

HOW DIGITAL PARTNERSHIPS ARE CREATING NEW OPPORTUNITIES FOR SMES AND FINANCIAL PROVIDERS TODAY

Small and medium-sized businesses are the lifeblood of the economy, accounting for 99 percent of all companies in the UK today¹. Efficiency plays a key part in how these businesses serve customers and operate daily. At Capco, we are always looking for ways to solve everyday problems through digital innovation and competitive disruption. We believe, that in today's highly varied and fragmented business landscape, financial services firms must come together to support the backbone of the economy. In this article, we share how **Hiscox**, **FreeAgent**, and **Instanda** are creating healthier ecosystems for the SME market by doing just that.

KEY POINTS:

1. Partnerships with non-traditional insurance players are providing new digital efficiencies for SMEs
2. The power of financial transactional data will drive more data-driven insight intervention and insurance propositions in the future
3. Multi-product holdings within insurers remains low, but data sharing could change this
4. Open Finance may not fully deliver on its potential to improve customer outcomes if it is treated as a regulatory box-ticking exercise by insurers

SME NEEDS ARE NOT BEING MET

For many years, digital tools have provided incremental efficiencies to the way we live. From everyday chores such as groceries and paying the bills, to communication, education and leisure, our technology usage has not only become more frequent, but increasingly seamless from a user experience perspective. It has become a question of which everyday things **cannot** be done with a few clicks on a mobile device rather than the possible.

In a business context however, tech efficiency has not kept pace with such macro-digital trends. According to Xero, as many as 32 percent of SME owners rely on pen and paper accounting,²

and Sage meanwhile estimate that UK businesses in the UK are spending an average of 120 working days per year on administrative tasks alone, equating to over a £9.5 billion wastage in 2020.³

The UK's current business outlook has put a spotlight on the opportunities that digital innovation presents to simplify and optimize SME performance. In view of the COVID-19 pandemic and the related strains on business-as-usual, as well as the upcoming Making Tax Digital rules from HMRC⁴, many SMEs are being forced to embrace more digital-centric approaches, starting with remote working. A Lloyds Bank

1. <https://researchbriefings.files.parliament.uk/documents/SN06152/SN06152.pdf>
2. <https://www.computerweekly.com/news/252460827/SMEs-forced-into-automation-as-Making-Tax-Digital-goes-live>
3. Ibid, ComputerWeekly.com
4. <https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital>

survey in November 2020 found that 1.5 million business owners had ventured online for the first time, and that over half of microbusinesses increased investment in technology and accelerated their use of digital.⁵

Despite an increase in technology dependence, many SMEs still do not have a clear, digitalized view of their accounts and reporting, let alone their insurance coverage or any intricacies relating to their financial position.

“SMEs have been massively under-served from a digital perspective”, says Will Wood, Head of Life & Health at Instanda, an insurtech born from a frustration of how legacy systems were holding back insurance productivity. He continues, “Insurance firms seldom have the in-house technical capability

or alignment across product teams to provide an in-house-built digital experience that truly adds value to their clients’ worlds.”

The consequences of this are already taking a toll inside many SME businesses today. Valuable time and money is being wasted by ineffective data management practices, consolidation, and reporting, leading to loss, duplications, inconsistencies, and plenty of manual intervention required. At worst, this is having severe repercussions on their ability to operate in an already challenging business environment. Indeed, according to an Insurance Times survey published in October, 42 percent of SMEs reported that they had suffered damage or losses in the past five years due to being uninsured or underinsured.⁶

FINDING A MORE DYNAMIC WAY FORWARD

Consumer digital products and services, such as cloud computing, or tech and software companies like Dropbox and Google (to name a few) have already demonstrated the ability to collect disparate data into one efficient and highly trusted repository, and additionally to turn the customer data they collect into ‘smart products’ or insights that further help that user.

Instanda sought to introduce such a service to the market with its no-code insurance platform and products which companies can white-label, use end-to-end and constantly adapt in-house.

“Instanda gives SMEs the ability to transact digitally through the lifecycle of their policy, and insurance companies the ability to deliver changes in a quick and agile way that meets those customers’ constantly evolving needs,” Will says.

He adds: “In most insurance companies today, making product changes takes weeks and even months and the involvement of

multiple teams. Our modular approach allows insurers to make immediate, customizable changes that will quickly enhance a customer’s experience and policies.”

Like Instanda, accounting software company FreeAgent and insurance provider Hiscox are working together to also create new, digital efficiencies in the SME market.

“The number one key benefit we wanted to provide SMEs was simplicity,” says Kevin McCallum, Chief Commercial Officer of FreeAgent, a NatWest subsidiary.

