



# SMEs and Insurance

A pulse check on risk trends for businesses

Singapore



# Summary

The COVID-19 pandemic has posed unique challenges to businesses and in particular, SMEs have had to exercise flexibility and versatility in overcoming this new environment.

## Our SME research found that:

62%

of SMEs expect the economic climate to either stay the same or improve in the next 12 months.

81%

of SMEs do not expect their business to grow in 2021.

50%

of SMEs will look to Government for support to cope with worsening economic conditions, of which 70% indicated financial assistance as the most necessary form of relief.

91%

shared that they are currently engaged in or intend to invest in digital technologies, but 40% cited high costs of investment as a barrier.



These sentiments and concerns show that the coming year will prove to be challenging for businesses. With this in mind, SMEs need to adopt a more forward-looking approach to their businesses. To ensure sustainable long-term growth, it would be wise to consider specialised business insurance and protection, to give them long-term peace of mind even in adverse situations and unpredictable environments.

# How to use this report

The report presents the results of our SME survey, which was conducted in Q4 2020 with 407 Small, Medium and Large Enterprises in Singapore.

The survey brings to the fore SME sentiments around the pandemic, overall business concerns and the economy, while identifying and highlighting current gaps in insurance coverage that could be detrimental to the long-term growth of Singapore's SMEs.

"SMEs and Insurance: A pulse check on risk trends for businesses" makes a compelling case for keeping business insurance up to date and can be of use to insurance intermediaries and business owners for starting open and frank conversations about having the right cover.



# A pandemic SMEs could not ignore

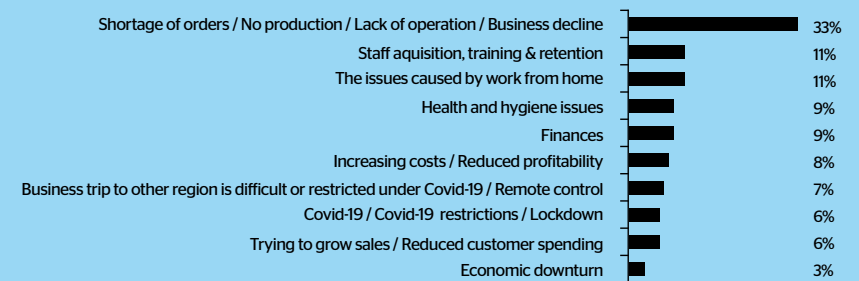
2020 was an unprecedented year for businesses around the world. Here in Singapore, “circuit breaker” measures put in place by the government meant that businesses had to think of ways to continue operating without physical interaction or spaces. This made interaction with customers, partners, employees and staff challenging, forcing companies to find new ways to collaborate, market and sell their products and services.

Now in its sixth iteration, our survey has the benefit of understanding how attitudes and concerns have evolved from year to year. This year, we found that 81 per cent of SMEs are expecting the overall size of their businesses to either stay the same or decrease in 2021, which represents an uptick of more than 25 per cent from last year’s survey, which was conducted prior to when the impact of COVID-19 began to take effect. Exacerbating this grim outlook, 39 per cent of all SMEs also polled that they were expecting to decrease staff numbers over the course of this year as well.

However, despite this bleak view of their own businesses, SMEs expressed contrasting views toward the economy overall. A majority (62 per cent) indicated that they were expecting the economy to either stay the same or improve this year, begging the question of why they are pessimistic towards the recovery of their own businesses despite expecting improving economic conditions in 2021.

Diving deeper into the surveys results immediately shows why: SMEs are clearly finding it difficult to overcome the challenges brought on by

## Key business challenges due to COVID-19



COVID-19, as the pandemic continues to evolve and create uncertainty, 37 per cent of respondents indicated cost mitigation as the most significant challenge to their business in the past year, with 54 per cent expecting to struggle with implementing more cost mitigation initiatives this year. A possible explanation for this may be that SMEs have already started to optimise and streamline their operations in response to the pandemic, and could be finding it difficult to cut down or restructure even further.

Singapore SMEs are expecting to continue with cost control measures in 2021, with 62 per cent indicating this will be their primary approach for the year and 40 per cent expecting to downsize their businesses to keep their heads above water.

In this time of trying to survive rather than being able to thrive, SMEs still need to consider measures to protect their businesses against new and emerging risks, while they continue to seek out support measures to help tide them over in the short-to-medium term.

# SMEs want to tap on government support to survive – but also need to look beyond

Half of all SMEs (50 per cent) are counting on the government to provide support to aid the recovery of their businesses. 70 per cent of these SMEs indicated that they are expecting financial support, 37 per cent expressed a need for enterprise development programmes and 34 per cent hope for more general advice from the government.

Over the course of the past year, the government has unveiled a series of Budget packages to provide SMEs with more funds to survive the pandemic, including initiatives towards training, upskilling and paying their workers and digitalising their businesses. However, while 95 per cent of SMEs indicated awareness of these measures, 61 per cent said they have yet to take them up. This hesitance towards embracing the government's support measures, despite expressing a need for it, may hold back their chances of survival.

