

**EMBROKER**

# **Big Risks for Small Businesses**

Is the Current Approach to  
Business Insurance a Match  
for Today's Modern Risks?



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# Intro

Starting a new business is a process that is fraught with risk. For some, those risks are a necessary evil, and for some, it's part of the thrill of entrepreneurship. But whether risk is embraced or merely tolerated, the good news is that many risks can be guarded against to some degree.

Even though business insurance exists for this reason — to transfer risk — insurance itself can be a complicated process and the right type of business insurance can often be overlooked or mishandled. It's easily viewed as a checkbox item on a long list of considerations business owners face, but this approach is... well... **risky**.

As business landscapes change, businesses grow, and threats evolve, risk to individual businesses can shift quickly, and keeping up with that risk — as well as securing the right coverage for it — is a critical part of every business operation.

While many SME owners and CEOs and startup founders are experiencing strong growth and financial backing in the past year, the **modern risks** of cyber attacks, supply chain breakdowns, natural disasters, and workplace issues can **threaten the existence** of these businesses.

This dynamic is why taking a checkbox approach to insurance can leave owners and CEOs vulnerable to even basic risks. They are not always evaluating their unique risks and taking the time to understand the policies that will protect them.

At Embroker, as we continually seek to help these businesses navigate risk, we wanted to better understand how businesses acknowledge risk and how critical insurance decisions are approached, from purchases, to policy details, to renewals.

**Embroker surveyed over 500 SME owners and CEOs and startup founders in August 2021**, and found that the way owners and founders perceive the risk to their business is not necessarily aligned with how they're securing and managing business insurance coverage.

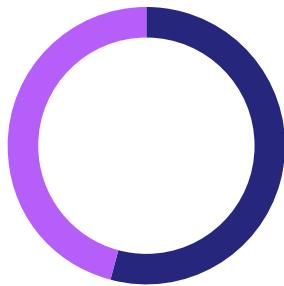


SECTION 1

# Risk Awareness and Risk Transference

Business owners are concerned and aware of serious risks to their business, including real issues like product failures, labor shortages and even natural disasters. But operationally, they are not always focused on transferring or mitigating this risk. A lack of focus on risk mitigation is evidenced by the fact that **business insurance doesn't rank in the top 3 operations decisions of all companies surveyed.**

The top 3 **concerns or areas of focus** for businesses overall are growth, demand and costs:



**46%** Client retention and growth

**40%** Generating customer demand

**39%** Controlling and managing costs and expenses

SECTION 1, CONT.

When asked more directly about **risks and liabilities** to their business, owners' priorities shifted to reputation, product failure and labor issues in their top 3 risks:



- 42% Product or equipment malfunction
- 37% Labor shortage or overworked employees

Yet businesses' top 3 **operations decisions** made every year don't align with these perceived risks, and instead are focused on finance, research and development and IT needs:



**35%** Research and development, quality management

**34%** IT/Technology needs, strategy and budget

SECTION 1

# Tech Founder Spotlight

Tech founders' top 3 business concerns are focused on product, talent and costs.



42%

## Building the best product or service

- 36% Employee retention and growth
- 35% Controlling and managing costs and expenses
- 34% Client retention and growth
- 33% Corporate social responsibility - building or maintaining

Tech founders' top 3 risks or liabilities also included natural disasters.



40%

## Risks of dispersed workforce

- 36% Natural disasters
- 34% Product or equipment malfunction
- 33% Labor shortage or overworked employees
- 31% Reputational harm to the company or brand

Tech founders are focused on similar operations decisions, but do rank business insurance and risk management in their top 3.



49%

## Finance decisions like funding, debt, assets, investment, cash flow, etc.

- 37% Research and development, quality management
- 32% Business Insurance and other risk management
- 32% Human resources, staffing, recruiting and employee development

SECTION 2

# Owners' and Founders' Insurance Acumen and Decisions Not a Match for Today's Modern Risks

While business owners are clear about risks and concerns to their business, **very few business owners have actually read through and tried to understand their business insurance policies or business insurance costs.** Additionally, **many founders are largely allowing policies to auto-renew** or admitting they don't know how renewals are being handled.

