

MarkelTech

Understanding risks and mitigation strategies
in the UK's fast-growing technology sector

MARKEL



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Introduction

The world of technology is fast-paced and full of opportunity. Here in the UK, it's backed by over £1.5 billion in government initiatives for digital transformation and Research and Development. Comprised largely of the manufacture and wholesale of software services, technology hardware and equipment, Office of national statistics data shows that the UK tech sector was populated by over 200,000 businesses in 2023. Together, they were valued at over \$1 trillion in the first quarter of 2024, employing 2.9 million people with most businesses falling into the SME category, with 1-24 employees. The tech world is full of opportunities for both technology companies and for the brokers who specialise in them. However, operating in such a demanding landscape brings its own challenges. It's a sector where cybercrime is a continually evolving threat, and where global instability continues to rock a business environment already defined by rapid change.

We have immersed ourselves within the sector to get a true understanding of the pain points in both their day-to-day operations and external environments. In addition, we undertook both desk-based and qualitative research, along with speaking to our broker

community to gather their concerns and observations of the market first hand. The insights you'll find on the following pages are designed to help us all build relationships and provide a better service to businesses in this uniquely challenging sector. We are delighted to share this report and hope it proves a valuable resource that will help you gain a clearer picture of the challenges and opportunities your tech clients face, as well as an understanding of what your fellow brokers are experiencing.



Kate Gough,
Head of Propositions
and Insight

Kate has over 15 years of business insights experience working with Fortune global 500 companies. In 2022 she founded

Markel's Insights and Proposition function, a team that specialises in market research and proposition design. Her expertise supports Markel in reviewing and building of new propositions to support brokers in creating differentiation in the marketplace.



UK tech SME and insurance broker research – key market data and methodology overview

To generate the insight contained in this report, Markel undertook both desk-based and qualitative* research.

Whilst the bulk of the report is dedicated to the qualitative results, below is a high-level overview of the technology sector landscape in the UK:

- ✓ The technology sector is largely comprised of the manufacture and wholesale of software services, technology hardware and equipment.
- ✓ ONS data shows that in 2023 there were over 200,000 technology sector businesses in the UK.
- ✓ The majority of technology businesses fall into the SME category with 1-24 employees.
- ✓ The largest categories for these businesses include:
 - Computer consultancy activities (76,565)
 - Computer programming activities (30,785)
 - With the remaining spread across a range of software development, equipment manufacturing and wholesale activities



Each interviewee was taken through a discussion guide that covered the focus areas below:

- ✓ **Technology Business**
 - Technology business key challenges
 - Technology business key priorities
 - Technology businesses and insurance
 - Technology businesses and brokers
 - Technology proposition response
- ✓ **Broker**
 - Broker key challenges and priorities
 - Supporting SME businesses
 - Needs of businesses in the Tech sector
 - Broker insurance partner preferences
 - Technology proposition response

*45-minute in depth telephone interviews



The qualitative research stage was structured as follows:

- ✓ **10 qualitative interviews with technology businesses** reflecting a mix of business, with a turnover range: £80K - £6 Million and an employee count range: 1 – 80. All participants had or were considering tech insurance and were responsible for insurance decision making.
- ✓ **Eight qualitative interviews with brokers** operating in this sector and identified by Markel as organisations that would be able to provide valuable insight on this important area of insurance. UK tech SME and insurance broker research – key market data and methodology overview.





Key business challenges for tech SMEs.

SMEs operating in the UK's technology sector face several challenges. Respondents highlighted three key areas: the **external environment**, **internal operational challenges** and **the ability to drive profitable growth**.

External environment



Insight

UK technology companies face a multitude of challenges in the current landscape. The economic climate is marked by high interest rates and inflation and with changes to Research & Development tax relief policies, businesses are facing a shifting outlook where expertise in qualifying expenditures, navigating IR35 regulations, and effectively managing contractors is increasingly necessary.

In addition, the fast-paced nature of the tech sector demands continuous innovation and adaptation, with companies at risk of falling behind in trends and necessary skill sets, especially where sufficient investment cannot be secured. Cyber threats also loom large, as increasing attacks not only threaten operational security but also impose significant liabilities concerning client data protection.

Furthermore, global instability, including the risks of war, disrupts business continuity, particularly for those with international clients, complicating an already challenging environment.

