

BIBA Report on the Importance of Advice in the Small to Medium Enterprise Market

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The FSA define 'advice' as an opinion on or a recommendation of a specific contract of insurance

Executive Summary

Primary findings:

- There is a lack of understanding among SME business owners of what constitutes advice; 33% of SMEs not using a broker to arrange their business insurance did not understand that they weren't receiving advice and were probably only being offered a single product
- In spite of the apparent confusion, advice is highly valued with 96% of SMEs who used a broker stating that advice was important
- Among both those who use a broker and those who do not, there is confusion as to where they can obtain advice; 63% of SMEs who did not use brokers said they received the service of identifying a suitable secure insurance policy and specialist advice
- We therefore conclude that SMEs are confused about what constitutes information and advice and where they should go to obtain advice

Secondary findings:

- SMEs recognise the value a broker provides by understanding their business and tailoring the most appropriate solution for their circumstances:
 - 94% of those using an insurance broker felt the broker provided reassurance that they have the right cover in place
 - 89% felt using a broker allowed them to focus on their business
 - 85% felt using an insurance broker ensures they always have a competitive premium
 - 81% that say that their broker identifies a suitable secure insurance policy and explains why it is appropriate for me with specialist advice
- SMEs value the support they receive in dealing with what is a complex issue, providing them with reassurance and allowing them to focus on their own business
- Insurance brokers played an active part in supporting their clients in the claims process
- Brokers are held in high regard by their SME clients who express high levels of loyalty and satisfaction and are frequently willing to recommend them
- Brokers can be confident when promoting themselves that they offer an important service that is highly valued by their clients

Introduction

This report summarises the findings from a survey of Small to Medium Enterprises conducted during the final quarter of 2008. The primary survey objectives were to determine:

- whether SME decision-makers understood the difference between advice and information
- whether SMEs believe advice is important and has a value
- where decision-makers in this market would go to obtain advice

Secondary objectives were to understand the role that insurance brokers play in arranging and maintaining insurance cover for their clients.

We were particularly interested in the views of decision-makers in the smaller firms in this market and restricted the sample to companies with fewer than ten employees. These are termed SMEs for the purposes of this report.

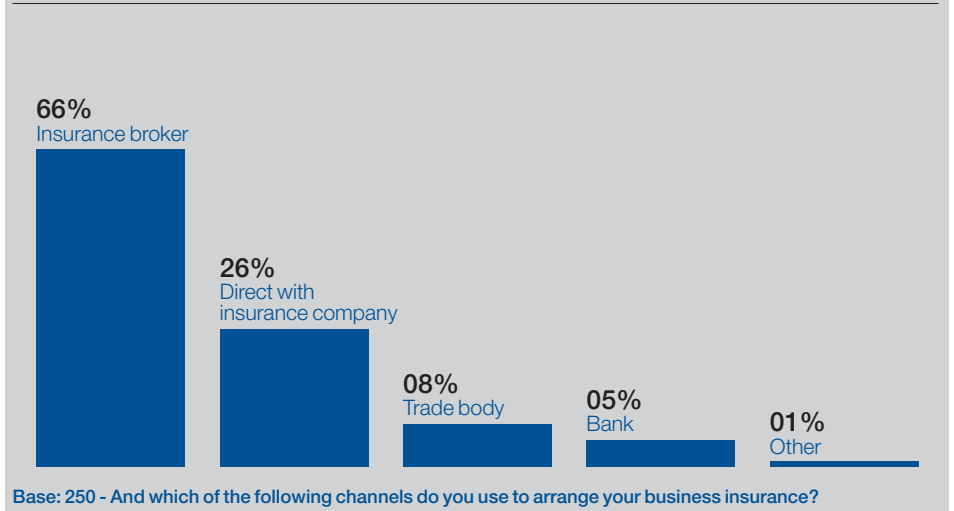
It is estimated there are 4.7 million SMEs in the UK⁽¹⁾ working in virtually all sectors of the economy. They have a wide range of insurance needs and generally access cover via insurance brokers, banks, their representative trade bodies or direct with insurers.

This report has been prepared by NMG Financial Services Consulting, which is a member of the Market Research Society and a specialist in financial services. NMG interviewed 250 SME decision-makers, two-thirds of whom used insurance brokers to arrange their business insurances [CHART 1].



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Chart 1: Channels used to arrange insurance



This quantitative research was supplemented by face-to-face in-depth interviews conducted by NMG with 10 SME decision-makers. The qualitative study was not confined to those who use brokers, thus giving us views for comparison and validation.