How many SME owners and CEOs **understand** their policy details:



Only  
**22%**

Say they have read and understand all of their policies

**57%** Have not fully read their policies

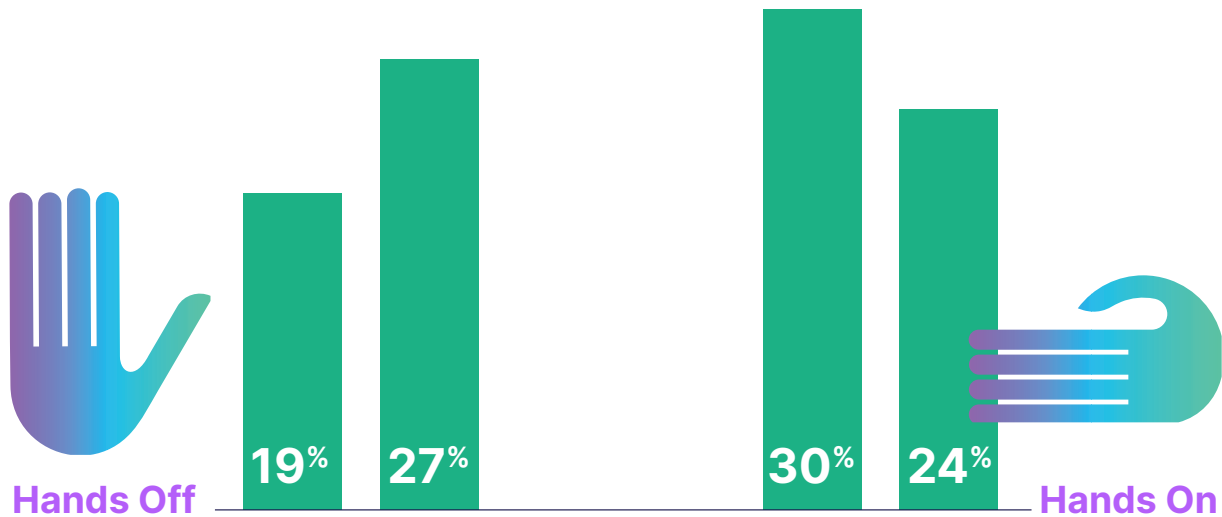


SECTION 2, CONT.

How many SME owners and founders understand the **cost** of their policies:

**56%** Do not know the exact cost of their business insurance

How businesses approach insurance **renewals**:



- 19%** do not know how renewals are handled
- 27%** allow policies to auto renew
- 30%** have a broker who makes recommendations
- 24%** have someone internally who analyzes needs



SECTION 2

# Tech Founder Spotlight

Tech founders are also failing to fully read policies:

**27%**

Say they have read and understand all of their policies

**58%** Have not fully read their policies

Tech founders are more aware of costs:

**56%**

Know the cost of their business insurance

Tech founders are more involved and savvy when it comes to renewals:

**45%**

Have a broker who makes a recommendation

**29%** Have someone internally who analyzes renewal needs

**19%** Allow policies to auto-renew without making changes

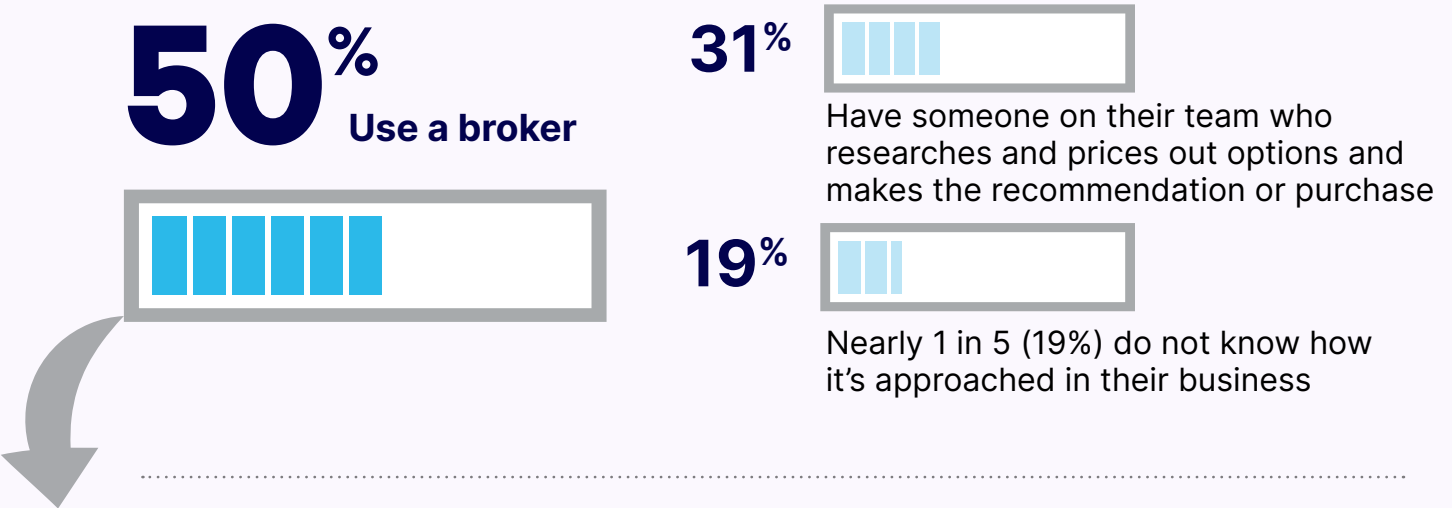
**7%** Do not know how renewals are handled

