



SMEs and Insurance

A pulse check on risk trends for businesses

Hong Kong



Executive summary - don't make business insurance an afterthought

Business sentiment among SMEs in Hong Kong worsened in 2020 amid deepening concerns about the broader economy, while COVID-19 has added further pressure to this already struggling sector.

SMEs' primary tactic to weather a weaker business environment is cost control, which includes scaling back capital spending, staff training and staff size. SMEs are also taking a more conservative approach, evidenced by their lowered appetite for overseas expansion.

SMEs' risk concerns have grown across the spectrum, in areas including equipment breakdown, liability to third parties and damage to property. There is also increased awareness of cybersecurity risks.

Our research shows that many SMEs in Hong Kong are inadequately insured against cyber and other risks to their business.

Despite a surge in digital usage during the COVID-19 pandemic, more than three quarters of SMEs in Hong Kong are not fully aware of possible cyber risks that have grown in tandem with that.

Apart from cyber security, Hong Kong SMEs are facing various other business issues, but a huge gap exists between their level of concern and the insurance coverage they have. Our research shows while 90% of SMEs have purchased some form of insurance protection, the majority do not have the appropriate cover to address their specific protection needs.



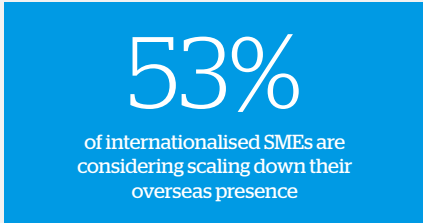
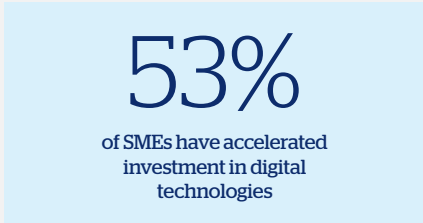
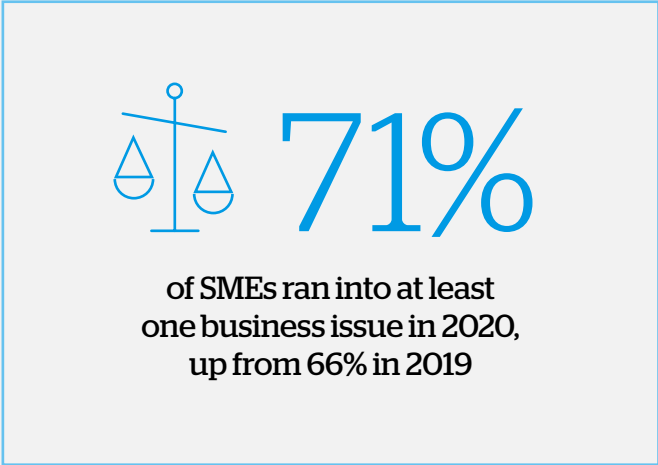
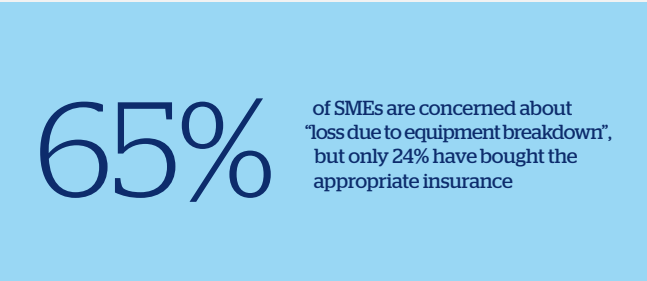
This suggests that a review of this area of their business is merited. It also illustrates the value of seeking expert advice before investing in such protection.

The 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.¹

Clearly, more information needs to be provided for SMEs around the different business protection products that are available to them and which they can stand to benefit from.

