

Whitepaper

Small and Medium Businesses: Emerging Needs and Technology Implications for Insurers



Abstract

Small and medium businesses (SMB) are the backbone of economies and their progress is a testament to the overall growth and wellbeing of a country. SMBs account for a significant proportion of premium collections in the commercial insurance segment. The segment has taken a major hit during the ongoing pandemic – in the US alone, around 400,000¹ businesses have closed down in the past year. The crisis has resulted in a shift in the insurance needs of SMBs mandating product and/or coverage flexibility, transparency in terms and conditions, value added services, price flexibility and more. New expectations from the SMB segment require insurers to have a relook at their product portfolios, enhance digital technologies in insurance, and determine the IT and business initiatives that will need to be undertaken. Insurance firms that holistically comprehend the SMB segment's expectations and respond quickly can leap ahead of their peers. This white paper analyzes the emerging insurance needs of SMBs in the wake of the pandemic and outlines the initiatives that need to be undertaken across areas such as process automation, product simplification, and offering portfolios.

Rethinking the SMB Segment: The Need of the Hour

The small and medium business (SMB) segment plays a vital role in the overall growth of economies accounting for a significant share of all companies and the total workforce. However, cash flow and supply chain issues, due to the pandemic, have had a devastating impact on this segment in turn affecting other sectors reliant on SMBs. One such sector is the property and casualty (P&C) commercial insurance, which relies heavily on the SMB segment. SMBs contribute substantially to P&C insurance both in terms of policies in force and claims submitted. The wellbeing of the SMB sector thus directly impacts the overall performance of this insurance segment.

At the start of the pandemic, the overall outlook for the SMB segment across three main parameters — economic, revenue and sustainability — was pessimistic. Industries like travel and tourism, hospitality, and catering services paid a heavy price. On the other hand, sectors like healthcare and the pharmaceutical industry saw increased demand. Sectors such as fast moving consumer goods (FMCG), management consulting, and research and analytics remained resilient. Though every industry suffered revenue setback in the initial phases, a few industries managed to turn the tide with support. Business sustainability improved for innovative SMBs that reinvented their purpose of existence. However, there are still a significant number of firms facing existential crisis.

[1] *Brookings Institution, From Survival to Revival: How to Help Small Businesses through the COVID-19 Crisis, Accessed April 2021, https://www.brookings.edu/wp-content/uploads/2020/09/PP_Hamilton_Final.pdf*

In an effort to reduce expenses and survive in the prevailing crisis, SMBs are re-examining their existing insurance coverage. Having learned the hard way that their policies do not cover business loss due to the pandemic, SMBs are now looking for transparency, suitability, and value from insurance products. In addition, SMBs expect flexible policies that allow them to save premium costs by opting out of products and/or coverages that might not be needed in the near term due to changed business conditions and risks. While insurers have digitalized processes across policy acquisition and servicing as well as other functions in order to enable remote and touchless operations, SMBs prefer human interactions to understand the terms and conditions, policy suitability, and coverage details. Firms also expect value-added services, which can take the form of assisting businesses to avail benefits under various government schemes. In our view, insurers must grab this opportunity to go beyond products and services and offer value-added services that will help position them as empathetic partners to SMB customers and potentially build lifelong loyalty.

The Digital Imperative for P&C Insurers

Clearly, the ongoing pandemic has created a new set of insurance expectations among the SMBs with business and technology implications across the insurance value chain for the P&C commercial lines segment. However, these expectations also offer growth opportunities given the need to create innovative products with flexible pricing options that deliver value. To capitalize on these opportunities, insurers will need to build a digital core and adapt their IT infrastructure to meet new business needs and evolving customer expectations. They will also need to redefine their existing IT roadmap and equip themselves with the technological capabilities needed to design innovative products and create new service channels. To achieve this, ongoing transformation projects will need to be reprioritized by fast-tracking initiatives around digitalization, automation, and product simplification while new change programs necessary for launching new offerings and channels will need to be kickstarted. At the same time, it may be necessary to go slow with a few initiatives that might be underway (see Figure 1).

