

Insurance Practice

Insurers must rethink the SME segment: Lessons from the United Kingdom

UK small and medium-size enterprises are facing the recovery with a new set of needs. Insurers that can adapt their offerings could seize a sterling opportunity.

by Maria Albonico, Antonio Grimaldi, and Philipp Horsch



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The largest commercial segment in the United Kingdom is small and medium-size enterprises (SMEs),¹ which account for more than 99 percent of all companies and 77 percent of the workforce. Insurance premiums written for SMEs surpass those of large corporations, representing more than 60 percent of the gross premiums written for commercial property and casualty lines. As many SMEs are evolving their business models, this segment still has important growth potential for insurers—for example, through the sharing economy and the growth of freelancing.

COVID-19 has accelerated a number of existing trends for SMEs, from the products they are prioritizing to how they prefer to engage with insurance carriers. SMEs also learned they were not covered for certain things during the pandemic and have begun questioning the relevance of some products—in particular, business interruption policies. This dynamic provides insurers with an opportunity to capture more of the SME market by focusing on thriving segments, developing new products, and rethinking customer journeys.

Tracking recent market trends

Since the onset of the pandemic, UK SMEs have had to scramble to weather the resulting downturn. McKinsey conducted three SME surveys during the pandemic, and our analysis identified a number of trends that are shaping the segment (see sidebar “About the research”).

The pandemic has affected different segments in different ways

Since March of this year, 71 percent of SMEs have experienced declining revenues, with 30 percent reporting that their sales were greatly reduced. The impact of the pandemic was more pronounced for sole traders and micro SMEs, which saw their revenues fall by 34 and 33 percent, respectively, compared with 23 percent for medium SMEs.

While no industry escaped the impact of COVID-19, some were affected more heavily than others. Among our sample, SMEs in the accommodation

and food services sector were the most impacted, with more than half reporting that their sales were greatly reduced. By contrast, only one-quarter of businesses in the retail and wholesale industry and finance and insurance industry reported a significant decline in sales.

As SMEs look to the future, their outlook is shaped by their industry as well as the size of the organization. SMEs in the administrative and support, business consulting, and property services industries are most resilient; more than half believe they will still be in business even if the pandemic continues for more than a year. Construction, information and communication, and retail and wholesale SMEs are less optimistic—less than one-third believe they will survive if the pandemic continues for more than a year.

More than 45 percent of sole traders and micro SMEs believe that they will be able to endure another year of the pandemic, compared with around 35 percent in their larger SME counterparts.

Value is paramount

The pandemic has reinforced a “back to basics” mindset, with fundamentals in insurance (coverage,

About the research

To understand how UK small and medium-size enterprises were responding to the pandemic and economic downturn, we conducted a series of surveys. The first two, in the field in April and May, established a baseline in the midst of the initial wave and business response. We then followed up with another survey of 504 SMEs in August 2020 to gauge how their outlook and priorities had changed. Our research compared four different categories of enterprises: sole traders, micro (two to ten full-time equivalents), small (11 to 50 FTEs), and medium (51 to 250 FTEs).

¹ In this article, the SME segment includes sole traders, micro, small, and medium SMEs.

service, and value) taking on added prominence for SMEs. According to our recent survey, the top factor in selecting an insurance provider is getting “good value” from insurance products, at 57 percent (Exhibit 1). SMEs have also become increasingly price sensitive, with “lowest price” rising seven percentage points since May, to 49 percent. Proposed pricing regulations could add a new layer of complexity (see sidebar “Potential new pricing guidelines”).

This focus on value and pricing is further reinforced by the fact that SMEs are more frequently and actively scrutinizing products, making the market increasingly fluid. Up ten percentage points since May, 35 percent of survey respondents indicated

they are likely to stop paying for insurance (Exhibit 2). Business interruption, directors and officers, and environmental liability insurance are the products most likely to be dropped. However, respondents indicated they were more likely to continue coverage needed for everyday operations—employers’ liability, public liability, and motor.

