

THE INSURANCE INDUSTRY SUPPORTING SMEs TO PROSPER

SMEs are a key part of the UK economy and together they account for 60% of all private sector employment and 51% of its turnover.

It's important these businesses are supported by the insurance industry in order to maximise their potential for trading successfully over the long-term.

This report looks at the challenges and threats that SMEs have identified as the ones that concern them most. Pleasingly, the results underline the role insurers and brokers can play in providing advice and expertise to SMEs across a wide range of issues.



Let's work together to ensure SMEs remain a powerful and important part of the UK economy and they understand through positive experience, the range of expertise the insurance industry has to offer.



David Martin
Director of SME and Corporate Partner, Allianz Insurance plc

SME SECTOR BY NUMBERS

Source: Department for Business, Energy & Industrial Strategy, Business Population Estimates 2017.



of the UK's 5.7m private sector businesses are SMEs



£1.9 trillion

was the combined annual turnover of SMEs – 51% of all private sector turnover



23% growth

in the number of small employing businesses since 2000



are small businesses (0-49 employees)



16.1 million

people are employed in the SME sector – 60% of all private sector employment



26% growth

in the number of medium-sized employers since 2000

TOP FIVE BIGGEST CHALLENGES FACING SMEs

An independent survey of 500 SME business leaders commissioned by Allianz identified the top five challenges currently concerning senior decision makers.

1. Recruiting the right calibre of people
2. Competition from other providers
3. Innovation
4. Time management
5. IT capability



RECRUITMENT

For a small firm, recruiting and retaining the right people can be a real challenge.

Investing time in the recruitment process is time well spent. Drafting detailed job profiles that list all the necessary skills and experience can make it much easier to select a suitable candidate.

Social media can be a valuable tool to support recruitment. Depending on the type of business, using a platform such as LinkedIn or Facebook can help reach the right people.

Measures to retain talented employees is also important for long term stability. Having

employee development plans and investing in training will demonstrate a commitment to career development.

Similarly, a well thought through succession plan will help plan for future employee movement and demonstrate to employees that the business is well run and has an eye on the future.

- Draw up a detailed job profile to improve candidate selection.
- Employee attitude is as important as the right skills and experience.
- Use social media platforms such as LinkedIn to find potential employees.
- Consider succession planning to ensure a smooth skills transfer.



COMPETITION

Other businesses are a constant source of competition but there are ways for SMEs to stay ahead.

It's sensible to try and keep on top of what the competition is doing. Market research can help but also consider mystery shopping to see how competitors are performing. Similarly, networking is another valuable way to keep abreast of what competitors are up to.

As well as keeping up with rivals, an SME may seek to differentiate itself to gain a competitive edge. This could be anything from a new product, service or special offer to a link with a community or charity event that might appeal to customers.

Technology can also help. Robotics and automation can free up time spent on more mundane tasks and enables a business owner and employees to focus on growth.

Networking with competitors is a valuable way to keep abreast of what they are up to.

If a firm explores this avenue, it's important to be mindful of the additional data and cyber risk exposures and find ways to manage or insure them.

- Undertake market research, mystery shopping exercises and networking to understand the competition.
- Differentiate a product or service offering to stand apart.
- Use technology to enable the business to maximise its expertise for the customer.

INNOVATION

The pace of change is increasing all the time and innovation is a constant pressure on many SMEs.

While some SMEs will want to stay ahead of the innovation curve, for others, taking a more traditional approach could be a key differentiator.

Similarly, while we see more innovation today, not everything has staying power. Taking time out of day-to-day business activities to focus on strategy can be helpful when considering why and how to innovate.

Innovation does not necessarily mean it has to be something big. Small innovations can make a real difference.

Taking time out of the business to focus on strategy is important.

While stepping away from the day-to-day can seem a luxury, it can prove to be a valuable investment.

- Embrace the possibilities of innovation but don't be a slave to it.
- Consider business strategy before investing in the latest innovation.
- Wait for prices to fall or for other companies to launch copy-cats.

TIME MANAGEMENT



Managing time effectively is important for businesses of any size but for SMEs this is often wishful thinking.

It's important to delegate but that can be easier said than done. A sense that it's quicker to do it yourself or perhaps the belief that no one else has the right skills and experience to do the job, or you are just not that good at delegating can mean holding on to tasks unnecessarily.