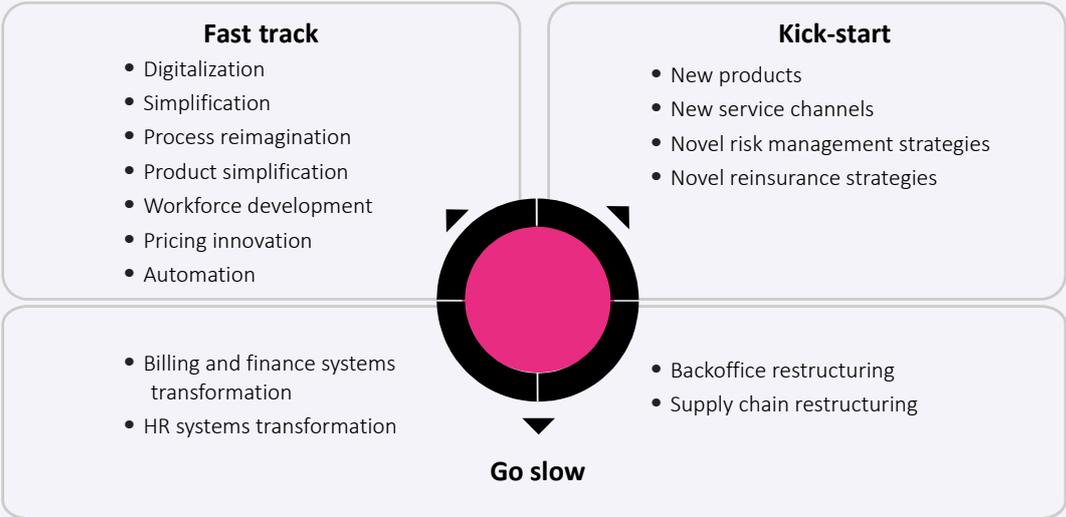


Figure 1: Post Pandemic IT Priorities of P&C Commercial Insurers

Fast track

Firms will need to speed up transformation initiatives for the marketing and sales, and distribution functions with focus on complete digitalization. In addition, digital channels and processes will need to replace manual submissions of physical documents and on-premise verification to meet the expectations of the new normal. Simplifying existing products, tailoring them to satisfy new customer needs, and ensuring transparency in terms and conditions to facilitate clear understanding will require expediting IT initiatives in the product management function.

The policy acquisition and servicing function should speed up the ongoing digital initiatives needed to deliver completely automated customer experience and inform customers about the various value-added services. The claims function needs to embrace digitization and automation as quickly as possible. At the same time, insurers will need to train the claims workforce to seamlessly deliver value-added services during the claims journey.

Digital initiatives needed to ensure automated reports and/or dashboards in real-time or other near real-time functions must be rapidly implemented in the finance and accounts function. This will help make insurers nimble and quick in responding to the shifting expectations of SMBs.

Kick-start

Given the radical change in the needs of the SMB segment, insurers will need to equip themselves with the capabilities to design innovative products that meet the demand for greater flexibility, transparency, and enhanced value. Appropriate digital initiatives within the product management function will need to be jumpstarted. New product bundles must be created, for instance, cybersecurity insurance can be loaded on to almost all existing offerings. While the underwriting function is already automated, the guidelines will need to be revamped to accommodate new SMB insurance expectations. In addition, training the underwriting workforce in next generation risk management strategies will be key to covering emerging risks in the post pandemic normal. To cover business losses arising from the huge number of SMB claims, insurers must opt for reinsurance coverage. Given the scale of the risk to be covered, insurers may have to partner with governments.

Go slow

The changing dynamics in the sector offer insurers an opportunity to capture a greater share of the market by focusing on emerging insurance needs of SMBs. However, this may entail slowing down of the ongoing transformation initiatives around billing and finance systems, human resource processes, back-office restructuring, and supply chain revamp. Insurers will need to pick initiatives to put on the back burner depending on organization-specific priorities.

Take the Next Step

Changes to IT infrastructure and the relevant digital initiatives need to be carefully thought through to enable trouble-free transition and avoid disrupting business-as-usual. Initiating some preliminary steps before embarking on full-fledged adoption will also help enable hassle-free execution.

- Evaluate and understand the existing business operating model and identify growth impediments.
- Form and prioritize goals around the business model, operating model, technology, and talent.
- Align the initiatives related with building a digital core and business goals.
- Assess business process readiness from the compliance and flexibility perspective.

The Way Forward

The SMB segment is reinventing its purpose of existence to survive the prevailing crisis in turn offering profitable growth opportunities to the P&C insurance sector. However, a holistic understanding of these time bound opportunities and the requisite technology enablers is essential to win. Insurers must consider partnering with a service provider with the required technical expertise and domain knowledge for hassle free implementation of digital initiatives across various functions. Needless to say, insurers will need to be quick on the feet if they are to steal a march over their peers.

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