The SME sample was classified by: size, industry sector, types of business insurance held, and business insurance spend per annum. The characteristics of the proportion of the SME sample using brokers to arrange their insurances were consistent with the main sample. Our sample of 250 firms represented a wide spread of industry sectors and it is safe to assume that the insurance requirements of firms differ widely depending on the products or services they offer.

Approximately two-thirds of the SMEs in the main sample bought their business insurance (excluding business motor insurance) in a single package rather than a collection of separate policies. A similar proportion of the SMEs using brokers also bought a packaged solution. SMEs spent on average in excess of £2500 per annum per firm for business cover.

(1) Source: BERR Enterprise Directorate Analytical Unit 2007 – Sole Practitioners and firms employing fewer than 10 employees)

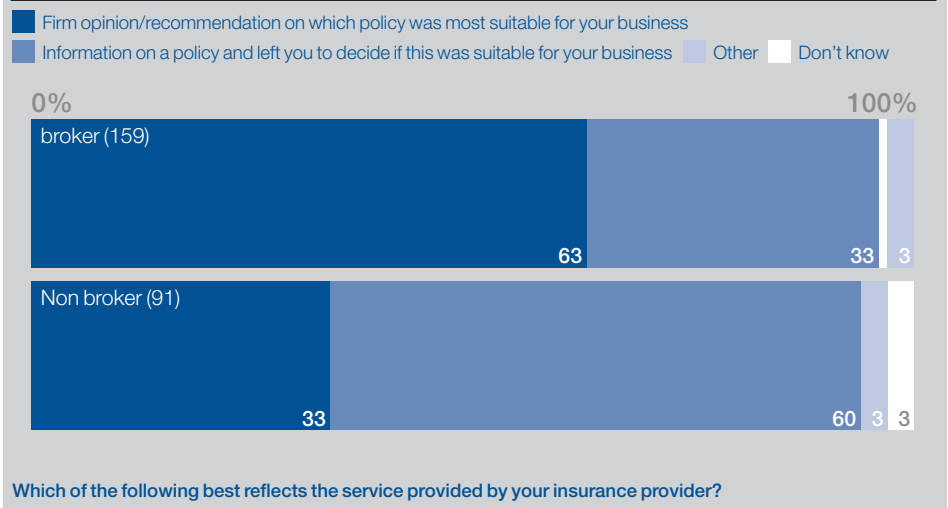
Primary findings:

While advice is highly valued, it is apparent that there is considerable confusion about what constitutes advice and who is able to provide this valuable service.

63% of those who used a broker said they received advice – they were provided with a firm opinion or recommendation on which policy was most suitable. Additionally, when asked: Does your insurance broker identify a suitable secure insurance policy and explain why it is appropriate with specialist advice? 81% said their broker provided this service. This was significantly higher than the earlier 63% who said they received advice.

[CHART 2]

Chart 2: Service provided



Furthermore, a concerning 33% of SMEs who did not use brokers said they were provided with a firm opinion or recommendation on which policy was most suitable and 63% said they received the service of identifying a suitable secure insurance policy and specialist advice. Since most direct offerings are on a non-advice basis, it was likely that a good proportion of these SMEs were also mistaken, believing that they had received advice when they had not.

There is further evidence of confusion. When those SMEs who used brokers for business insurance but did not use brokers for personal insurance were asked why, over a third said it was because they did not believe they needed advice for that particular personal insurance product. This appeared to confirm some recognition of the differentiation between information and advice but that this differentiation has not been applied in the business market.

We therefore concluded that while SMEs value advice, they are confused about the differentiated role of insurance brokers who are able to provide advice and other channels where it is commonly the case that they are restricted to providing information. However, there was no confusion over the importance of advice; when those who use a broker were asked whether being able to receive advice was an important benefit of the relationship, 96% felt it was either very important or quite important [QUOTE 1]. While advice is clearly important to SMEs, 60% of those who did not use a broker were left to choose their own policy from information provided by a limited resource which may not offer sufficient protection.

Secondary findings:

SMEs recognise the value a broker provides by understanding their business and tailoring the most appropriate solution for their circumstances

Over two-thirds of SMEs (who used a broker) regarded it as very important for their broker to understand their business. When asked whether their broker understood their needs in terms of risk exposure and protection of assets, an overwhelming 92% said they did. Nearly two-thirds of SMEs regarded it as very important for their broker to have access to products from a wide range of insurance companies. [QUOTE 2]. When asked whether their broker searched for a suitable policy, 89% agreed they did; 81% said their broker identified a suitable secure insurance policy and explained why it is appropriate with specialist advice.