However, while SMEs should try and tap on the support made available to them, it is equally important that they do not become over-reliant on the government. Businesses need to think about building up their own resilience to be able to continue dealing with new challenges that may emerge as the pandemic continues evolving.



# Digitalisation among SMEs a silver lining, but businesses need to cover all bases

While SMEs were already engaged in various stages of digitalisation prior to the pandemic, the reduced social contact enforced by circuit breaker measures spurred SMEs to turn to technology to survive. Our survey showed that SMEs increased their digital footprint by an average of 15 per cent as a result of the pandemic, with 66 per cent indicating that the pandemic had led them to digitalise quicker than they had originally planned. 91 per cent of all SME respondents also said they were currently engaged in or willing to invest further in technology.

While it is encouraging to find that SMEs are digitalising at a faster pace than before, and as a result making their businesses relevant in the context of our future economy, this also creates cause for concern.

The survey found that they may not be prepared for the risks that come with doing business digitally. Nearly one quarter (22 per cent) indicated that they do not have any processes or protection against cyber risks. This is despite the fact that 96 per cent have some level of awareness towards possible cyber risks to their business and almost one fifth (19 per cent) have been affected by cyber events to their business. Encountering cyber hacks was the second-most common business issue encountered in 2020.

In fact, less than half of all SMEs have protection against the top cyber issues that concern them. 45 per cent have policies and protection against hacking by people outside the business while 43 per cent are protected from theft or loss of customer data and online criminal activities.

**Cyber and Data Security (CDS) Insurance provides protection against third party liability arising from unauthorised access to your systems. In addition, we also provide first party protection that ensures you have end-to-end support in the event of a cyber incident.**

First party Cyber and Data Security Insurance covers claims such as:

#### **1. Regulatory defence and penalty costs**

Payment for those amounts which the insured is legally obliged to pay (including legal and defence costs) as a result of civil regulatory action, regulatory compensatory award, civil penalty, or fines to the extent insurable by law, imposed by a government or public authority regulator

#### **2. Public relations costs**

Payment for all reasonable costs the insured incurs for a public relations and crisis management consultant to avert or mitigate any material damage to any of the insured's brands and business operations

#### **3. Forensics costs**

- Payment for a forensic consultant to establish the identity or methods of the hacker or other details required by the insurer following a data breach
- Payment for a security specialist to assess the insured's electronic security and the costs of reasonable security improvement
- Payment for the temporary storage of the insured's electronic data at a third-party host location

#### **4. Credit monitoring costs**

Payment for credit monitoring services in order to comply with data breach law

#### **5. Cyber business interruption cover**

Payment for loss of business income, as a result of the total or partial interruption, degradation in service, or failure of information and communication assets following a failure by the insured or a service provider to protect against unauthorised access to, unauthorised use of, a denial of service attack against, or transmission of a computer virus to, information and communication assets

#### **6. Cyber extortion cover**

Payment for reasonable and necessary expenses incurred by the insured including the value of any ransom paid by the insured for the purpose of terminating a cyber-extortion threat

QBE has partnered with a number of well-known Cyber and Data Security experts who in the event of a cyber incident, will provide immediate assistance through a 24-hour emergency hotline. The cover provided is also supported by global reputable Cyber emergency service providers partnering QBE to ensure smooth and professional handling of Cyber incidents and claims.

# SMEs shelving internationalisation plans to focus on recovery at home

Singapore SMEs are showing less international ambition following the fallout from COVID-19. More than half (52 per cent) are planning on downsizing their international representation by either decreasing or pulling out entirely.

In terms of expansion plans, close to half (47 per cent) of all SMEs are still keen to internationalise, though this includes firms that already have a presence overseas alongside those who do not.

SMEs with business operations solely in Singapore were most likely to deprioritise overseas expansion plans, with 37 per cent having this mindset. Of these, small enterprises formed the bulk of the group (65 per cent).

However, many of the concerns that SMEs have toward internationalising can be addressed with the right insurance cover. For example, 29 per cent of SMEs polled are concerned by unfamiliarity with standards and processes in other markets – a legitimate issue that could result in wrong moves made by the business in a foreign economy. In such a case, products such as professional indemnity and other liability covers may help in addressing some of these concerns.

In addition, SMEs can consider purchasing multi-country insurance coverage as an additional safeguard for any planned or current overseas business operations. These will also help in optimising their risk management policies when operating across varied markets.



