

Standing out from the crowd

The SME market provides enormous opportunities for brokers who innovate and offer greater customer focus, writes Matt Scott

The SME market is growing. Fast.

The number of SMEs in the UK has grown by almost 16% since 2000, with small and medium-sized businesses now accounting for more than 99% of all private sector businesses in the country.

The combined annual turnover of SMEs was £1.8 trillion at the start of 2016, equivalent to 47% of all private sector turnover in the UK, and the sector employed 15.7 million people – that's 60% of all private sector employment in the UK.

But while the strong growth of the SME market represents a big opportunity for brokers operating in the sector, a lack of innovation is holding back brokers as they struggle with increased competition, commoditisation of the market and an increased threat from insurers with big budgets and big brands.

And Grant Georgiades, director at Plan Insurance Brokers, says that this threat from insurers cannot be underestimated.

"The threat from insurers in the SME market is huge – it is just a replication of the formula that worked for them in the personal lines market," he says. "That means commoditisation of the product, the process and economies of scale, meaning they can do things with a much larger budget. Crucially, the cost of acquisition can squeeze brokers out."

"Expertise and the availability of a range of expert covers is one thing brokers can stand out with. Brokers need to try and constantly develop new products and tailor cover to specific customers. Segmentation of the market, and brokers focusing on niches within niches is also important [for combating the threat of insurers]."

Innovation Broking chief executive Paul Dickson, however, downplays the threat from insurers, and says a broker's expertise and specialism will always give them an advantage in the SME market.

"Insurers will always try to go direct but in my view it isn't and never has represented, an existential threat to brokers," he says. "SMEs will always need advice

on insurance and above all they need an insurance advocate.

"Only a broker can perform these invaluable roles."

Regardless of the threat presented by insurers, it is clear that innovation is needed to prevent stagnation in the marketplace.

Jodi Cartwright, who is chief executive of new personal lines broker Tock, says there is much SME brokers can learn from their non-commercial counterparts.

"Personal lines isn't exactly where it needs to be, but it is more advanced than SME," she says. "The main thing SME brokers can learn is around being more customer-focused, more digital and making better use of third-party data."

"It is incredible the amount of third party data, on commercial as well as individual consumers, so one of our propositions is using third-party data to make the customer journey a lot simpler."

She continues: "SME, generally, is part of being a commercial broker, and it is a lot more profitable to write larger commercial business than smaller. Many commercial brokers are pulling out of SME, because to make money as a SME broker you have to streamline your business and you have to make more of digital, as otherwise it will never be profitable."

"There are a lot of serious commercial lines brokers out there making a lot of money, so why rock the boat and make the investment if you are already making a lot of money?"

Looking to the future

JM Glendinning group managing director Nick Houghton says it is becoming increasingly important for brokers to look to the future if they want to forge a way forward in a rapidly changing marketplace – even if brokers are currently not reacting to this change.

"Personal lines is now fundamentally a different market to 10 years ago, and that is mainly down to technology and new innovators coming into the

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market – so we've all experienced what can happen if you don't get it right," he says. The question for commercial brokers to ask is: "In five years, how will SMEs want to communicate with us and how will they want to seek advice?". It won't just be picking up a phone during the week between nine and five.

"That's where brokers have to think where there customers are coming from and how that will change their behaviours. At the moment they are not going anywhere en masse, and that is because even SME insurance is quite a complex risk."

And Georgiades says that brokers must not be afraid of taking risks when it comes to investment in technology.

"Research and development is important, but you have to realise you are not going to strike oil on your first attempt," he says. "You have to keep reviewing your strategies and not be afraid of losing money on experimenting on different markets and different approaches."

But he adds that the most important change is in the mindset of SME brokers.

"Innovation means a new way of how brokers think – if you keep doing what you've done, you'll keep getting what you've always got," he says. "You've got to look at how you can do things differently and that is not easy."

"We managed to do that with outside help from consultants and it was expensive, but it was worth its weight in gold – it really changed the way we were marketing and spending money and how we approached business."

NUMBER OF BUSINESSES AT THE START OF THE YEAR ('000S)

	SME	All private sector
2000	3,460	3,467
2001	3,495	3,502
2002	3,566	3,573
2003	3,672	3,679
2004	3,919	3,925
2005	3,920	3,927
2006	4,119	4,125
2007	4,265	4,272
2008	4,277	4,283
2009	4,368	4,375
2010	4,477	4,483
2011	4,582	4,588
2012	4,811	4,818
2013	4,908	4,914
2014	5,240	5,247
2015	5,394	5,401
2016	5,490	5,498

Source: Department for Business, Energy and Industrial Strategy

MARKET VIEWS

"You have to constantly be reviewing your strategy and realigning it to the reality of the situation as it presents itself"

Grant Georgiades,
Plan Insurance Brokers

"SME business at the very small end has been seen as a non-profitable segment by some brokers and this resulted in it being managed in a purely transactional way"

Paul Dickson, Innovation
Broking

"SMEs still like talking to a broker, because by definition they are very entrepreneurial and that is very difficult for technology to deal with"

Nick Houghton, JM
Glendinning

"But to get where personal lines is you need investment, and you have to be a serious SME player that knows how they are going to make money out of a low premium business"

Jodi Cartwright, Tock