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

Our SME research found that

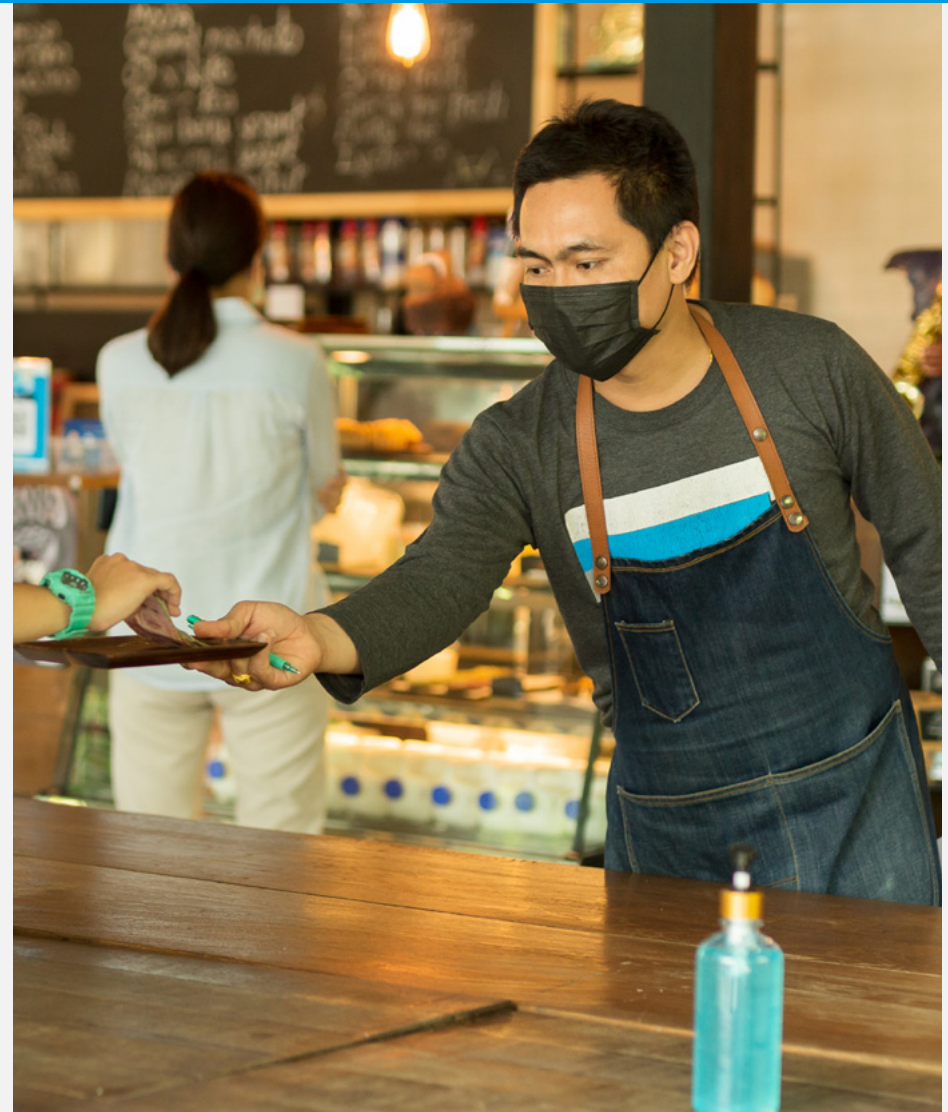


How to use this report

The report draws on an online survey of 410 Hong Kong SMEs which we completed in Q4 2020. Entitled *Hong Kong SMEs: In Search of Business Resilience*, the report takes the pulse of local SMEs and shows their latest thinking on the economy, pandemic, digitalisation, cyber security risks and other issues that will impact their long-term growth.

It starts with some background on the economic and business outlook set against the effects of COVID-19. It then looks at the common business issues that SMEs ran into during the past year. That's followed by identifying the current gaps between SMEs' top business concerns and the level of protection that they have. The report then gives a deep dive into the surging digital investments and the cyber security concerns that have grown in tandem with that. It also includes observations of SMEs' reduced intention to expand overseas, their openness to buying insurance from online channels, as well as key things to consider when choosing an intermediary.