While we concluded earlier in the report that SMEs are confused about advice, they were almost unanimous (97%) in saying the service they received from their broker met their expectations. [QUOTE 3]

01

“I look to them to give me advice... they are the professionals”

02

“I would stick with the broker because of the advice I got and the fact that there was more than one product available – much better than just sticking with one company who can only give you one product”

03

“Given the specialist nature of our insurance requirements [I] felt advice was necessary”

04

“I knew by the questions he [my broker] was asking I was going to get the right policy”

These figures contrasted with the SMEs who do not use brokers, where only 86% felt the service met their expectations.

We concluded that SMEs who use brokers recognised that they played an important role in providing expertise and service to deal with a complex issue. In the main, SMEs were satisfied that brokers delivered those aspects of the relationship they regarded as most important. [QUOTE 4]

Those SMEs who use a broker were confident to delegate the administration of their insurance arrangements and brokers also invariably set the policy up at outset, ensured a seamless renewal, and dealt with claims.

Where brokers are servicing larger clients, possibly with more complex requirements, a wider range of services is being provided. It is particularly noticeable in these areas that businesses that employed five or more staff received additional services. For instance, 89% of the ‘five plus’ sample had their brokers process mid-term changes. This pattern continues when we look at risk management advice where nearly two-thirds of the ‘five plus’ sample receive this service. Clearly, there was a correlation between size of SME and range of service received.

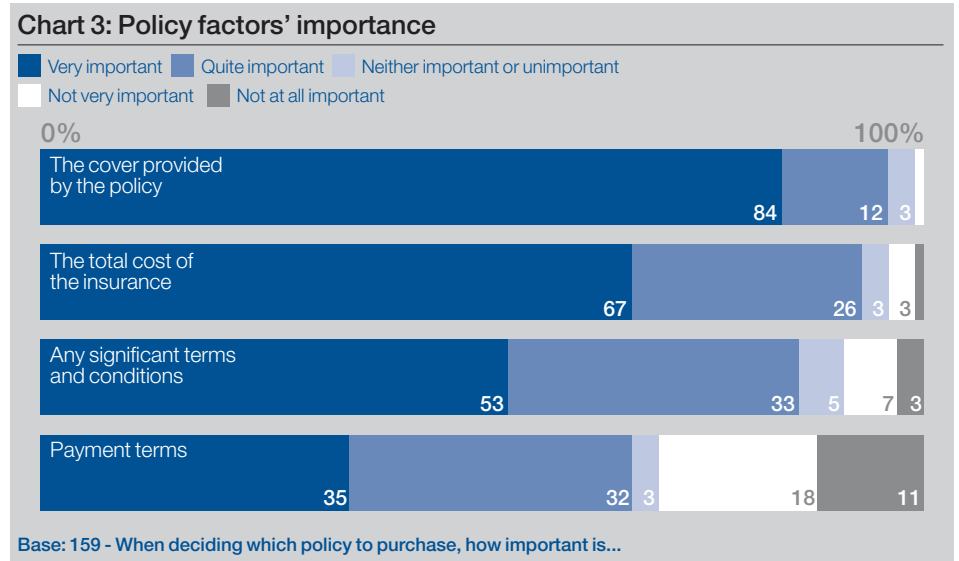
SMEs value the support they receive in dealing with what is a complex issue, providing them with reassurance and allowing them to focus on their own business

We have already seen the importance SMEs attached to various aspects of broker service, and that brokers tailored service to meet clients’ needs. We now turn our attention to the product.

We found that SMEs who use brokers understood that the cover provided by the policy was as important a factor in the buying decision as was the total cost. In our sample 84% thought that the cover was very important. As far as cost was concerned, only 67% thought this was very important. Clearly, SMEs using brokers appreciated that in the business market cheapest is not always best. [CHART 3] [QUOTE 5]

05

“I would put advice above the premium if it was ranked, it’s very important for us ... it’s about having adequate cover”



06

“The broker will basically know the small print so there won’t be something nasty creeping out of the woodwork should I want to make a claim”

SMEs using brokers felt that any significant terms and conditions were also important factors to be taken into account when buying business insurance, 86% agreed with this – 53% said it was very important and 33% said it was quite important.

