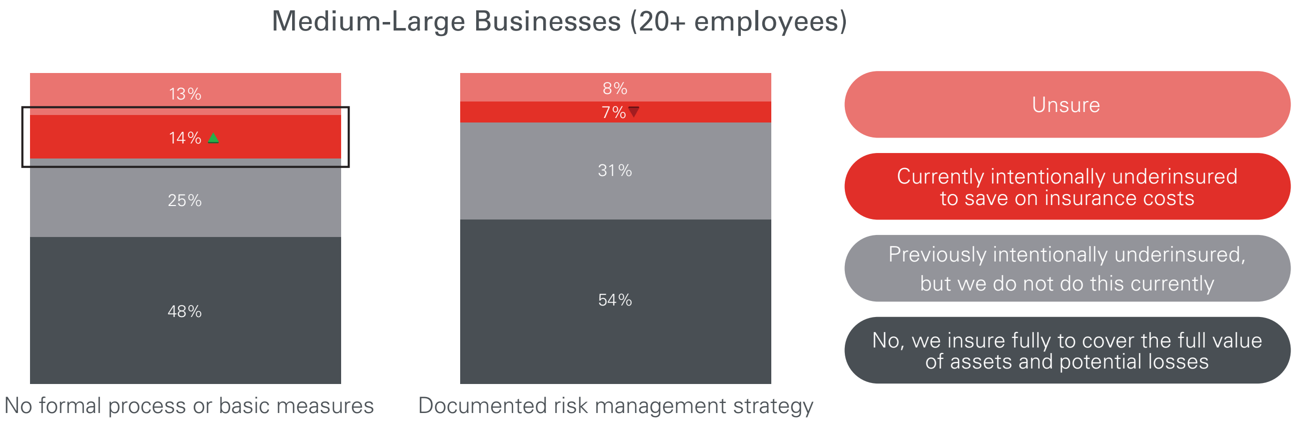
Similarly, 65% of those whose broker provides them with information on emerging risks have risk management strategies, compared with only 55% who don't (see figure 4.6). There is an association between proactive advice and mature risk behaviours, suggesting that by providing more proactive advice, brokers can encourage clients to adopt better risk management practices.

Figure 4.6: Tasks broker does by business's approach to risk management

Risk management can help businesses avoid costly insurance decisions

Not having formalised risk management processes may limit a business decision maker's understanding of their exposures, which in turn may influence their insurance choices and cover. For example, this year's Index points towards medium and large businesses without formal risk management processes being twice as likely to intentionally underinsure to save money on insurance costs (see figure 4.7). The proportion undertaking this behaviour is relatively small at 14%, however, it provides a clear association between businesses with informal or basic risk management processes and concerning behaviours, such as intentional underinsurance. By supporting clients to adopt more formalised risk management processes, brokers could help educate businesses on their risk exposures and reduce the risks associated with intentional underinsurance.

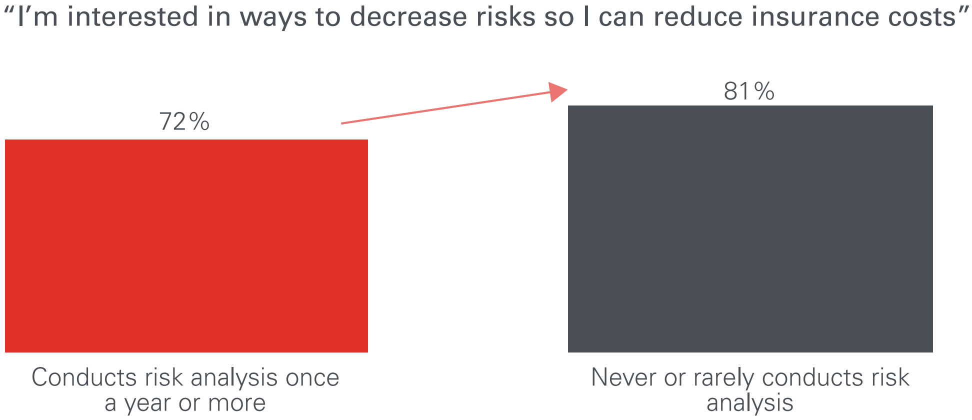
Figure 4.7: Intentional underinsurance by business's approach to risk management



> **"It's really important to have risk discussions with your broker. It ties in nicely then with strategy. So we see these guys as our business partners really when they bring along insight. Rather than just go to market every year, hope for the best, get the best premium, we actually would like to reduce risk, reduce claims, reduce premium, and then it's a true partnership."**
>
> John C, Disability Services, Large Business, Heavy Broker User

While many businesses do not currently have formal risk processes, there is evidence that they may be interested in finding out more, particularly if they can see a benefit. Specifically, 81% of those who rarely or never conduct risk assessments say that they are interested in ways to decrease risks so they can reduce insurance costs (see figure 4.8). This could be a valuable conversation for brokers to have with clients, particularly during challenging economic times.