SECTION 3

# The Process of Getting Business Insurance: Hits and Misses

**Half of SME owners and CEOs rely on a broker** to sign up for business insurance and roughly a third conduct their own research internally on costs and options in order to make a decision. These owners could be doing more to stay on top of changes that could impact their risk, require changes to their business insurance, and view changes as an opportunity to take **a renewed look at their risk and coverage.**

How SME owners and founders are signing up for business insurance:



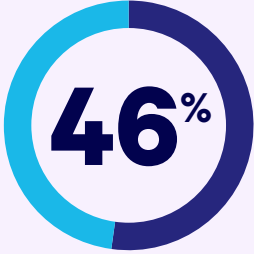
**Of those 50% that use a broker:**

**25%** Use a broker price out options after researching them internally

**25%** Rely on a broker to research and price out options

SECTION 3, CONT.

Of the SME owners and CEOs that engage with their broker:



**Engage with their broker when industry changes happen**

**14%** Engage with their broker within 30 days of renewal



The top benefits of working with a broker included:



**51%**

**More thorough review of options**



**42%**

A comparative plan analysis and assessment



**42%**

Periodic reviews of risk



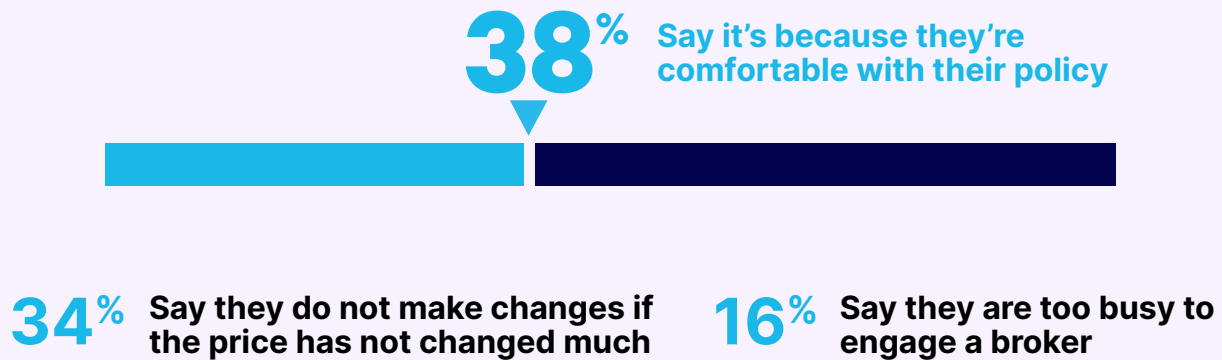
**30%**

Customer, partner or vendor contract review to ensure protection

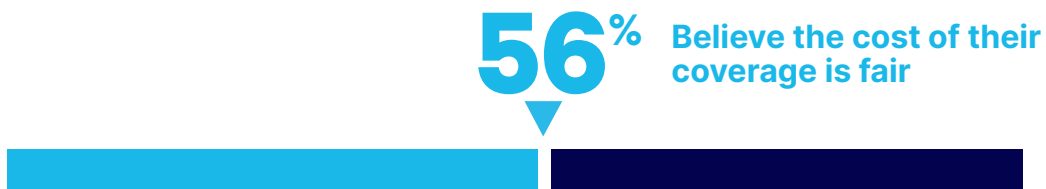
SECTION 3, CONT.

Many SME owners and CEOs are simply willing to let policies auto-renew, provided there haven't been significant changes to their costs, but auto renewal ignores outside factors affecting risk, such as emerging cyber risk or broader industry changes. Relying on brokers for purchases and renewals will require ownersto ask the right questions: **Are they simply assuming their brokers are attuned to their risk?** SME Owners and CEOs and founders should be asking their brokers how their needs could have changed, engaging in the right discussions, and determining how to better approach both purchases and renewals.