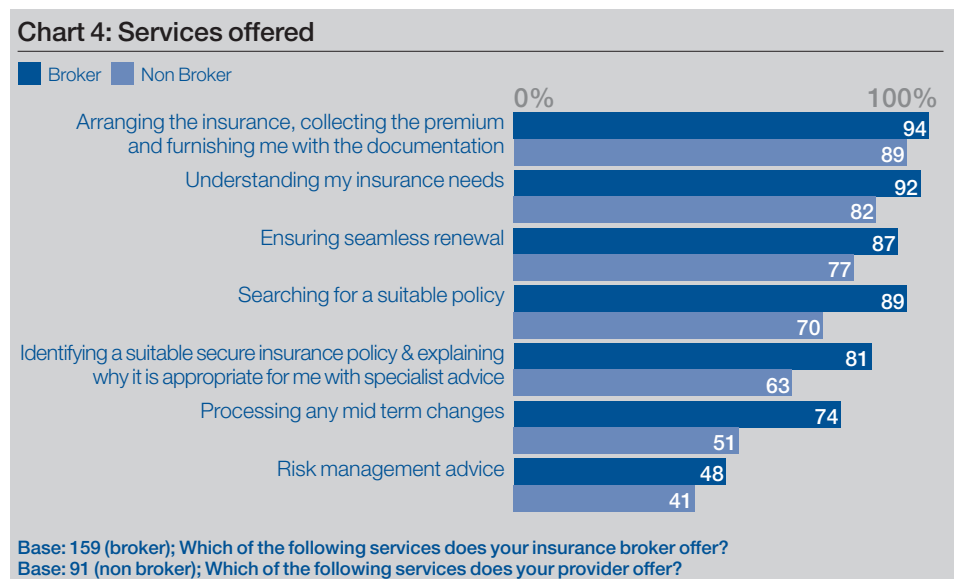
Therefore as far as product selection is concerned, brokers clearly played a fundamental role helping SMEs with the important, but often complex, issues around matching cover to risk and ensuring the small print did not jeopardise the client’s ability to make a valid claim. [QUOTE 6]

When we looked at SMEs who did not use brokers and the range of service they received we noticed some interesting differences. When asked if their providers offered an understanding of their insurance needs, the proportion that said yes was lower than their counterparts using brokers – 82% against 92%. This pattern was followed in the other areas of service and the difference was quite marked.

We expected this to be the case where the question was about identifying a suitable secure insurance policy and explaining why it is appropriate with specialist advice. This, after all, is the preserve of brokers so, as has been noted, it was surprising that as many as 63% of SMEs who did not use brokers said they received this service. It is more likely that they were offered information on a single policy from the provider as opposed the service received from a broker who makes a recommendation from a selection of suitable options giving expert advice on the choices available in order to obtain suitable protection.

This suggests to us a significant misunderstanding about the nature of the service being provided on the part of those using non advised channels.

The size of the SME in the non-broker sample did not appear to be material as to whether these services were provided or not. [CHART 4]



There is potential for brokers to highlight the added-value service they provide, making a virtue of being able to pick from a wide choice of companies to provide the cover required at competitive cost without necessarily being the cheapest.

Insurance brokers played an active part in supporting their clients in the claims process

When asked if they thought the insurance cover they had in place was appropriate, 75% of SMEs using brokers thought that it was completely appropriate, a further 22% said it was mostly appropriate. Only 3% felt their cover was not at all appropriate. This differed only slightly from the SMEs who did not use brokers where the proportions were 83% completely and 17% mostly. We surmised that SMEs are less likely to be critical when they arranged the cover themselves. Given our early findings the SMEs' confidence may be misplaced.

When asked whether the service their broker offered included dealing with any claims, 80% of SMEs using brokers said they did. The answer was similar for those SMEs not using a broker. Among those SMEs who had made a claim in the last three years, the proportion satisfied with the claims settlement was high. [QUOTE 7]

“I was their [the broker’s] client rather than dealing with the company... they made sure everything [claim payment] was OK”