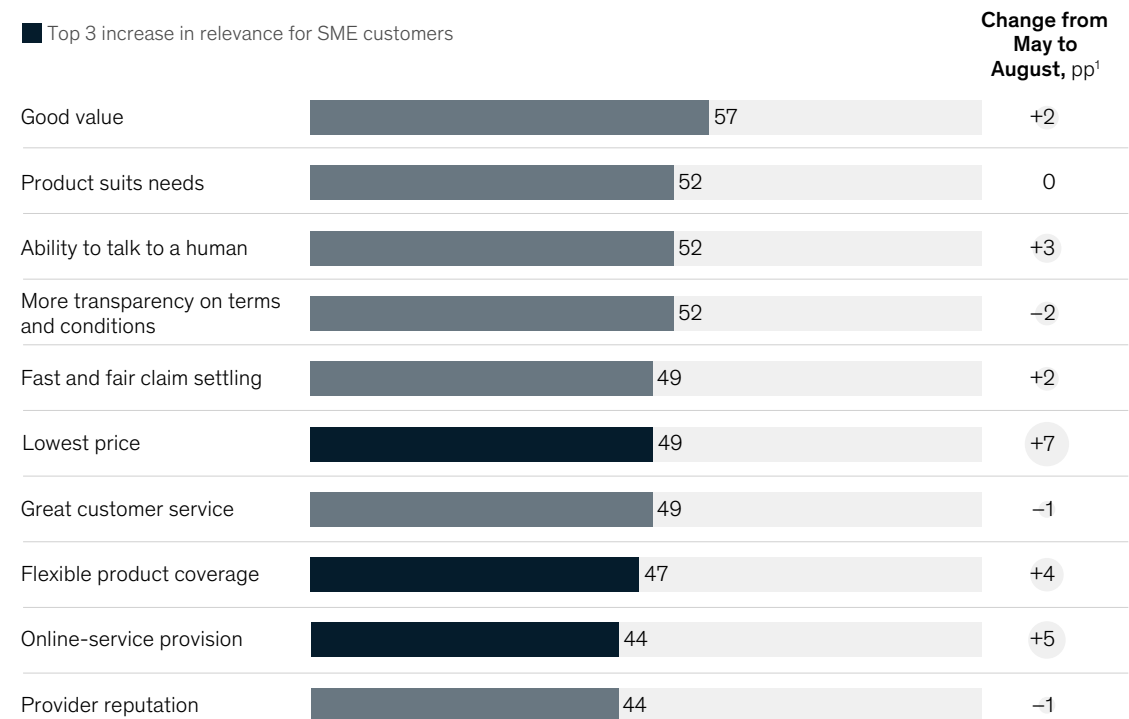
Digital has taken on added importance

SMEs have increased their use of digital channels across the value chain. Notably, the importance of digital services for SMEs has increased by five percentage points since May, given its convenience and efficiency. At the same time, a majority would still like to have the option of interacting with humans—a factor that has even increased during the pandemic.

Exhibit 1

The importance of lowest price and online-service provision have significantly increased during the pandemic.

“Taking into account how COVID-19 has changed your business, how important are the following parameters in selecting an insurance provider?” small and medium-size enterprises (SMEs) who have insurance, % responding more important