The reasons SME owners and CEOs allow policies to auto-renew:



Most businesses feel the cost of their coverage is fair:



SECTION 3

# Tech Founder Spotlight

More founders are relying on brokers, which can be critical relationships. Having a good broker to help founders navigate complex insurance decisions is a value add for tech founders in particular, but it still requires that they take on the responsibility of tracking changes and factoring in the impact to their risk.

## How tech founders are signing up for business insurance coverage:



### Use a broker

Of those 61%,

- 37% Use a broker price out options after researching them internally
- 24% Rely on a broker to research and price out options

29% Have someone on their team who researches and prices out options and makes the recommendation or purchase

9% Only 9% do not know how it's approached in their business

## When tech founders are engaging with their brokers:



### Engage with their broker when industry changes happen

23% Engage with their broker within 30 days of renewal

SECTION 3

# Tech Founder Spotlight

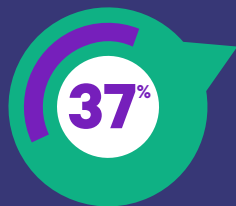
Where tech founders see the benefit of working with a broker:



## More thorough review of options

- 54% A comparative plan analysis and assessment
- 41% Periodic reviews of risk
- 33% Up-to-date information on regulatory requirements and changes
- 20% Customer, partner or vendor contract review to ensure protection

Why tech founders are allowing policies to auto-renew:



## Say they do not make changes if the price has not changed much

- 25% Say they are too busy to engage a broker
- 19% Say it's because they're comfortable with their policy
- 19% Say process and language is too complicated



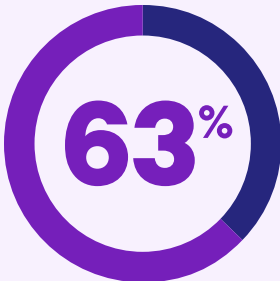
## Of tech founders believe the cost of their coverage is fair

SECTION 4

# Cyber Risk: Identifying and Preparing for Emerging Threats

SME owners and CEOs lagging knowledge of their policies and risk assessments is leaving them vulnerable to many risks **that are quickly emerging**, especially including the risk of cyber attacks like data breaches and ransomware attacks. As the threat for businesses increases and concern grows, **cyber policy rates among small businesses remain low**.

But when asked about one of the most prominent and costly risks to businesses today — ransomware attacks — many businesses expressed serious concern about attacks and lack of coverage.



Believe they are unlikely to face a data breach or ransomware attack



Both owners (46%) and founders (57%) fear they don't have sufficient coverage in the event of a ransomware attack

SECTION 4

# Tech Founder Spotlight



Tech founders understand cyber risk:

**58%**

Believe they are **LIKELY** to face a data breach or ransomware attack



Despite risk understanding, tech founders still not securing coverage:

**57%**

Do not believe they have sufficient coverage for a ransomware attack

An additional 9% do not know if their policies would cover them

**34%** Have cyber policies



# Conclusion

Navigating the purchase and renewal of business insurance is often seen mainly as a necessary evil, but as small businesses and startups move quickly and strategically to bring their products to market and create growth, viewing the task merely as a checkbox item often leaves them vulnerable to unanticipated risk. Many SME owners and CEOs and founders don't fully know the policies they have or what's in those policies, and standard policies may not give them the right protection.

**This research shows a need for SME owners and CEOs to re-think the way they approach business insurance purchases and renewals**, an effort that starts with a stronger understanding of their risks. As business landscapes change, SME owners and CEOs and founders need to be more aware of new risks and their own changing business environment when it comes to understanding and obtaining business insurance.

Of further concern is the fact that SME owners and CEOs and founders are allowing insurance policies to auto-renew without taking into account how their needs and potential risks have changed due to their own business growth. This is to say nothing of emerging threats like cyber risk, despite a growing number of attacks that are leaving companies financially exposed.

In contrast to SME business owners and CEOs, tech founders have a better understanding of cyber risk, as they are naturally more attuned to following emerging trends, but neither have been able to secure the appropriate coverage if a cyber attack were to occur.

**SME owners and CEOs and founders need to take a more proactive and intentional approach to not only understanding their risk and exposure, but also better understanding their policies and coverage by communicating with their brokers and insurers, so they can focus on growth without worrying about unexpected costs from inadequate coverage.**