08

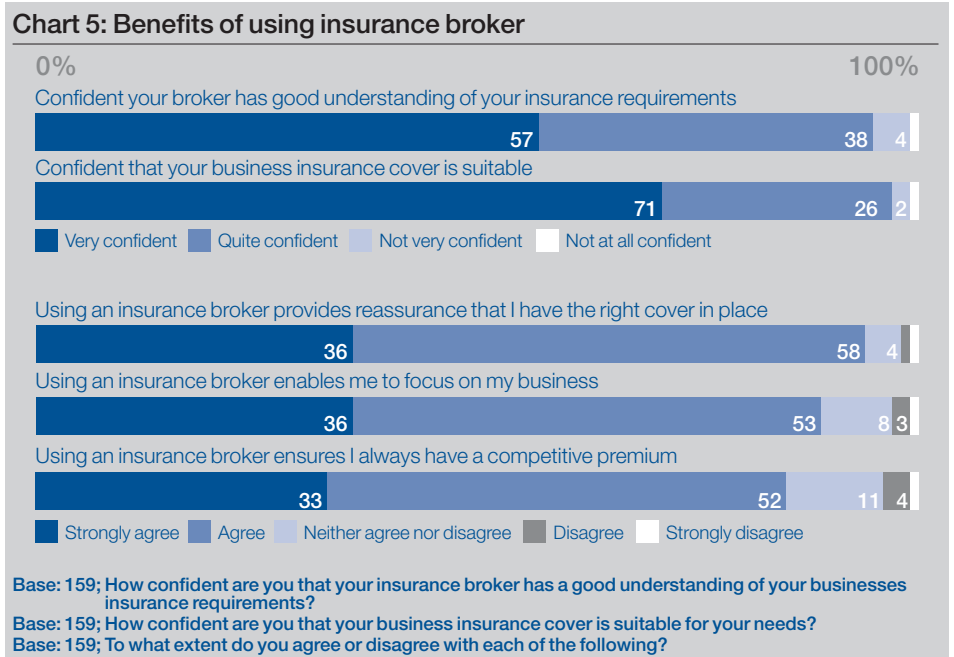
“My time is better spent running the business and getting orders”

Of those SMEs using brokers who had experienced a claim, 75% said the broker played an active role and dealt with the company on their behalf, with a further 6% saying they went as far as negotiating a better settlement with the insurer. [QUOTE 8]

We concluded that brokers play an important part in supporting their clients through the potentially stressful experience of making a claim. This is a service that would be unlikely to be available to those purchasing business insurance through other channels.

Brokers are held in high regard by their SME clients who express high levels of loyalty and satisfaction and are frequently willing to recommend them

Virtually all (95%) said they were confident their broker understood their business insurance requirements. The majority (57%) were very confident this was the case. When they considered whether the cover arranged was suitable for their needs the response was similar; 97% said they were confident with 71% being very confident. [CHART 5]



When asked about the reasons for using an insurance broker, 94% agreed that a broker provided reassurance that they have the right cover, 89% that broker involvement enabled the SME to focus on running their business, and 85% that the broker ensured the premium was always competitive.

Virtually all the SMEs using a broker (96%) said that, taking everything into account, they were satisfied or very satisfied with the service they received from their broker. Two-thirds of the sample were very satisfied. The remaining 4% were neutral. It is significant that none of the SMEs who use brokers were dissatisfied or very dissatisfied. When we looked at SMEs not using brokers we found lower levels of satisfaction. [QUOTE 9]

Nearly all (95%) of SMEs who use brokers said they are likely to continue using their insurance broker for their business insurance when it next falls due for renewal. Two-thirds of the sample were very likely to do so. In fact, there is a great deal of loyalty in this market with 73% of SMEs having used the same broker for more than 6 years. [CHART 6] [QUOTE 10]

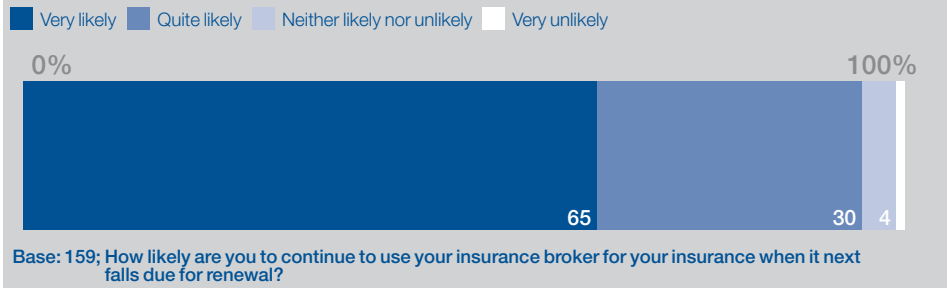
09

“[The] broker knew what he was talking about... definitely added value”