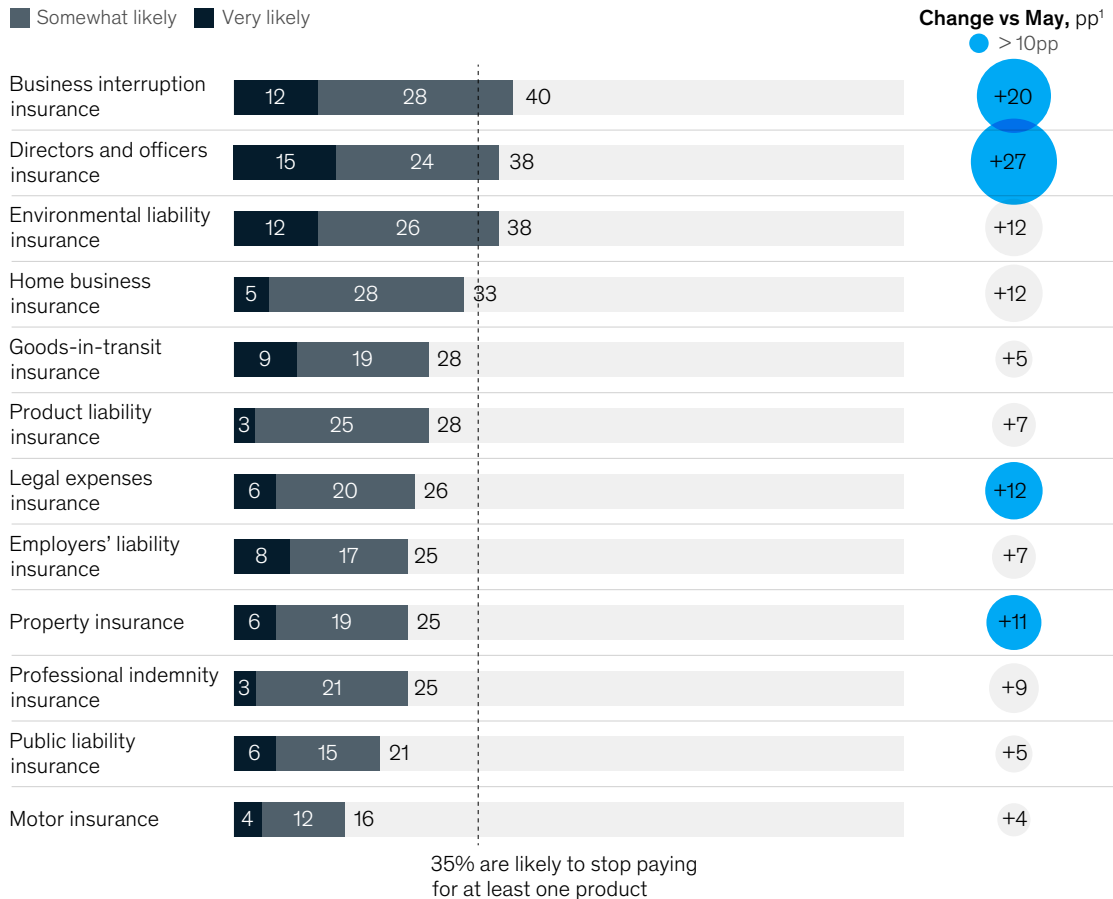
¹Percentage points.

Source: Survey of SMEs conducted in April 2020 (n = 504), May 2020 (n = 600), and August 2020 (n = 500)

Exhibit 2

Small and medium-size enterprises are less likely to pay for insurance products, particularly those perceived as nonessential.

“Given your financial situation during COVID-19, how likely are you to stop paying for the following products?” small and medium-size enterprises (SMEs) using each specific product, %



Note: Figures may not sum to total, because of rounding.

¹Percentage points.

Source: Survey of SMEs conducted in April 2020 (n = 504), May 2020 (n = 600), and August 2020 (n = 500)

Still, this shift toward digital seems likely to endure after the pandemic abates. The number of SMEs that believe they will use brokers less or not at all post-COVID-19 has risen ten percentage points since May, and 17 percent of all SMEs indicated they would stop using in-person communication with their insurer once the pandemic is over (Exhibit 3).

The importance of digital interactions spanned all SME segments. More than 20 percent of micro,

small, and medium SMEs indicated they intend to use digital interactions more in the future (Exhibit 4). There is still a lot of room for adoption; these SME segments used digital channels in less than 40 percent of their interactions. Small enterprises have been slower to embrace digital channels before the pandemic compared with micro enterprises and sole traders. They did report, however, the highest increase in the future use of websites and apps.