Figure 4.8: Attitudinal statements by frequency of risk analysis



Businesses with risk processes consider a range of factors

When reviewing their risk management processes, businesses include a range of different elements. For example, 53% say they look at product level risks, 51% look at strategic risks and 49% consider emerging risks. On average, these businesses consider 3.2 factors, suggesting relatively holistic thinking (see figure 4.9).

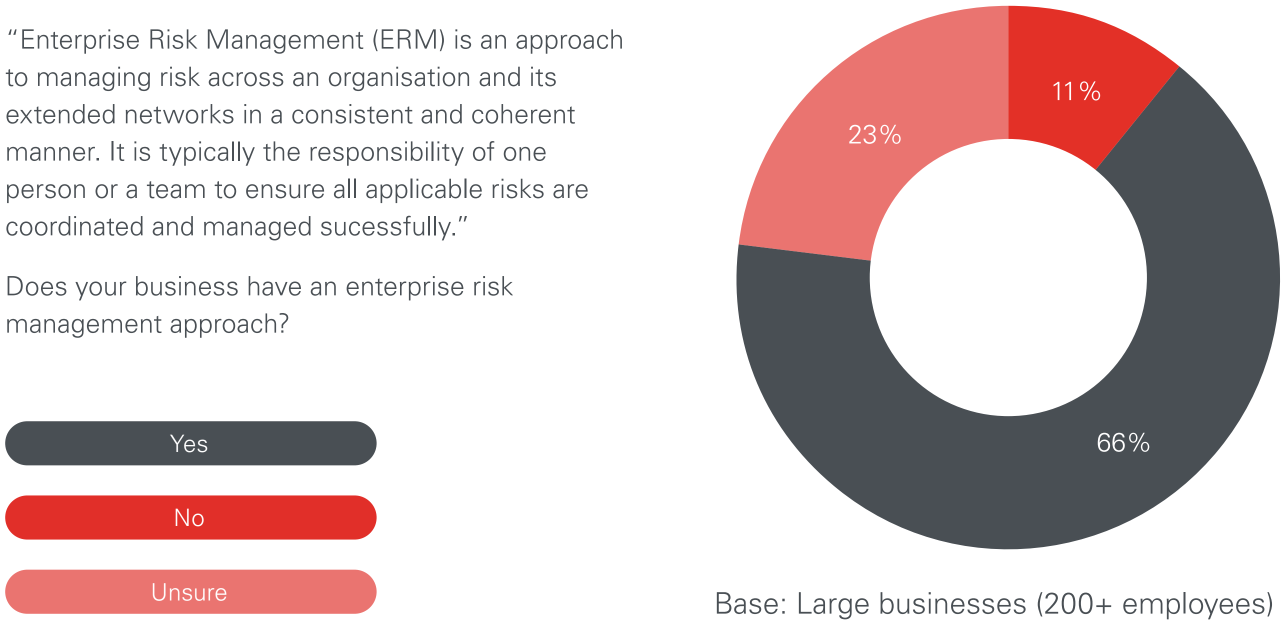
Figure 4.9: Factors considered when reviewing risk management strategy

Around two in three large businesses claim to have an enterprise risk management approach (ERM), whereby all business risks are coordinated and managed consistently across the business. While this is positive, it means that just over a third do not have an overarching ERM. Without an ERM, risks may not be formally managed, or they may be looked at in isolation. This suggests that there could be significant benefits in brokers educating larger clients on the importance of ERMs (see figure 4.10).

Figure 4.10: Use of ERM

"Enterprise Risk Management (ERM) is an approach to managing risk across an organisation and its extended networks in a consistent and coherent manner. It is typically the responsibility of one person or a team to ensure all applicable risks are coordinated and managed sucessfully."

Does your business have an enterprise risk management approach?



Base: Large businesses (200+ employees)

What does this mean for brokers?

Insight Action

Insight:

Very few businesses conduct regular risk analysis or have formal risk management processes, and even though business size impacts the likelihood of having more mature risk profiles, even some larger businesses lack a mature risk management approach.