# SMEs must consider insurance for business longevity

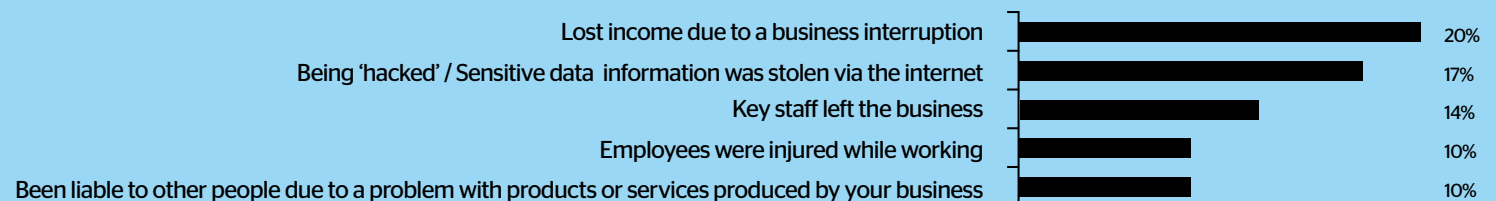
Even as SMEs focus on survival, they still need to pay heed to the increasing and new risks created by changes to their operations and business models. 61 per cent indicated that they have experienced at least one business issue in 2020 – many of these issues are insurable by the right policies, which can provide businesses with peace of mind.

It is encouraging to note that SMEs are largely positive toward business protection and insurance coverage for their businesses. The survey found that 68 per cent of all SMEs agreed that having insurance helps their business operate and serve their customers better.

However, 59 per cent of SMEs polled have many other considerations that they would prioritise ahead of purchasing insurance for their business. 50 per cent of them are also content with minimum cover and do not intend to obtain specialised products that provide more specific cover for their businesses. 42 per cent of SMEs indicated that they will only consider buying business insurance when they hear or read about unfortunate things happening to other businesses.

Our survey revealed that 43 per cent of insurance decision makers find business insurance too complex to comprehend, while 54 per cent rely on the advice of others when purchasing these covers.

## Issues encountered by businesses in the past 12 months





Insurance purchasing decisions may seem daunting, but there are some basic questions that a business owner can ask to help make the right decision. These questions should be revisited every time there is a major change to their business, whether in the overall environment, their business model, physical facility or size.

1. Does your policy cover liability of employees, temporary staff and independent contractors?
2. Consider your excess. Would you pay a higher premium for a lower excess, or a lower premium for a higher excess?
3. Does your policy cover you for negligence if you make a mistake in running your business?
4. If you operate a specialist business, is your insurer experienced in insuring other companies in your sector?
5. Are you covered for claims that may arise from work done overseas?
6. Does your policy cover your legal expenses if you need to defend a lawsuit - even if your company hasn't made a mistake?
7. Are the monetary limits of coverage adequate for your needs?
8. Does your policy cover you for all your risks?
9. Are there any exclusions you need to be wary of?
10. How would you like to pay the premium? Are annual, quarterly or monthly payments an option?

Business owners should conduct a thorough risk management exercise to map out the real and present risks in their businesses, and seek out adequate products to protect themselves.



# SMEs must engage in social and environmental good to thrive in the long run

The Singapore government has shared its vision to build a sustainable Singapore through efforts made across many fronts, from harnessing technology, changing the future of transport systems, green financing, to numerous enterprise and household initiatives. SMEs will also stand to gain from the Enterprise Sustainability programme, which was announced as part of Singapore's Green Plan 2030, targeted at helping them use resources more efficiently and develop new green products and solutions.

Currently, 29 per cent of all SMEs polled stated that focusing on more social and environmental issues requires too much time, and a similar 28 per cent do not consider it a priority for the business; 26 per cent think that these initiatives require too much cost. 68 per cent of all SMEs indicated that they have conducted such initiatives in 2020, but survey data finds that the smaller the enterprise is, the less inclined they are to explore social and environmental initiatives.

With the government having made clear their intention to move the society towards greater environmental and social stewardship, firms who are slow to adopt the call to do more good could risk being left behind in the future economy. In addition to taking steps to ensure their businesses progress towards its environmental and social goals, firms should also examine their current relationships to ensure their entire value chain is aligned closely to its aim to do good. This way, SMEs can ensure that they are "walking the talk" when it comes to achieving collective good.



# How to find an intermediary

Insurance intermediaries act as the go-between for your business and insurers. They are attuned to evolving customer needs and are well-placed to recommend suitable insurance products that are catered to your business' specific needs and requirements. They may also be able to help you negotiate for better prices which can lessen the burden on your bottom line over the long term.



## **An intermediary's role is to:**

- Help you to understand what risks your business face and what products are available to protect you
- Find insurance plans that work for you
- Set up policies and ensure the required documentation is in order
- Guide you through the claims process if you need to make a claim (check this is part of the service if it's important to you)

## **Your intermediary needs to be:**

- **A specialist** - is the intermediary a specialist in your industry with the experience and insight to meet your needs?
- **Responsive** - does the intermediary respond promptly to your enquiries? Is the information they share helpful?
- **Persistent** - do they track down the right information for you?
- **Honest** - look for an intermediary who tells the truth, not just what they think you want to hear.

## **When choosing an intermediary, it's also wise to check their credentials 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?



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