The survey findings can be of use to insurance intermediaries for starting open and frank conversations with SMEs about having the right coverage.



Key findings

Pessimistic economic and business outlook amid the pandemic

- 56% of respondents expect the Hong Kong economy to worsen over the next 12 months, with 45% expecting a worse business environment.
- Most Hong Kong SMEs (70% vs 65% in 2019) are looking to implement more cost controls or to downsize or streamline their organisational structure (40% vs 32% in 2019).

Digitalisation speeds up

- Increasingly, SMEs are recognising digitalisation as a means of driving growth and reducing costs.
- More than half (53%) of the SMEs surveyed accelerated investment in digital technologies. The majority said they have digitalised their business process – 59% now, up from 51% before the COVID-19 pandemic.

Insufficient awareness of cyber security risks

- More than three quarters of 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.
- While medium/large SMEs have shown a greater willingness to buy cyber security insurance, small businesses – with only 28% considering purchasing in the next 12 months – are hesitant because they think the cost may be too high to be worth the investment.

Inadequate protection for key business concerns

- SMEs' top business concerns include "loss due to equipment breakdown" (65%), "damage to business property" (61%) and "loss of key staff" (59%).
- 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.

Reluctance to expand overseas

- More than half (53%) of those already internationalised are considering scaling back their overseas presence.
- But opportunities still exist for multi-country insurance. Among the SMEs surveyed, 13% don't have overseas presence but still have intention to go overseas despite the gloomy economy. Among them, 80% said they will consider buying multi-country insurance.

Local economy outlook is expected to worsen

Only 23% of SMEs expect a favourable economic outlook in the coming 12 months, caused by worsening economic conditions:

- Deteriorating investor/consumer confidence (70%)
- Trade dispute (55%)
- Reduction in tourism (53%)
- Decline in local demand (49%)
- Decline in overseas demand (39%)

Facing worsening economic conditions, SMEs are looking at

- Cost control (70%)
- Scaling back overseas presence (53%)
- Downsizing/streamlining organisation structure (40%)



10 most common business issues encountered by SMEs in 2020

71% of SMEs experienced at least one business issue, up from 66% in 2019.



1

Inventory was damaged or lost



2

Employees were injured while working



3

Key staff left the business



4

Being "hacked"/sensitive data and information was stolen via the internet



5

Loss of commercial assets, income or property resulting from political/civil unrest



6

Business suffered a loss due to equipment breakdown



7

Business property was damaged



8

Directors/officers of the company were accused of wrongful acts



9

Money/goods were lost due to dishonest acts of employees

SMEs are seeing the necessity of insurance but key risks are inadequately covered

The survey showed that while 90% of SMEs have some form of insurance protection, often their key risks and/or concerns are either not covered or not adequately covered by the relevant insurance.

It means that SMEs are not investing in the right protection, and that could expose the business to considerable risk. The table below lists the top risks and concerns faced by SMEs compared to the insurance coverage they have against these risks/concerns.

Top risks / concerns	VS	Have relevant insurance coverage
65%	Loss due to equipment breakdown (with 31% being highly concerned)	24%
61%	Damage to business property	31%
59%	Loss of key staff	10%



It is essential for SMEs to carefully review their insurance coverage

Under Hong Kong law, it is a requirement that all employers in the city hold an Employee's Compensation insurance policy to cover their liability in the event that a member of staff suffers an injury or illness during the normal course of their work.

