SME hesitation on digitalisation leading to long-term competitiveness drag: QBE research

Rate of digital adoption slower than expected among SMEs, despite support being readily available

- 57 per cent of Singapore SMEs indicated that financial support from the Government was a key form of support needed to help lift the barriers to digitalising
- 22 per cent of SMEs indicated an intention to internationalise in 2020
- Only 20 per cent of all SMEs agree that the impact of climate change is one of the most relevant social and environmental issues to their businesses

Singapore SMEs are still apprehensive about digital adoption and are not taking the necessary steps needed to strengthen their business’ infrastructure amid an increasingly digitised economy, according to the fifth edition of QBE Insurance’s annual survey of Singapore SMEs.

While SMEs are generally keen to digitalise, their main deterrent to doing so is the high cost of investment. 41 per cent of SMEs shared this sentiment, with the second most-cited reason being a lack of financing and funds. Alongside these obstacles, 57 per cent of SMEs indicated that financial support from the Government was a key form of support needed to help lift the barriers to digitalising.

While measures announced in Singapore’s 2020 Budget will help SMEs access more working capital, and potentially further digitalise their businesses, more needs to be done in outreach and education around these assistance measures. QBE’s SME Survey results revealed that only 31 per cent of SMEs have utilised the Government support available in 2019. This was despite 71 per cent indicating their awareness of support measures, revealing a perceivable gap between awareness and uptake.

Unprepared for technology related business issues

Even as SMEs seek to broaden their businesses in an increasingly digital and data-driven economy, many remain unprepared to handle common business risks associated with the use of technology. While 34 per cent of all SMEs expressed concern over unauthorised access into a
system or computer, only 17 per cent hold business insurance for it. Similarly, just 19 percent of businesses have protection for theft of sensitive data and information via the internet despite 37 per cent expressing concern. Additionally, only 18 per cent and 16 per cent of SMEs held insurance for customer fraud and fraudulent payments via the internet and infringement of intellectual property rights respectively, two issues which will grow in significance in the digital economy.

Overall, Singapore SMEs are progressing towards a future, digital economy. However, they continue to approach new risks lightly with minimal contingency planning – a finding that has been consistent with previous survey results.

“SMEs are the key driving force for Singapore’s economy. It is therefore critical for them to understand the importance of digitalising and scaling up to become more competitive in the marketplace. Assistance provided by the Government, especially more so in the recent Budget announcement, should provide SMEs with the resources to establish proper contingency plans. This helps to ensure that their overall long-term growth is both sustainable and safe,” said Ronak Shah, CEO of QBE Insurance Singapore.

“As insurers, we reach out and become partners to local SMEs, giving them the confidence to navigate an unpredictable economy through identifying and underwriting risks specific to their needs,” he continued.

**Despite economic headwinds, SMEs still eager to expand**

Businesses were generally slightly more optimistic about the economy and their own business growth in the next 12 months as compared to the same period last year, taking into account that the survey was conducted prior to the COVID-19 outbreak.

The survey also polled SMEs’ internationalisation and expansions plans, with 22 per cent of all SMEs indicating an intention to internationalise – a 4 per cent increase over last year. Of the pool of SMEs who had already internationalised, larger SMEs showed a greater intent to internationalise further than smaller ones.
The reverse proved to be true for domestic-only SMEs who intend to internationalise. Smaller domestic-only SMEs showed a stronger intention to go abroad as opposed to their medium and large-sized peers. Singapore SMEs’ eagerness to expand overseas also runs parallel to the Government’s Enterprise Grow Package announced at Budget 2020, allowing firms access to more guidance and funding to help SMEs achieve their ambitions to expand.

Of all international markets, Singapore SMEs have a unanimous preference to expand to Malaysia the most, which is understandable given the proximity between Singapore and Malaysia. However, it was interesting to note that the larger SMEs listed Hong Kong as their second destination of choice to expand to following Malaysia, with 34 per cent of them indicating it as such.

**Most SMEs continue to be indifferent towards climate change**

Discussion on climate change has increased in Singapore. However, although a growing number of SMEs are seeing the relevance of the impacts of climate change on their businesses, a majority of them are still indifferent to the potential impacts on their business. Only 20 per cent agreed that the impact of climate change was one of the most relevant social and environmental issues to their businesses.

Among all social and environmental issues, SMEs found employee health, safety and wellbeing, and labour conditions most relevant to their businesses, and ranked these at a higher importance than the impact of climate change. Many Singapore SMEs fail to perceive any impact from climate change on their businesses and continue to maintain their focus on more immediate needs and goals.

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About the research

This SME research was the fifth iteration of a survey designed and conducted in December 2019 by ENGINE on behalf of QBE, in an effort to better understand SMEs’ behaviours and business challenges. Interviews were conducted with 400 SMEs across various industries in Singapore.
Singapore SMEs not digitalising at pace

41% cited high cost of investment as main deterrent
39% cited lack of financing and funding as a major concern
57% agreed that financial support from government is needed

SMEs are also unprepared for technology-related business issues

17% hold business protection for unauthorised access into computer systems yet 34% state they are concerned about this risk
19% hold business protection for theft of sensitive data & information via the internet yet 37% state they are concerned about this risk
16% hold business protection for infringement of intellectual property rights yet 36% state they are concerned about this risk

There’s an awareness and uptake gap in government support towards digitalisation

31% have utilised the support
71% are aware of support available

SMEs still showing appetite for internationalisation

22% indicated an intention to internationalise (↑4% on 2018)

Of internationalised SMEs, larger SMEs show more inclination towards further internationalisation

56% Large vs 45% Medium vs 28% Small

Among domestic-only SMEs, smaller SMEs show greater intent in internationalising

27% Small vs 18% Medium vs 14% Large

Countries of preference for SMEs (in order of preference)

- Malaysia
- Thailand
- Indonesia
- Japan
- Hong Kong

Malaysia
Thailand
Indonesia
Japan
Hong Kong

Malaysia
Hong Kong
Japan
Thailand
Singapore SMEs indifferent towards climate change

Only 1 in 5 SMEs agree that the impact of climate change was one of the most relevant social and environmental issues to their businesses.

SMEs show more concern towards issues around human resources:
- 53% Employee safety and wellbeing
- 37% Labour conditions
- 27% Diversity and inclusion

Business protection is still an afterthought for SMEs:
- 69% of SMEs have run into business issues in the last 12 months
  - Yet 9% still do not hold any business insurance

More SMEs acknowledged that having insurance helps the business operate better and serve their customers better:
- 67% in 2019 vs 59% in 2018

57% indicated that they are satisfied with minimum insurance coverage.

Source: 2019 SME market research commissioned by QBE Insurance (Singapore)