Perspectives

“Cyber security is a top concern, not just for us, but for our clients. They need to invest in it just as much as we do, for us not be affected.” – **Technology business owner**

“The global situation is affecting business. Global instability influences opportunities. They can be restricted as a result.” – **Technology business owner**

“It's a high change and a rapid learning environment.” – **Technology business owner**

Driving profitable growth



Insight

Since the disruptions caused by COVID-19, UK technology companies have refocused on driving growth. Business owners are looking to expand but many, particularly in smaller startups, find themselves struggling with cash flow and business administration basics.

A significant hurdle in this growth trajectory is the conversion of opportunities into tangible projects. Often, tech SMEs lack sufficient marketing resources, which impedes their ability to attract and convert new business effectively.

Additionally, many of the business owners interviewed noted that there was a gap for greater industry and peer support. Access to industry-specific advice and tech savvy experts during challenging times can be crucial.

Perspectives

“It’s having that insightfulness from a pool of experts, supporting you and having tools as well. It’s about having one single point of contact where I go to for all these things. It can be very time-consuming to invest the hours to get some answers to find what you are looking for.”

– **Technology business owner**

“I can get very frustrated about where we are with growth. We go through real cycles where we have had a good week or month and you’re on a high, but then you’ll get an email and the next moment the bottom has dropped out of it. I miss having that team around me to talk to on those days.” – **Technology business owner**

“We don’t have the budget for someone to do marketing full time. An expert marketer could provide us with more strategic support.” – **Technology business owner**

Internal operations



Insight

Internal operational challenges for UK technology companies are multifaceted and critical in maintaining competitive and secure operations. Tech SME founders need additional expertise to support growth such as finance, accounting and legal advice. As companies scale, especially micro businesses, the demand for such professional advice and administrative support becomes even more pressing. Cyber security is a significant concern, requiring ongoing vigilance and updates to protect against threats such as email phishing and ransomware.

Managing cash flow is another persistent stress point, necessitating a lean operation to work through the financial peaks and troughs, including securing necessary funding for growth. Recruitment adds another layer of complexity, especially in finding skilled staff who can address cyber threats and project technological competence to clients. The rising costs of computer hardware further strains budgets, as frequent upgrades are necessary to support business demands.

Perspectives

“We run a very lean business to try and manage our overheads. My personal goal is to get deeper into the finances so we can get a better grip on our cash flow. It constantly changes.” – **Technology business owner**

“We always have challenges in the constant development of computer hardware. We have high power computing needs, but we must be careful in our investments in computer hardware because it really needs to be able to do the job.” – **Technology business owner**

“Cyber security is a big issue for anybody running a business. We are reliant on security experts. The question is, what level should we go to safeguard our data?” – **Technology business owner**

“We have to manage our cash flow. We can’t bring people in until we are able to pay for them.” – **Technology business owner**



How tech businesses view insurance.

Technology business owners recognise that using risk management tools, such as insurance, is crucial to protecting the company's employees, directors and the business itself. Specialist cover relating to technology specific exposures, such as cyber risks are increasingly sought after.

Insurance cover and wordings



Insight

UK technology SMEs recognise the importance of insurance as a safeguarding measure for their operations, employees and directors against unforeseen risks.

Insurance coverage is often seen as confusing and complex, especially for directors of SMEs who may not have specialised knowledge in this area. Adding to the complexity, directors now face additional exposure to tech-specific risks, such as cyber threats and data losses.

Business owners say they often struggle with the unknown scope of risks and the challenge of determining which types of insurance are essential for their specific needs. It can be difficult to understand which cover is required, and what each type of policy protects against.

Additionally, the insurance jargon, such as distinctions between “Liability” and “Indemnity” or the meaning of “Fidelity,” adds to misunderstandings, making it difficult for them to confidently make their insurance choices. This confusion can lead to either under or over-insuring, both of which pose risks to the business.

Perspectives

“I got it to give me peace of mind. I got the insurance I did just because those were the two most popular cover types when I searched online.” – **Technology business owner**

“I have it because I understand that I need it, but I wouldn't know when the right time to use it would be. I get insurance in case I need to make a claim, but I don't know what the trigger would be to make one.” – **Technology business owner**

“What it covers is important. It needs to be easy to understand, and the features need to be clear.” – **Technology business owner**

“Cyber security is a top concern, not just for us, but for our clients. They need to invest in it just as much as we do, for us not be affected.” – **Technology business owner**

The need for specialist broker guidance



Insight

The need for specialist guidance around insurance choices from brokers was particularly pronounced during the research, contrasting sharply with more straightforward covers like motor.

