

VERO SME Insurance Index - Audience Q & A

With the increase in interest rates, and return on invested capital, can we expect to see flattening or reduction in pricing? what part of the cycle will be 2024

The increase in interest rates is an input into pricing however with high inflation it also causes headwinds in some products profitability. For example, you will have seen motor inflation affecting average claim costs in the press recently. This inflation (increase in average claim size) is well above the benefit from increased interest rates.

This will obviously have a different impact depending on the product.

In addition to inflation our property portfolios have seen a significant increase in both frequency and severity of large natural hazard events. This has a negative impact on both estimating an allowance at a portfolio level for these events as well as reinsurers increasing their rates which is an input cost for us.

With a continued shift in buyer behaviour and perceived value, how should brokerages be adapting their offering and service to tackle direct markets?

Many direct buyers don't clearly understand the benefits that a broker can bring to their business. Help them to understand how brokers help businesses navigate complexity, save time, make the claims process more effective and deliver value (rather than simply adding another cost to their insurance).

For example, providing clients risk factors on renovations, new builds and buying property from an insurance perspective as a lot of businesses are only considering insurance at the end of the process.

Ben from Resilium spoke about advice vs price. The most expensive policy is the one that doesn't pay out at Claims time. Its important for brokers to get early engagement with their customers and focus on risk reductions/mitigation.

How common is it that SMEs are facing underinsurance when lodging or resolving a claim?

At Vero we work closely with our supply chain partners to ensure the impact of inflationary pressures on building materials is minimised, utilising buying power and industry relationships. We still see a small percentage of claims impacted by underinsurance; this will typically be in scenarios where there has been a change in business activities such as increased turnover not factored in BI cover

What do you see as the biggest change in Business requirements for Brokers to consider from the research?

Many businesses are doing it tough, and this is starting to impact their insurance decisions. Ideally brokers should be asking their clients how they are coping, what they are changing, and then proactively suggesting ways businesses can manage their insurance to fit the times, without making risky decisions. Having conversations about changes is vital to ensure not only those businesses are adequately covered but to also make sure they're not paying for insurance policies

that may no longer be relevant to their operations. Brokers should check-in with their clients to see how they are weathering inflation and cost increases to provide tailored advice and support.

How are you finding SMEs are responding to increased premiums? Is there a trend to more self-insurance of selected assets or risks?

To date we have not yet seen a change in renewal retention rates, new business quotes and strike rates. However, we are seeing evidence of SME customers and brokers reviewing levels of cover to manage the increases. This may or may not lead to further impacts on underinsurance in the future, but it is something to keep an eye on. Is there a trend to more self-insurance of selected assets or risks? At this point it is hard to say as renewal and new business metrics are still in line with historical trends. We are seeing a more muted level of exposure increase in sum's insured and turnover than the general level of economic inflation would indicate. Whether that is being driven by more self-insurance on selected assets is hard to say but may be the case.

Has there been a greater awareness and uptake in Cyber protections?

Brokers are certainly more aware than ever of the Cyber exposure their SME customers face. At this point in time, we have not seen a change in insurance buying patterns of products without Cyber cover. However, the market for Cyber products continues to grow.

Given the increasing costs of insurance and the pressures on P&Ls for SMEs, driven by supply costs, changing consumer behaviour and the lift from the Gvt on the moratorium on ATO debts what data can Vero provide about the financial future of SMEs?

Current inflationary economic conditions are very challenging for all business and especially SME's which often don't have the spare financial capacity to manage significant economic costs. Whilst we expect in the longer term the SME sector to continue to drive economic growth, in the short to medium term we expect SME's to be very careful and selective in managing their costs and insurance will be part of that.

I work for a super fund and often discuss insurance with members who are keen to learn more. How can I help members understand the importance of insurance? How can I help them overcome barriers to applying for cover?

Insurance is unfortunately an after-thought for many businesses, particularly if they are undergoing change. An insurance broker is the best start to help educate members on importance of insurance and how to navigate it. If you do not currently have a broker, we can suggest NIBA who is the peak representative body for the intermediated insurance industry in Australia, with approximately 450 member firms to choose from.

Regarding the Austbrokers Business Insurance Amendments when will the sections of cover (theft and glass) start to appear on the policy Schedule and certificates of currency?

We have supplied a letter of comfort which can be attached to current COC's and schedules that confirms the automatic glass and burglary covers. Please speak to your BDM if you are unsure how to access this document.

We are producing an upgraded PDS which will be available shortly. Unfortunately, the system changes required to have noted on policy schedules and COC's is a little more complex. We are looking at options, but a solution won't be available until later this year.

What policies/products are Businesses buying direct?

This year's data (consistent with previous years) shows that the following are the most likely policies to be bought direct:

- Commercial motor vehicle
- Commercial property
- Workers' comp
- Public liability
- Travel

The trend reflects what we hear in qualitative research i.e., that they tend to buy either the more straightforward policies direct, or else those that are mandated (e.g., workers comp in certain states).

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