Stepping back and considering whether someone else could get on and perform the task freeing you up to focus on other things is often worthwhile.

Looking carefully at business processes can identify opportunities for automation or greater streamlining.

- Use time management apps to plan more effectively.
- Consider delegating tasks to free your time.
- Review processes to ensure they are as efficient as possible.

IT CAPABILITY

Running a business, big or small, is a skilled balancing act. Current needs versus possible future needs, investment now or investment later. Amongst all of these IT can be one of the most challenging!

With the advent of cloud services like Amazon, applications services like google mail and powerful desktop based computing like Microsoft Access, the deployment of new capability is getting easier and faster all the time.

It's attractive to think in terms of what's needed now but IT is not just about whether it fits current demands.

Consideration needs to be given to how long will it work for the business, how much will it cost every year, how will it be looked after, and what if it stops working properly.

- IT systems introduce change. To get the best, the people using the system need to be involved, trained and happy.
- Think about the long terms costs and effort as well as the immediate spend change.

TOP FIVE BIGGEST THREATS FACING SMEs

Our research amongst 500 SME decision makers revealed what they believe to be the biggest threats facing their business.

1. **Data loss/misuse/theft**
2. **Impact of Brexit**
3. **Theft or malicious damage to business equipment or property**
4. **More advanced technology used by other competitors**
5. **A significant business interruption**



DATA

Data breaches and cyber security are rarely out of the headlines. The focus is generally on large companies, but SMEs are also at risk.

Most SMEs are exposed to some level of data risk, so it is encouraging to see this is recognised as the number one threat so that mitigation steps can be taken.

For many SMEs, especially those without a dedicated IT function, complying with legislation can seem impossible. Take the new General Data Protection Regulation (GDPR) as an example. When asked earlier in 2018 before the new regulations came into force, 49% of SMEs said they were not fully aware of the implications of GDPR.

Regulations – and the threat of hefty fines – can seem particularly daunting but there are some simple steps to protecting data.

As a starting point, all businesses should ask themselves what they use the data for, what data they hold and what permissions they have to use it. This understanding, alongside securing and encrypting any data they hold, will help to ensure compliance.

49% of SMEs said they were not fully aware of the implications of GDPR.

Insurance is available to cover replacement of data and some fines. However, one of the most important ways an insurer or broker can help is the provision of expert risk advice.

- A data breach or cyber-attack can happen to any company, regardless of size.
- Visit the Information Commissioner's Office website for bitesize guides to GDPR.
- Explore the need for cyber cover with an insurance broker.
- Seek expert risk advice from an insurance broker or insurance company.

BREXIT

With less than a year to go before the UK is scheduled to leave the EU, there's still plenty of uncertainty about how this will affect UK businesses.

Uncertainty is unsettling for any business. While it's impossible to plan for all potential outcomes, the only certainty this brings is that some of this planning will have been a waste of time. Instead, given all the uncertainty, it is probably more prudent to maintain a watching brief.

Industry bodies and organisations will help an SME keep abreast of how Brexit might impact on their business.

Linking with industry bodies and organisations will help an SME keep abreast of how Brexit might affect their business. The insurance industry is also a source of information as it has close links with government officials.

Monitoring what is being said in the media is another way of keeping a watchful eye on how the negotiations are progressing. Journalists have access to a range of expert opinion which can be helpful in understanding the commercial implications.

- The **UK is scheduled to leave the EU at 11pm on 29 March 2019**, with the transition period lasting until 31 December 2020.
- Given the uncertainty, stay close to industry bodies and associations to monitor the changes.



THEFT AND MALICIOUS DAMAGE

Cyber might be the number one threat to SMEs, but old-fashioned theft is still a major concern. This isn't surprising because having a vehicle or a key piece of equipment stolen can be a significant setback to an SME. Risk management advice is key to reducing the chances of this happening.

There is no 'one size fits all' rule when it comes to security protection measures. Premises need to have their risk level and weaknesses assessed in order to take actions that deter, or at least slow down, thieves and arsonists. It is important that security does not compromise fire safety arrangements.

The types of goods and equipment that are sold, used, produced or stored make a big difference to the level of risk. Businesses should never underestimate how attractive their goods are to thieves. Take the theft of tools as an example. A simple measure such as keeping them in cages in a locked van is a good deterrent.