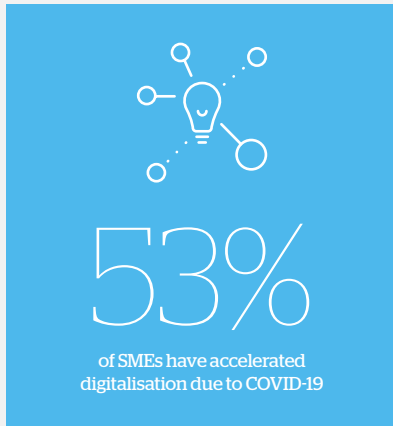
All SMEs will have this basic insurance, but what other insurance do they need to protect their business? Clearly, the nature of the protection required will depend on the nature of the business itself. So, the insurance needs of a small manufacturer will be different from those of a shop owner, just as those of a marketing agency will be different to those of a construction company. But, at the same time, there will be some common threads across all these and other businesses. They will all have similar considerations about their business needs.

Key considerations when reviewing insurance coverage

Q.1	What do you consider are the main risks or weaknesses within your business?	Q.6	Have you considered the risks associated with negligence, data privacy breaches or other mistakes in the running of your business?
Q.2	What do you consider are the main risks from the external environment impacting your business?	Q.7	During the pandemic, there's been a huge move to digital with homeworking, e-commerce etc., and cybercrime has grown exponentially during the same period. Have you considered insurance against cyber risks?
Q.3	Does your insurance cover liability of employees, temporary staff and independent contractors?	Q.8	Is the insurance you're buying providing sufficient protection?
Q.4	Are you insured against bad debts or delayed payments?	Q.9	Have you got the right balance between your insurance premium and excess?
Q.5	Do you have legal cover in the event of pursuing a debtor in the courts or having to defend a lawsuit?	Q.10	Do you have a need to make short-term adjustments to your insurance? For example, if you're shipping a product or need cover for a one-off event.

SMEs must prepare for a digital economy

Digitalization speeds up



37%
of SMEs have employees who are working from home
up from 13% pre-COVID

59%
of their business processes are now digitalised
up from 51% pre-COVID

In 2020, the main areas of investment are:

21%
e-commerce platforms and software

19%
employee systems

19%
online marketing



SMEs must prepare for a digital economy

Cyber protection lags behind

- Despite the surge in digital usage, **more than 3 in 4** are not fully informed of the possible cyber risks
- **1 in 4** don't have any relevant protection

Top cyber security concern	VS	Have relevant policies or processes in place
61%	Theft/Loss of customer data	41%
53%	Hacking by third parties	43%
50%	Online criminal activities	38%

Appetite towards cyber-security insurance

45%
of medium/large SMEs
will consider purchasing
cyber-security insurance in
the next 12 months



28%
of small businesses
will consider the same as
the cost may be too high to
be worth the investment



SME's growing preference to transact online

While SMEs still prefer to buy insurance from traditional offline channels, mainly due to having personal contacts, they have become increasingly open to using online channels.

SMEs have revealed that ease of use, time saving and being in control are the main drivers for them to purchase insurance online.

32% of SMEs prefer to buy insurance from online channels, up from 27% in 2019.



Drivers for preferring online

- Easy to use - **42%**
- Save me time - **37%**
- I feel more in control of the buying process when using it - **28%**
- Responds quickly - **28%**
- Offers lower prices - **27%**