Action:

There are opportunities for brokers to educate and support clients in adopting a more formalised risk approach, as well as to ensure that all larger businesses have formal processes.

Insight:

While not having formal risk processes is associated with potentially risky decisions, such as a higher tendency to deliberately underinsure, businesses who don't regularly conduct risk analyses are interested in learning about risk mitigation that could reduce their insurance costs.

Action:

This presents a valuable opportunity for brokers to provide a tangible demonstration of the benefits that they bring to clients as specialist risk professionals, and ensure they're receiving good value.

Insight:

While businesses consider a range of specific factors when reviewing their risks, around one third of large businesses aren't aware of having an enterprise risk management strategy, meaning there may be incomplete assessments, or issues that may be missed.

Action:

There is scope for brokers to provide education and guidance to larger clients about the value of Enterprise Risk Management.

Chapter 5

Exploring emerging risks: EVs, energy sources and AI

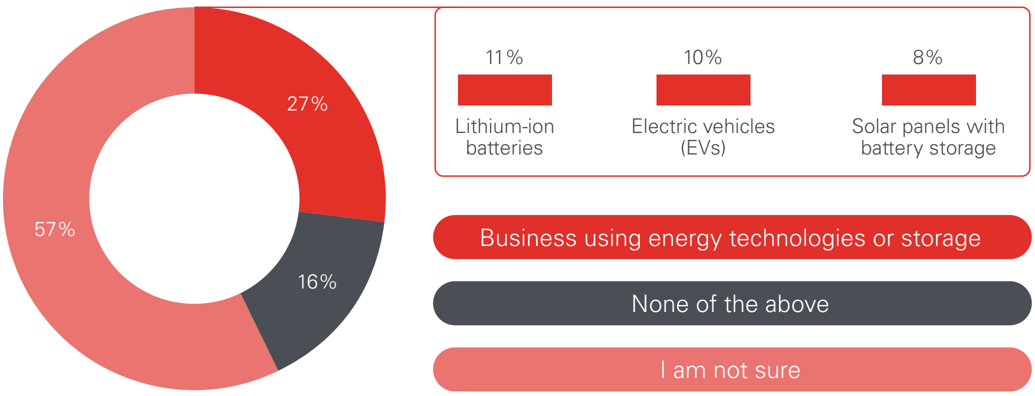
In a rapidly-evolving technological landscape, Australian businesses are increasingly integrating emerging technologies such as artificial intelligence (AI), electric vehicles (EVs), lithium-ion batteries and solar panels into their operations. While these advancements offer competitive advantages, they also introduce new and complex risks. This chapter examines whether businesses are proactive in assessing these risks and engaging with their insurance brokers to ensure adequate coverage and risk mitigation.

Confusion around use of energy technologies and storage creates an opportunity for broker guidance

Around a quarter of businesses claim to be using energy technologies or storage, including 11% using lithium-ion batteries, 10% using EVs and 8% using solar panels with battery storage (see figure 5.1). Interestingly, 57% of businesses aren't sure whether they use these technologies or not, suggesting a lack of understanding.

As businesses work on their climate transition plans, there is a real opportunity for brokers to help businesses as their risk profiles change. In particular, there is an opportunity for brokers to provide information and guidance about risks related to technologies such as lithium-ion batteries and EVs. Helping businesses understand the specifics of these technologies could be very valuable.