“We recognized that there is a lot of unnecessary complexity for SMEs today, and that Open Finance initiatives and partnerships could create a more dynamic way forward,” he continues.

In August 2020, FreeAgent and Hiscox’s partnership was born⁷, enabling FreeAgent and NatWest users the choice to obtain fast and accurate automated insurance quotes from Hiscox,

5. <https://www.lloydsbankinggroup.com/media/press-releases/2020/lloyds-bank/2-7-million-microbusinesses-saved-by-technology-during-covid-19-.html>

6. <https://www.insurancetimes.co.uk/news/51-of-smes-cut-back-on-business-insurance-policies-amid-pandemic-premium-credit/1435250.article>

7. <https://www.itpro.co.uk/business-strategy/smb/356764/natwest-to-deploy-ai-to-help-smbs-choose-their-insurance>

directly through the FreeAgent accounting software platform. After purchasing an insurance product with Hiscox, the user can access their policies and manage them through the platform.

Alex Wheal, Commercial Client Manager at Hiscox says: “To receive an insurance quote today, SMEs need to accurately submit information about their business which can be both time consuming and complex.”

Using artificial intelligence and APIs, the FreeAgent platform helps identify small and medium-sized businesses (SMBs) who could benefit from insurance while generating quotes to fit their individual requirements.

Alex continues, “We’re already seeing that the customer finds this useful because the information is specific to them – it’s about their business – and requires less effort on their part because the data has already been shared with them. If you spin that on into the future, there are all kinds of additional improved services you would expect to see the insurance industry providing businesses with.”

“Right now, for example, you buy a policy and then if your business changes radically, the insurer relies on the business owner contacting them to report those business changes. Our partnership helps insurance policies respond more intuitively to what is happening within a business, so the policy automatically reflects the very thing the SME needs, all through the power of data sharing.”

TRUST IS CRUCIAL

But weren’t FreeAgent concerned about SME trust and possible accusations of upselling?

“SMEs who use the FreeAgent platform are not obliged to use this specific service, but we knew those who tried it would see the value in joining up these typically disparate parts of the financial ecosystem. And so far, the feedback from SMEs has been overwhelmingly positive”, says Kevin.

Alex adds, “We wanted the customer-centric design to be core to the development of the proposition we were building, rather than our pilot just being a pure technical experiment between two providers. That was why getting our partnership right was so important. Both parties were truly focused on improving customer outcomes. After all, the more we can reduce the administrative burden for a small or medium-sized business, the more time they have to focus on growing their company.”

Indeed, what Alex describes is part of an ongoing trend in digital cross-selling to provide what customers need in real-time. We have seen this trend establish itself in the travel industry with car rentals and accommodation, but cross-selling of this nature is now becoming increasingly prevalent in financial services.

In retail banking for many years, current accounts have marketed travel and home insurance and other product add-ons that are not traditionally part of the bank’s services, and these have been key reasons to bank with certain providers, and to also switch accounts. At Capco, we believe there is this same competitive opportunity for financial services with the SME market.

“The very intention of Open Banking was to help customers get a better view of their finances and share their data with trusted third parties. This was, in many cases, treated as a regulatory tick-box exercise by banks, and they failed to communicate the value to the customer. Open Finance is the second chance for firms to get it right, and the FreeAgent and Hiscox partnership has already proved the use case to the SME insurance market,” says Matt Hutchins, UK partner and head of insurance at Capco.

“In insurance, we may see new business models emerge as a result of digital tools, including subscription-based and usage-based SME packages, as well as the introduction of new product lines and experiences,” he continues.

WHAT NEXT?

While digital partnerships may change traditional dynamics of interacting with the SME customer, and propagate the trend of 'invisible insurance', this will not diminish providers importance, it will make providers more visible and playing a more interconnected role with customers and across the wider financial landscape.

"Just because a customer may buy insurance on another financial provider's platform doesn't mean the insurance company becomes less important; it gives them the chance to take a more proactive role with the SME customer. At present, customers only tend to communicate with their insurers when their coverage is coming up for renewal, or when making a claim. Now there's a chance to refine their offering as and when

the SME needs it," says Robert Ledger, a principal consultant at Capco.

He adds, "Human advice is not going to disappear because of this trend. A twenty-minute conversation with an adviser who can see the SME customer's data in real-time is going to provide that customer with a whole new level of detail they wouldn't have been able to give them previously."

It is clear that the positive digital transformation of both the SME market and insurance is already happening; and partnerships are proving to be pivotal in driving this change, just when UK businesses need efficiencies most.

Find out more about how Capco is working with insurers and other financial providers to support the SME market by contacting our experts.

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