

SMEs still mostly an emerging business for insurers



From L-R: Mr David Chan, Mr Kurt Wee, Mr Mahamoud Islam, Mr Karl Hamann and Ms Rachael Tay.

SMEs, still uninsured or underinsured, and with minimal or little risk management strategies, are unaware of how precarious their survival is should the next big risk come along. *Asia Insurance Review's* inaugural SME Insurance Summit saw wide-ranging discussions on Asian SMEs' key to growth and success, the key risks they face and what the insurance industry can do to steel them in tough times.

By Chia Wan Fen



Against a backdrop of rising nationalism and protectionism, countries have been looking inwards and focusing on their domestic affairs. But staying open and participative in outbound business opportunities abroad and welcoming incoming businesses is the way to success, said Mr Kurt Wee, President of the Association of Small and Medium Enterprises (ASME), Singapore, delivering the keynote address.

Growth factors

Mr Wee highlighted three moves SMEs need to make in the region to achieve growth and sustainability over the next decade.

First, they should move into the Malaysian market which is a sizeable one and is poised for growth. Consumer spending and demand there have been steady and healthy. Malaysia is also increasing its connectivity, such as the upcoming high speed rail and metro links to Singapore. Businesses can use Malaysia's halal certification, which is one of the best in the world, to access the Middle East market.

Second, SMEs should tap on shared services for cost savings. Co-location and co-sharing administrative teams with other SMEs will substantially reduce overheads. "If five SMEs cluster as a group, they will generate buzz as a co-working environment, with cross pollination of ideas and potential of cross-selling products and services," said Mr Wee. "It will help you to have a hard edge over competitors.

Third, SMEs should tap the frontier

markets now. Myanmar and Cambodia, in particular, are ready for market entry with good growth rates and an eager labour force. "If you do not enter soon, you will miss out on a very substantial growth era in these markets," he said. "Hack the market like a local. Think local, rough it out and find an angle for profit generation."

He also highlighted Singapore as a good base for the insurance industry to serve SMEs in the region, and called for the industry to come up with products and solutions that would serve their needs well in the region.

Credit risks

The conference addressed some risks that SMEs are particularly vulnerable to, such as trade credit risks, fraud, cyber threats and products liability. SMEs are concerned with cash flow, often seek financing to support their businesses and would be at the risk of bad debts.

Trade credit insurance can take away the uncertainty of non-payments, so an SME could build its business and dare to expand to regional emerging markets where client track record is minimal, said Mr Stuart Anderson, CEO, NCI Brokers (Asia) Pte Ltd. The insurance will also help an SME identify good credit risks, buy it time when payment problems arise and prevent loss of staff in such times, as they will have the confidence that it is business as usual.



However, insurers can face a “difficult journey” when it comes to insuring an SME client that is keen on tapping the less developed markets, said Mr Mahamoud Islam, Senior Asia Economist, Euler Hermes, Hong Kong. This is because it can be hard to access correct data so as to assess risks accurately and cover them more efficiently.

He added though that insurers “are also looking at secondary information, not just balance sheet information”. “When it comes to SMEs, you need much more. We are trying to develop more relationships with clients and get more knowledge specific to buyers and the supply chain,” he said.

Fraud risks and protection

SMEs are internally more prone to fraud. They tend to be family or founder-run and thus small in size by definition, with lack of resources for compliance and risk management.

Meanwhile, research has shown that people will commit fraud if they can get away with it, especially since paying premiums result in some feeling that they need to get something back, noted Mr Rudolf Frei, Managing Director, IBNR Insurance Consulting Ltd, Hong Kong. He recommended that to “teflon coat” themselves, insurers should actively and publicly talk about their fraud prevention measures and conviction cases, which will change the mindset for those who think they will go unpunished.

He noted that fraud leakage reduces profits by about 10-12% on average across business lines. For the tougher group which is bent on committing fraud, he said integrating the use of analytics in both claims and underwriting can track fraud to 97% accuracy at the underwriting fraud prediction stage and 88% in claims, but regular updates, at least quarterly, of new types of fraud risk indicators are required. The corresponding improvement in loss ratio could be over 6%.

Educate, avoid ‘fear’ tactics

SMEs remain underinsured, or non-insured, and studies have found that majority of SMEs only get coverage post-incident, like after suffering a data breach, said Mr Karl Hamann, CEO

of QBE Insurance (Singapore) Pte Ltd.

Mr Hamann emphasised the need for the insurance industry to educate the SMEs on the importance of risk management and the wider variety of insurance products that can be customised to their needs. The industry too needs to change its attitude, even as it tries to change SMEs’, he added.

“We’re well known for our fear-based approach as opposed to persuasion. We should instead stress on effective risk management to enhance long term stability and competitiveness of SMEs, and position it not as a dreaded cost, but as a good investment,” he said.

More effort to understand SMEs

Agreeing that fear tactics may not work well with SMEs, Mr Steve Tunstall, Director, Tunstall Associates, highlighted that the industry needs to understand their unique profile. For one, SMEs often do not have an in-house risk manager so the decision maker is the CEO or CFO – whose psyche is different from his counterpart in a large firm.

“Small companies often take big risks. It’s hard-wired into the DNA of an SME CEO, usually a founder, entrepreneur sort,” he said. Such a person is driven by passion, tends toward over-optimism about the success of this business he is building, and may not be receptive to talk about failure. “Conversations should be more about let’s help you understand your journey, and how do we understand where you go next as you grow your business.” He added that generally, the industry continues to be weak at articulating its value across all clients.

Mr David Chan, Regional Head of Affinity and SME, Asia, Willis Towers Watson, added that brokers need to take a lot of time to understand the “nuts and bolts” of an SME client. He summed up that advising SMEs needs particular attention to relevance, trust (built up when an SME suffers a loss and needs help) and convenience (efforts to simplify transactions).

The best-fit SME insurer

The need for convenience, especially, was echoed throughout the conference by many speakers. Processes for

purchase and claims need to be simplified and speeded up, even more so for an emerging market like Cambodia, shared Mr Youk Chamroeunrith, Managing Director of Phnom Penh-based Forte Insurance.


Besides that, he said that underwriters who are innovative can find a niche in this market and create new products to cater to SMEs’ needs, as they usually cannot find tailor-made products from traditional insurers. Finally, an insurer which is willing to provide more tailored after sales service, and one which can settle claims fast, would be an ideal fit.

The challenge his firm faces is also a scanty track record of SME premiums, which means a lot of screening, “re-underwriting” every few years and adapting its book of business for SMEs many times, to ensure that reinsurance can be done. “In our emerging market, businesses are moving faster than what insurers do. So underwriting is still playing catch up and needs to be improved,” he acknowledged.

Innovation and distribution

The speakers all agreed that technology advancements, in line with the greater innovation in the industry, would be one key factor to improve the delivery of products and services to the SME segment. Mr Tunstall is working on a blockchain-based solution, while Mr Chay Wilkinson, Claims Director, Asia Pacific, Markel, suggested that outreach can be improved through an integrated approach.

“General insurers are reaching out to agents and brokers for different products. I think there’s a great opportunity here, and there can be a mesh between those classes that agents deal with and those that brokers deal with,” he said, “Banks, too, haven’t seized the opportunities for bancassurance. They could really dominate the landscape and service SMEs in a way that insurers couldn’t.”

The 1st SME Insurance Summit was held in Singapore from 22 to 23 August. 



Mr Youk Chamroeunrith



Mr Steve Tunstall



Mr Rudolf Frei



Mr Chay Wilkinson