Figure 5.1: Energy storage and technologies currently used

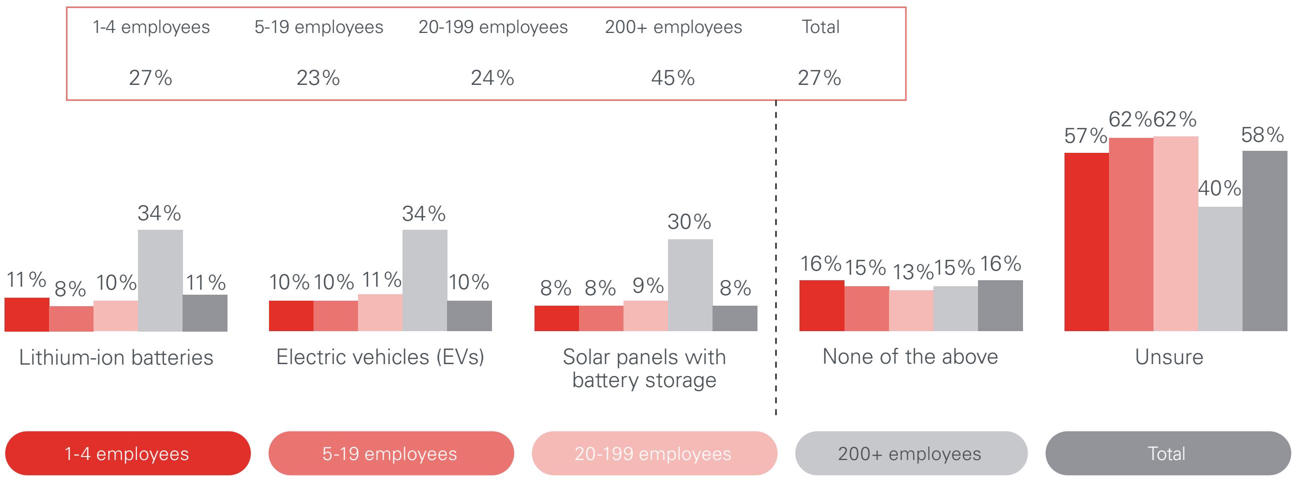


"A lot of our tools are lithium-ion batteries. So yes, we use those every day. Any extra information that we could receive from our broker to prompt those things, that would be ideal because it's something that I wouldn't give a second thought to, but I'm sure it's part of everyday business for them now. So that would definitely be some information I'd like to receive."

John, Builder, Small Business, Light Broker User

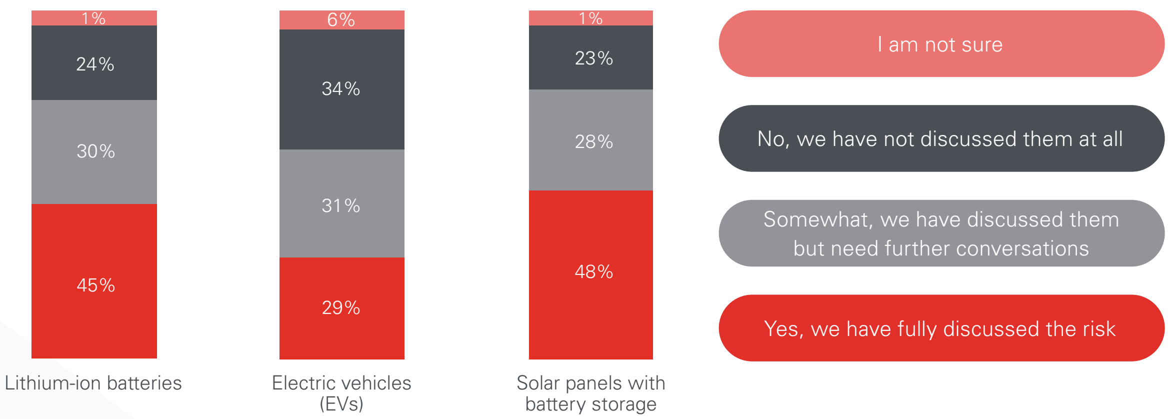
Large businesses are more likely to be aware of having energy storage or new technologies, but even 40% of these are unsure whether their business is using them. This suggests there is room for education about these technologies and their potential risks (see figure 5.2).

Figure 5.2: Energy storage and technologies currently used by business size



A sizeable number of businesses haven't discussed the risks or insurance implications of these technologies with their broker, with EV owners the least likely to have discussed the risks. For businesses utilising lithium-ion batteries, 24% haven't discussed the risks at all, and a further 30% have had incomplete conversations. These behaviours are similar for those using solar panels with batteries: 23% haven't discussed the risks with their brokers and 28% have had partial conversations. For business EV owners, over a third haven't discussed specific insurance risks of their EVs with their broker, while 31% have had partial conversations (see figure 5.3). There is an opportunity for brokers to proactively engage with clients about the risks associated with these technologies, especially as they become more prevalent as this evolves. Larger businesses are more likely to have had conversations about these technologies with their broker, suggesting that small and medium business clients are most in need of proactive engagement from their broker.

