

For Immediate Release

Hong Kong SMEs under-insured and not fully aware of cyber risks amid surge in digital usage during COVID-19, QBE survey shows

SME gloom about Hong Kong economy persists, while rethink on insurance is needed

2 February 2021, Hong Kong – More than three quarters of small-to-medium sized enterprises (SMEs) in Hong Kong are not fully aware of possible cyber risks that have grown in tandem with a surge in digital usage during the COVID-19 pandemic, thereby exposing them to considerable business risk, according to new research by QBE Insurance.

The SMEs' vulnerability to cyber and business risks is set against growing pessimism among them about the prospects for the local Hong Kong economy over the next 12 months, with just under a quarter (23%) of those surveyed expecting it to improve, according to the new research. This follows an expected GDP decline in 2020 of 6.1%.¹

The findings show many SMEs in Hong Kong to be inadequately insured against cyber and other risks to their business, suggesting a review of this area of their business is merited. It also illustrates the value of seeking expert advice before investing in such protection.

The research was commissioned by QBE Hong Kong, part of QBE Insurance Group, and drew on a survey of 410 SMEs in late 2020.² It takes the pulse of local SMEs and shows the latest thinking on the economy, COVID-19 pandemic, insurance and other issues.

"The findings are significant because there are about 340,000 SMEs in Hong Kong, employing about 45% of Hong Kong's workforce in the private sector," said Lei Yu, CEO North Asia and Regional Distribution Head. "It's essential they get the right protection to navigate these risks."³

Digitalisation speeds up, but cyber protection lags behind

The pandemic has led to a big increase in digital usage across all areas of life in Hong Kong, particularly as a result of so many people working from home. The percentage of SMEs with employees working at home rose from 13% pre-COVID to 37% at the moment.

More than half (53%) of the SMEs surveyed accelerated investment in digital technologies to improve efficiency, resilience and growth. The majority said they have now digitalised their business process – 59% now, up from 51% pre-COVID. The main processes to get investment are e-commerce platforms and software, employee systems and online marketing. These areas remain central in their investment planning for 2021, with 21% saying e-commerce is the main priority for the year.

"It's encouraging that SMEs show a willingness to invest in digital technologies, which ultimately – regardless of COVID-19 – will be essential for their businesses," said Lei.

¹ Hong Kong Government https://www.hkeconomy.gov.hk/en/pdf/20q3_pr.pdf

² Fieldwork conducted in September and October 2020

³ Hong Kong Government https://www.tid.gov.hk/english/smes_industry/smes/smes_content.html



Meanwhile, the surge of digital usage has created cyber security concerns. Hong Kong SMEs' top cyber-security concerns include theft or loss of customer data (61%), hacking by people outside the business (53%), and online criminal activities (50%).

Yet, despite these concerns, only 24% said they are “fully informed” of the possible cyber risks, and 23% said they don't have any processes or protection against such risks. Taking the top concern – theft or loss of customer data – as an example, while 61% of SMEs said they are concerned, only 41% have put relevant policies or processes in place to mitigate the risk.

Besides, appetite towards cyber-security insurance varies among different SME segments. Medium/large SMEs have shown a greater willingness to use such insurance – among those who do not currently have such protection, 45% said they will consider purchasing in the next 12 months. But only 28% small businesses will do the same since they think the cost may be too high to be worth the investment.

Hong Kong economy expected to worsen

As the pandemic persists, 56% of respondents expect the Hong Kong economy to worsen over the next 12 months, with 45% expecting a worse business environment. This includes deteriorating investor and consumer confidence (cited by 70% of SMEs) and reduction in tourism (53%). Decreasing demand from domestic (49%) and overseas customers (39%, up from 23% last year) adds to the difficulties.

In the face of worsening economic conditions, most Hong Kong SMEs (70% vs 65% in 2019) are looking to implement more cost controls or to downsizing or streamlining their organisational structure (40% vs 32% in 2019). In addition, there's a reluctance among SMEs to expand overseas, while more than half (53%) of those already internationalised are considering scaling down their overseas presence.

“Clearly, local SMEs are under a lot of cost pressure and trying to streamline their operations as effective as possible to withstand the headwinds. It's therefore even more paramount that the money they invest on protecting their business is money well spent,” said Lei.

The sluggish economy during the pandemic has created various business issues for Hong Kong SMEs, but huge gap exists between their level of concern and the suitable insurance coverage that they have got.

Nearly three-quarters (71%) of SMEs said they experienced at least one business issue in the past 12 months, up from 66% in 2019. But while 90% of SMEs have purchased some form of insurance protection to cope with such issues, the majority do not have the appropriate cover to address their specific protection needs.

For example, while 65% of SMEs cited “loss due to equipment breakdown” as one of their top concerns, with 31% being highly concerned, only 24% have bought the appropriate insurance. As well, among the 61% SMEs that are concerned about “damage to business property”, only 31% have relevant coverage. Elsewhere, while 59% of SMEs are concerned about “loss of key staff”, only 10% have relevant protection.



“This shows us that SMEs will benefit from seeking consultation from insurance professionals who can help them understand their specific needs and explain the types of insurance coverage to fit their business instead of basing purely on the cost of insurance. Having the right insurance coverage will also help SMEs in the event of a claim.” said Lei.

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