Need for flexibility in financial and product coverage

Business owners are attempting to cut costs and conserve cash with an eye toward riding out the pandemic. Our survey found that 47 percent of respondents prioritize flexibility in product coverage, a rise of four percentage points since May. While innovation has accelerated in personal lines, with usage-based propositions arising in the market, insurers have been slower in adapting their offering in commercial lines.

Importance of trust and transparency

Trust and transparency are more important than ever due to financial challenges that have emerged during the pandemic. For example, the current debate around business interruption has highlighted the need for increased transparency and simplicity in coverage options and contract terms. At the same time, SMEs have expressed a preference for vendors that are perceived as more in tune with their company ethos and culture.

User-friendly experience

SMEs, especially smaller businesses, are looking for a retail-like experience, with simple, intuitive

interfaces, journeys, and language. Fully 30 percent of SMEs find each step in the new-product purchase journey extremely challenging, starting with being able to identify the right coverage for their needs. They are also increasingly seeking a one-stop shop that can address all of their needs rather than unbundled individual products.

How insurers should adjust to win SME market share

Carriers have a once-in-a-generation opportunity to make inroads in the SME segment with a refreshed set of propositions and a customer-centric approach. In our experience, a few players typically gain a disproportionate share of the benefits in times of crisis. The current environment gives incumbents the incentive to refresh their legacy business and provides new players a timely chance to enter and disrupt the market.

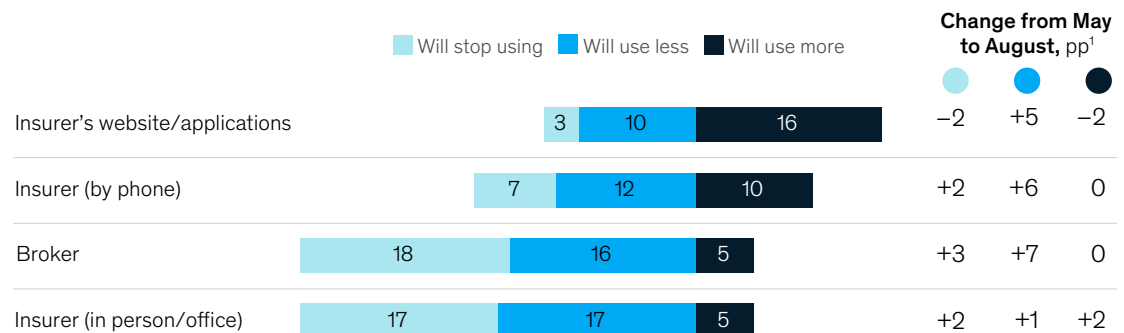
Focus on thriving SME segments

Even before the pandemic, the growth prospects for SMEs differed by segment and industry. From 2015 to 2018, micro SMEs grew twice as much as medium SMEs. Insurers must therefore identify the

Exhibit 3

Small and medium-size enterprises will continue shifting contact points online after the end of COVID-19.

“Once ‘normal life’ resumes after the COVID-19 crisis, do you expect to contact your insurer more or less through...” small and medium-size enterprises (SMEs) that have insurance, %



¹Percentage points.

Source: Survey of SMEs conducted in April 2020 (n = 504), May 2020 (n = 600), and August 2020 (n = 500)

Exhibit 4

Small SMEs indicate the highest increase in future use of websites and applications.

“Prior to COVID-19, you typically used website/application to...”

website and application usage, %

SMEs' pre-COVID-19 usage of websites and applications, % xx SMEs planning to use websites and applications more after COVID-19, % ● >30 ● 20–30 ● <20



Source: Survey of SMEs conducted in April 2020 (n = 504), May 2020 (n = 600), and August 2020 (n = 500)

industries and segments that will account for the new wave of growth and then develop the products and capabilities to serve them.