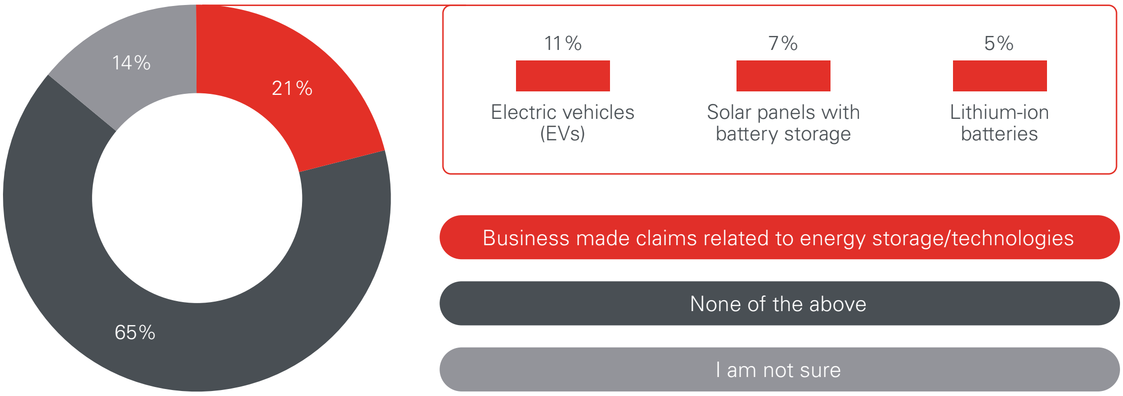
Figure 5.3: Discussion of energy storage/technologies risks with broker



Increasing penetration of these technologies means that there is likely to be an increase in related claims. Currently, around one in five say that they have made a claim related to these technologies, mostly for EVs (see figure 5.4).

While an increasing number of businesses are likely to experience claims in years to come, as adoption rates increase, there is a need for education about what can go wrong, as only a minority have had to make a claim at this stage.

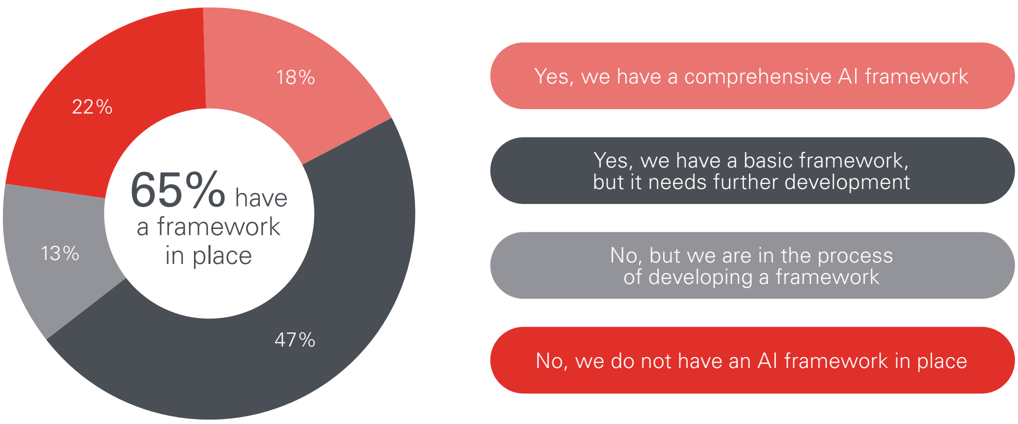
Figure 5.4: Energy storage and technology claims



AI frameworks are lagging — brokers can lead the way in managing emerging risks

Comprehensive AI frameworks that focus on risk management can play an important role in ensuring businesses can mitigate risks in implementing AI technology. However, at present only 18% have a comprehensive AI framework in place. There is some evidence that businesses are starting to consider the risks of using AI, with 47% saying that they have a basic framework in place and a further 22% say that they are in the process of developing a framework (see figure 5.5). There is clearly still work to be done in this space, and brokers can play a valuable role in advising clients on the need for AI frameworks as part of their risk management strategy.