Often there is no 'silver bullet' solution. Instead, a range of layered protective measures are normally best. For example, physical security such as locks, bars, shutter, and electronic protection through intruder alarms or CCTV.

If despite risk prevention measures items are stolen or damaged, it will make the claim easier if the items are security marked and there is a log of the make and serial number.

- Consider whether adequate security measures are in place to prevent theft.
- Speak to an insurance broker about risk management strategies.
- Insurers can provide advice on the latest theft trends and how to protect your premises and equipment.

TECHNOLOGY



The threat of a competitor investing in new technology that enables them to do business faster or cheaper can affect SMEs in any sector.

Keeping track of the competition is key to dealing with this threat. For example, if an SME has knowledge that a rival business has invested in new technology, they will have an opportunity to respond.

This may mean investing in similar technology but it could also mean adjusting the existing business model to ensure there is an alternative key differentiator.

It's also worth being aware of the risks when it comes to technology. By understanding

what new technologies are in the pipeline and the benefits they might bring, an SME can appreciate how they might affect their place in the market.

Knowing a rival has invested in the latest piece of technology can enable an SME to respond.

Likewise, if an SME decides to invest in new technology, it's also important to consider the insurance and risk management implications.

- Tracking their competitors will ensure an SME can respond if they invest in new technology.
- Keep abreast of new technologies that might affect the market.
- Be aware of other business differentiators that can help an SME stand out from the competition.

BUSINESS INTERRUPTION

Whether caused by a fire, flood or a terror attack, an event that interrupts an SME's ability to trade will negatively impact turnover and if prolonged, could spell the end of the business altogether.

Having an effective business continuity plan can make all the difference when it comes to responding to an unforeseen event.

Business interruption insurance can replace lost income and cover increased costs of working while the business is getting back to normal. Underinsurance is a risk, so it's important to get the right level of cover. Often an SME will take out a policy with a 12-month indemnity period but this can be insufficient where the premises have burnt down and need rebuilding. A longer

indemnity period such as 24 or 36 months may be more appropriate.

It's also important to consider the sum insured. For a start-up or a growing business, it may be worth including future growth in the sum insured. Similarly, a seasonal business may want to think about how the timing of an interruption could affect the sum insured. For instance, an SME involved with retail could find it misses two peak sales periods if a 12-month business interruption starts in November.

- A business continuity plan can help an SME recover more quickly following a loss.
- Consider how long the business might be affected in the event of a fire.
- Understand the different types of policies and how they can protect a business.

BROKERS SUPPORTING THEIR SME CUSTOMERS

Our research shows there is a clear opportunity for brokers to work with their SME customers to help them prosper commercially. Here are some areas where brokers can provide expertise to help SMEs mitigate risks to their business.

Setting up a risk register and reviewing it annually

This can be time-consuming but it is a powerful exercise which helps reduce the chances of falling foul of a risk. To do it properly, an SME owner should speak to people across the business and be prepared to spend a day reviewing and planning.

Putting together a business continuity plan

Having an effective business continuity plan should be regarded as a key component for running a successful business.

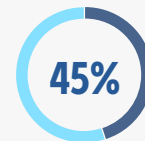
To an SME owner this can feel like deadtime, because they feel on top of the situation but it should be regarded as a key business exercise. By understanding the possible risks

and how the SME would need to respond to them, it will help identify ways to strengthen the business operationally.

Talk intangibles

SME owners are generally aware when it comes to many of the physical risks they face, but it's also worth highlighting some of the more intangible risks such as the death of a key member of staff, or a regulatory investigation.

Insurance products such as keyman and D&O can help manage these exposures.



SUPPORT FROM ALLIANZ

The SME sector is key for the UK economy and at Allianz we are keen to offer support through the broker channel.

Support can come in a number of ways. As well as engaging with brokers through industry events, we also provide risk management advice and insight into emerging risks.

We also engage with other parties such as the Association of British Insurers, the Financial Conduct Authority and the

Information Commissioner's Office to ensure our own knowledge on key issues is accurate. Sharing knowledge and research with brokers can help them develop their own businesses as well as support their SME clients.

We have also developed products and services to provide tailored insurance

cover for SMEs. For example, as well as streamlining the application process, we have also removed the use of average on our SME products.

As SMEs' needs evolve, so will the support we provide to our brokers to ensure that these businesses remain a powerful and important part of the UK economy.