German incumbent Provinzial NordWest, for instance, launched andsafe, a new digital attacker, to serve micro and small SMEs with a standardized, simple, and highly digital offering. This move enabled Provinzial to create products tailored to segments it had not previously served. Europe's Qover designs, builds, and distributes innovative digital insurance solutions to fast-growing companies, especially digital products for SMEs in the gig economy and property tech.

Develop new products

Since many SMEs are in uncharted territory, their executives are still determining how their risk has changed. Liability has taken on a completely different composition. SMEs that interact directly with the general public and other businesses now need to consider ways to safeguard their employees and customers. Since the needs of SMEs have changed so dramatically during the pandemic, insurers should design products that directly address this new reality. One way insurers might reduce potential churn would be to offer policies with flexible terms for new and existing customers. Axa XL and Marsh recently launched a usage-based, price-by-mile motor insurance that allows businesses to pay only for the coverage they need.

Collective, in a reflection of the evolving nature of the workforce, aims to provide “big company” benefits to sole traders and gig workers.

Insurers can also design innovative products that cover emerging risks in the post-COVID-19 era in new ways. Zeguro, for example, offers free cyber insurance to SMEs for six months. The Scandinavian insurer Tryg created a freemium cyber product to safeguard businesses from the increased risk of cyber attacks during the pandemic while also accommodating their more limited ability to pay. Thimble in the United States gives clients the ability to pause their policy and payments for up to 30 days without cancellation. Such product offerings directly address the needs of SMEs for greater flexibility and focus on value while promoting trust and transparency.

Rethink your customer journeys

Insurers should capitalize on the greater receptiveness of SMEs to digital channels by incorporating data and technology into all facets of their distribution. Data-based funnel management and personalization can help to accelerate the sales process. For example, Assurance uses data science and machine learning to enable analytics-driven lead routing to match customers with the sales agent or specific sales process best suited to their needs. Insurers should also reinvent the operating model—for instance, by increasing the capacity of call centers while streamlining the in-person broker network. And they can look to proactively migrate small and medium SMEs to digital channels.

Insurers can also seek to harness data to improve offerings. Companies such as US-based Pie Insurance provide workers' comp insurance to SMEs through online channels by using data analytics and advanced pricing algorithms. This reliance on technology enables Pie to provide a quote to prospective customers in just minutes.

Since many SMEs don't have staff designated to manage insurance and benefits, insurers that create a user-friendly experience could gain an advantage. One way is by making the overall journey and its specific interactions simple and intuitive. This approach starts with communicating the value of products transparently. An excellent example is THREE. The carrier offers a comprehensive policy for small businesses that is just three pages long. By simplifying the product, THREE aims to cut down the time-consuming process of reviewing and applying for coverage.

Insurers have the chance to renew and refresh their business models to cater to SMEs, especially the small and micro ones whose needs have changed so dramatically during the pandemic. Incumbents can redesign their operating model to be more user-centric, agile, and direct. Others may be able to capture market share by following an attacker strategy. Regardless of which path insurers take, the current gap in market presents a valuable opportunity. First movers will have an enviable advantage in winning over this valuable segment of businesses.

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The authors would like to thank Mariana Miron for her contributions to this article.

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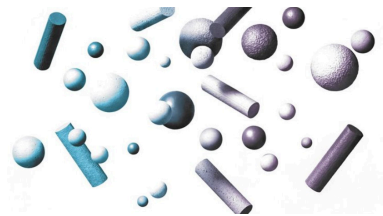
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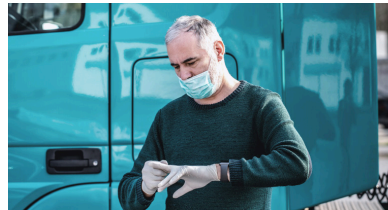
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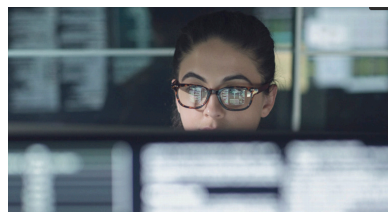
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