Barriers to online

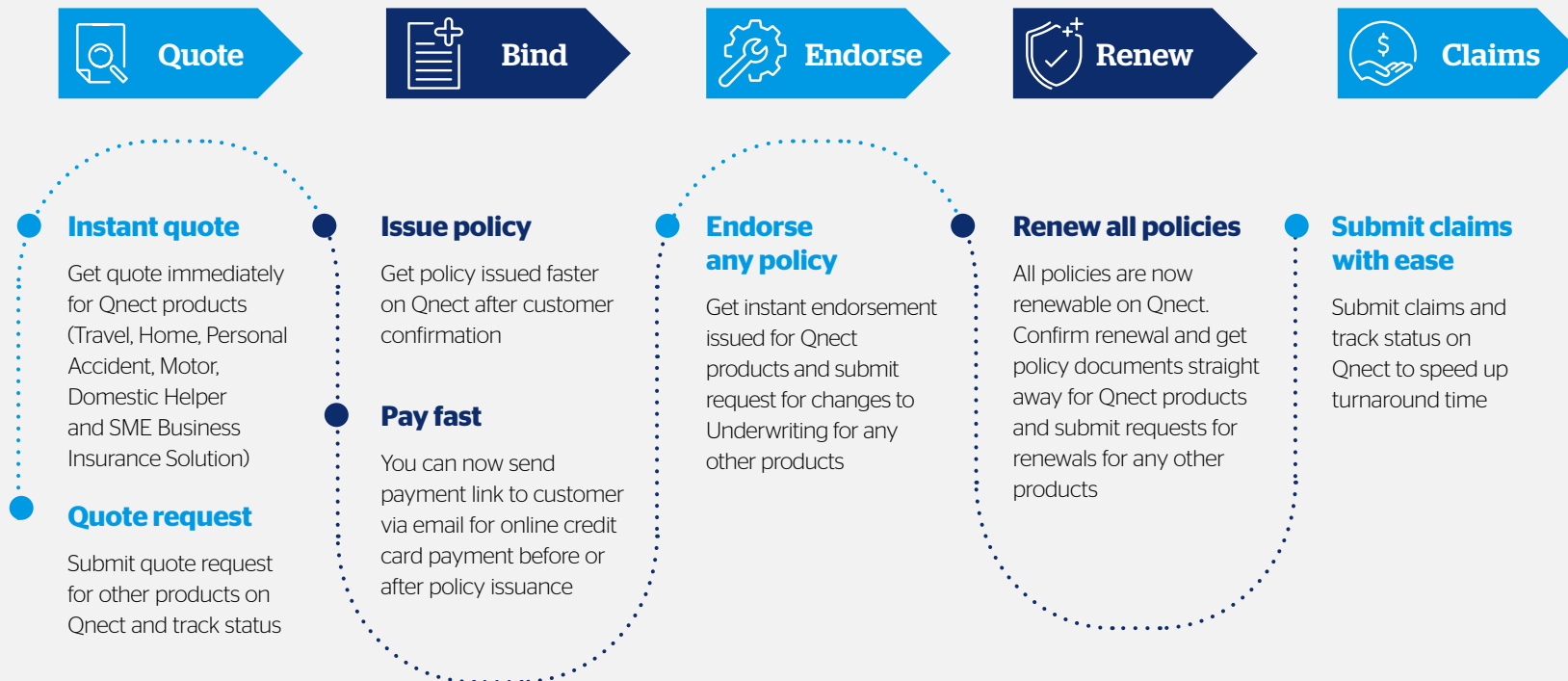
- I want in-person contact - **37%**
- Agents / brokers / banks provide better service - **34%**
- Information provided online may be unclear - **28%**
- Understand my risks enough to choose the right insurance to buy - **23%**
- I'm concerned with the risk of fraud - **23%**

More ways to get insured

Efficiency, agility and speed of delivery are extremely important to the SME community in Hong Kong.

QBE is well-positioned to serve the growing needs of SMEs with its innovative online platform, Qnect. This platform allows intermediaries to efficiently support their clients through quote and policy issuance, customer portfolio management and claims submission.

Using upgraded Qnect



Internationalisation is risky but insurable

Although SMEs are becoming hesitant to go overseas, multi-country insurance continues to play an essential role protecting SMEs with operations in overseas markets.

More than half (53%) of those already internationalised are considering scaling back their overseas presence.

But multi-country insurance is still relevant to their business.

Key barriers of internationalisation

- Among the SMEs surveyed, only 31% is aware of multi-country insurance
- Among the internationalised ones that have intention to further expand, only 69% is aware of multi-country insurance
- Among the SMEs surveyed, 13% don't have overseas presence but still have intention to go overseas despite the gloomy economy. Among them, 80% said they will consider buying multi-country insurance



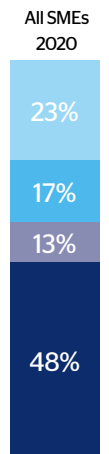
69% aware of multi-country insurance

(79% in 2019), (30% in 2018)

49% aware of multi-country insurance

(30% in 2019), (41% in 2018)

- Internationalised and intends to expand
- Internationalised but no expansion planned
- Domestic only and intends to internationalise
- Domestic only and no intention to internationalise



Sustainability and SMEs

Local SMEs are increasingly engaged in social and environmental activities and initiatives.