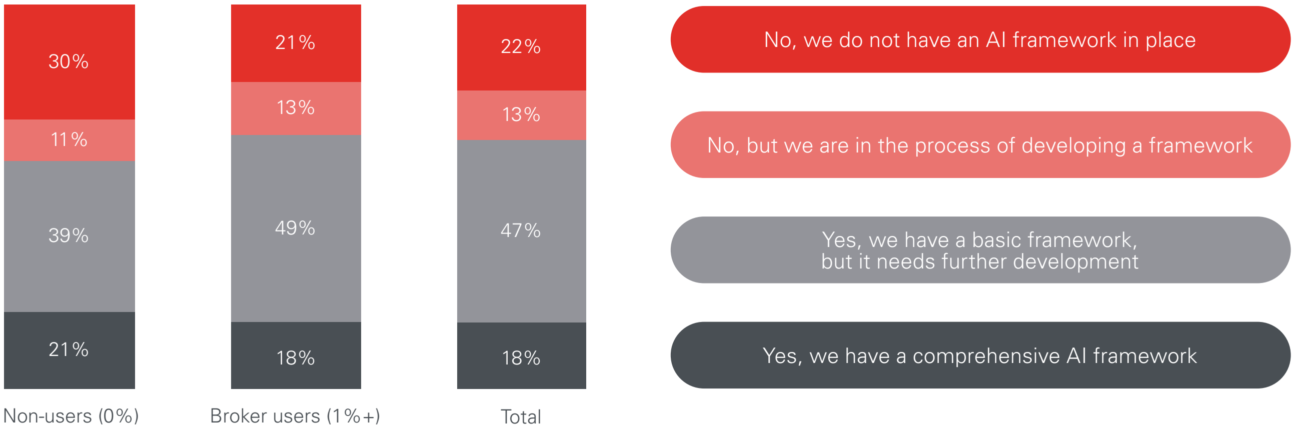
Figure 5.5: Current AI framework



Base: Business using or considering AI

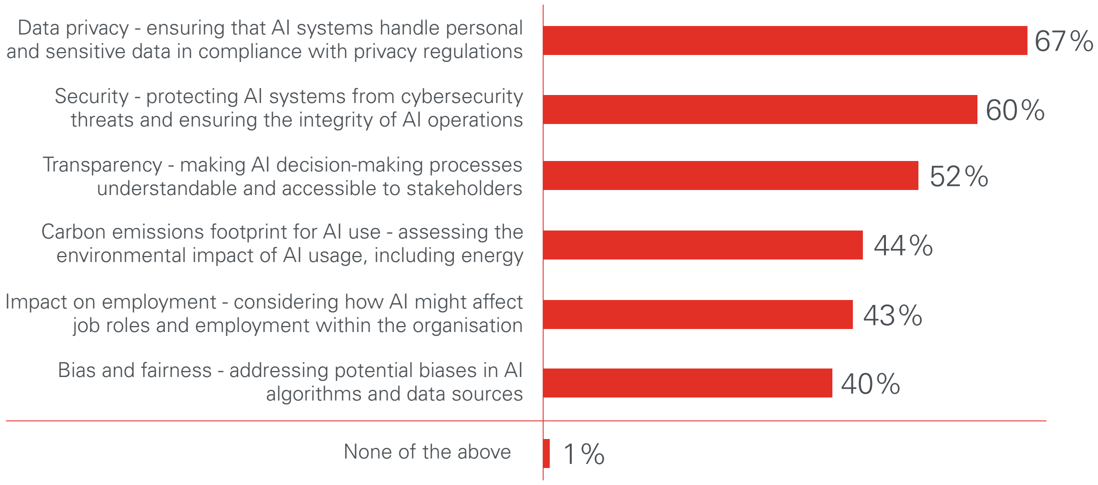
There is little or no correlation between broker usage and having a comprehensive AI framework. Specifically, only 18% of broker users have a comprehensive AI framework, compared to 21% of direct buyers (see figure 5.6). Providing expertise and guidance on complex emerging risks like AI could be a powerful demonstration of the value brokers bring as risk experts, but there is opportunity for more brokers to offer this advice.

Figure 5.6: Current AI framework by broker usage



Data privacy and security are the biggest considerations for businesses when implementing AI. The data shows that 67% of respondents consider data privacy when implementing AI and 60% consider cybersecurity threats. Only 40% think about potential biases in AI algorithms and sources (see figure 5.7). The risk to business reputation and lack of consumer trust in not keeping data safe and secure is a concern for businesses. This, intertwined with changing legislative requirements and ever-evolving technological capabilities, provides challenges for businesses and scope for brokers to engage with and provide guidance and expert knowledge.

Figure 5.7: Considerations when implementing AI



What does this mean for brokers?

Insight Action

Insight:

Many businesses are using emerging energy technology like lithium-ion batteries, and we expect this to increase. However, very few are discussing the risks with their brokers, and many are even unaware of their own levels of usage.

Action:

As energy technology and usage evolves, brokers have an opportunity to demonstrate expertise and provide valuable risk advice by sharing information and educating businesses about the potential risk implications of these technologies. Brokers may need to be proactive because many businesses may lack the knowledge to understand that they need advice as it relates to insurance.

Insight:

Many businesses do not have comprehensive AI frameworks in place.

Action:

As businesses increasingly embrace AI, brokers can demonstrate their risk expertise by providing valuable, proactive advice and prompting clients about insurance and the importance of AI frameworks.

For more information contact your local Vero representative

vero.com/broker

vero

Insurance with insight