10

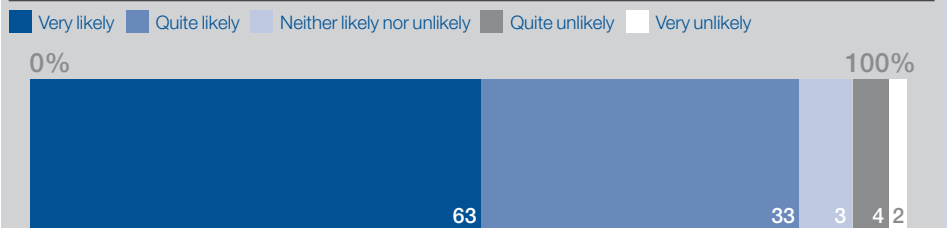
“[We’ve] stayed with them as they treat us well... look into the best deals for us”

Chart 6: Likelihood to use insurance broker for renewal

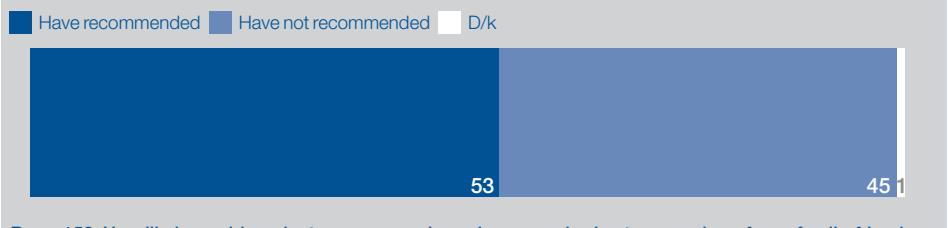


In addition, 87% of SMEs using brokers said they are likely to recommend their broker to member of their family, a friend or a business associate. Among those who are likely, over half (53%) have done so. [CHART 7]

Chart 7: Likelihood to recommend



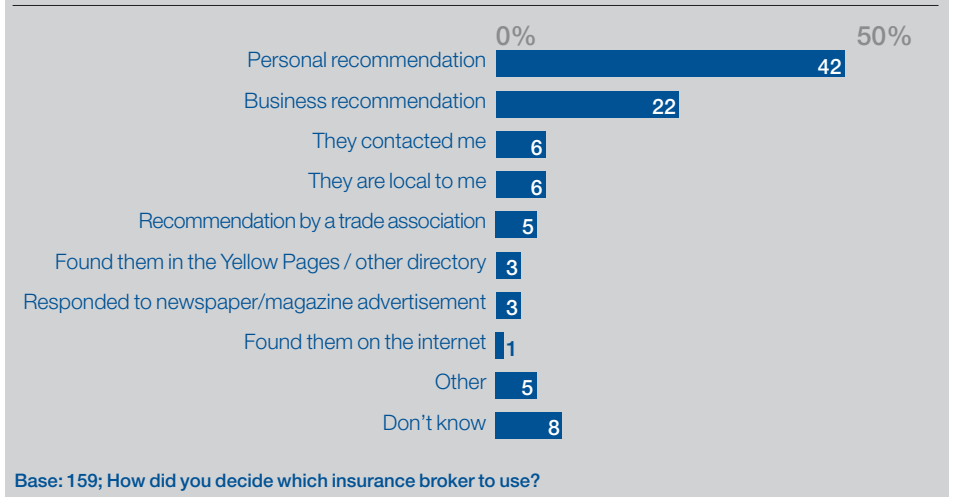
Previously recommended insurance broker



Base: 159; How likely would you be to recommend your insurance broker to a member of your family, friend or business associate?
 Base: 139 (those who are likely); And have recommended your insurance broker to anyone?

Two-thirds of SMEs decided to choose their broker after a recommendation, either a personal recommendation from a friend or family (42%) or a business recommendation from a business associate, accountant, bank manager or similar (22%). The largest SMEs in our sample showed a higher propensity to appoint a broker following a business recommendation. [CHART 8]

Chart 8: Choice of broker



Brokers can be confident when promoting themselves that they offer an important service that is highly valued by their clients.

It is clear from the findings of this research that brokers offer a service that is highly valued by their clients. Indeed many of the most valued elements of the brokers' proposition are those that constitute advice – a service that brokers are uniquely able to offer.

It appears there is a virtuous circle of referrals working to the benefit of both SMEs and insurance brokers. We can justifiably surmise that BIBA members would benefit from maintaining the momentum of this.

British Insurance Brokers' Association
8th Floor
John Stow House
18 Bevis Marks
London EC3A 7JB

Consumer helpline: 0870 950 1790
Member helpline: 0844 77 00 266
Fax: 020 7626 9676
Email: enquiries@biba.org.uk
Website: www.biba.org.uk