Among those driving a sustainability agenda, attracting and retaining talent is a key consideration and it forms part of their employee value proposition. Some SMEs believe it helps to attract and retain customers too. Yet, a good number of SMEs in Hong Kong still view sustainability as having little relevance to their business.

- Relevance of all issues remains fairly constant, except for the increment in support for local communities and community engagement (3%) as well as the slight decrease for diversity and inclusion (-6%) and human rights (-3%)
- SMEs said the two main issues that affect their business are employee health, safety and wellbeing (50%) and labour conditions (46%)
- Nearly half (46%) have undertaken initiatives related to environment awareness and protection, while a third (34%) are involved in waste reduction/management initiatives
- Key factors driving initiatives on employee health, safety and wellbeing are virtually unchanged from last year, with attracting and retaining staff (58%) being the top factor, followed by attracting and retaining customers (32%) and reducing costs (31%)
- Key reasons to focus on labour conditions saw a jump in the desire to reduce costs (49%; up from 34%), a slight change in attracting and retaining staff (48%) and regulatory/legal requirements increased significantly (33% versus 25% last year)



While already evident from the growing expectations of staff and customers about the importance of sustainability and environmental, social and governance (ESG), it's important for SMEs to recognize that this is not just about social activism. It's about risk management. Ignoring externalities such as environmental footprint, impact on community, supply chain, social issues and diversity, can present risks to the business that become governance issues. For listed companies, there is an overlap here with company directors' fiduciary responsibilities. Companies with good ESG processes in place are generally well run, which translates into stronger overall performance.

How to engage in open and frank conversations with an intermediary or SME client?

Amid the pandemic and severe economic challenges accompanying it, SMEs in Hong Kong have come under huge pressure.

More than ever, it's paramount that the money they invest on protecting their business is money well spent. 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 best suit their business.

Price is the most important concern for 57% of SMEs when choosing insurance, while

- **39%** rely more on the advice of other people
- **38%** think business insurance is too complex to understand

It is important for SMEs and professional intermediaries to engage in open and frank conversations together.

As an intermediary, it's important to be well prepared for your SME clients and understand their needs.

Potential client questions to prepare answers for:

- Can you help me to understand what risks my business face and what products are available to protect me?
- Can you find insurance plans that work for me?
- Are you able to set up policies and ensure the required documentation is in order?
- Are you able to guide through the claims process if I need to make a claim?

Meet your clients' needs:

- **A specialist** - be a specialist in your clients' industry with the experience and insight to meet your clients' needs
- **Responsive** - respond promptly to your clients' enquiries and share useful information with your clients
- **Persistent** - find the right information for your clients
- **Honest** - tell the truth and not just what your clients want to hear

As a client, when choosing an intermediary, it's also wise to check your intermediary's credential and decide if they'll be a good fit for you.

Questions to ask include:

- Do you have any certifications?
- Are there any types of insurance you specialise in?
- Will you be managing my account?
- How will you bill me for your services?
- Can you provide references?

Methodology

The *Hong Kong SMEs: In Search of Business Resilience* research study, commissioned by QBE Hong Kong, drew on an online survey of 410 Hong Kong SMEs completed in Q4 2020.

Among the SMEs surveyed, 80% were in the service industry offering wholesale/retail, health, arts and creation, IT, finance & insurance, education, professional services, transport, F&B, accommodation and more. The remaining 20% came from the non-service industry, mainly manufacturing, construction and engineering. The SMEs in manufacturing sector employ up to 99 employees, while those in the non-manufacturing sector employ up to 49 employees.





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