Businesses express a strong desire for personalised advice to ensure they get the right coverage without unnecessary expenses. They seek clarity on both essential and prudent insurance coverages tailored to their specific operational needs. This guidance is crucial in instilling confidence that they are adequately protected.

Recommendations from trusted networks, such as industry groups or professional forums, often direct businesses to specific brokers. Such brokers are valued not only for their responsiveness and trustworthiness but also for their deep understanding of the specific business and sector challenges.

Particularly in areas like cyber security, businesses appreciate brokers who maintain ongoing communication, address emerging issues, and possess a clear expertise in market dynamics, ensuring that coverage evolves in line with both business growth and shifting risk landscapes.

Perspectives

“It’s about getting that balance of not getting the one with the least amount of cover. It’s about getting that middle ground. And when you see the comparisons and see the features of things you get, I need to make sure again that I get a good balance.”

– **Technology business owner**

“Cyber security is a big issue for anybody running a business. We are reliant on security experts. The question is, what level should we go to safeguard our data?”

– **Technology business owner**

“I liked that they went through a quick discovery session with me. They understood my questions and answered them and I liked that they could collect all the information in one place and I didn’t have to become an insurance specialist.” – **Technology business owner**

“I have a good relationship with our broker. I highlight any potential client cyber insurance issues with him, and he puts it on file so that it is logged in case it becomes an issue in the future.” – **Technology business owner**





How brokers view insurance for the technology sector.

Insurance brokers echo the sentiment of business owners in respect of the significant challenges faced by SME tech companies in the UK, primarily around risk awareness and management. Many SMEs are owner-managed and resource light, leading to the business owners wearing multiple hats and lacking a formal risk management background.

Brokers emphasised the need for more educated conversations with technology customers about risk and insurance, particularly in relation to understanding and mitigating cyber risks. Access to the right insurance partners and offerings was identified as crucial to being able to support technology businesses with the right products and advice.

Growth, funding and profitability are all key considerations



Insight

The increasing number of insurers in the technology space has heightened market competition.

Rising cyber claims are leading to higher cyber premiums. Brokers are increasingly playing a more active role in customer education re: risk management and cyber vulnerabilities.

Additionally, the stage of an SME's capital journey significantly influences their insurance needs, shifting from cost sensitivity to a focus on service as the company grows.

Conversely, a technology business's risk profile is often independent of company maturity.

Tech SMEs generally have similar insurance requirements but differ in coverage levels, which can be affected by business activities like outsourcing.

Perspectives

"In the last couple of years, the tech insurance market has become much more challenging for cyber. Insurance premiums have increased, capacity has reduced and the number of questions to satisfy the insurer has increased significantly as well." – **Broker**

"We can't use traditional means of understanding how large and complex the risk is for a technology business. We do it by thinking about where they are on their journey as in the lifecycle of that organisation. So if they're a start-up, then the needs will be different to one that's mature and potentially gearing up for a sale." – **Broker**

"Emergence of AI is going to be a big change, a lot of companies are trying to implement that already. There's going to be a lot of new companies that kind of develop off the back of it, which is obviously a good thing in technology. The sector itself is still growing rapidly." – **Broker**

The need for specialist and flexible covers



Insight

Brokers cite professional indemnity (PI) and cyber coverage as essential covers for tech businesses, with cyber increasingly requested due to its relevance in today's digital landscape. However, buying cyber insurance separately can be complex due to intertwined liabilities with PI, prompting brokers to recommend bundled packages to avoid disputes and legal costs. Investors are also increasingly mandating public liability and D&O insurance, driving demand for these covers.

Brokers observed that the spectrum of technology businesses had varying needs and requirements. For example, FinTech companies often require directors & officers and extensive crime coverage whilst tech manufacturers prioritise property and general liability alongside compulsory employers' liability.

As tech SMEs grow, their insurance needs evolve, making it advantageous to stick with insurers who understand their changing risk profile, although some may need to switch insurers as they expand internationally and engage with global subcontractors. Brokers find that international exposures are often underestimated, a gap that insurers need to address more effectively.

Perspectives

"If you're a FinTech client, a professional indemnity policy is written where it's normally your PI, crime and D&O written into one policy, and then a FinTech would normally have a cyber written into that as well, all under one policy and it's normally like a combined tower." – **Broker**

"Having the PI and cyber separate is a real pain because you have insurers debating who's liable." – **Broker**

"Tech is sometimes quite complicated. Having multiple discussions with underwriters and then two, three years' time they've grown to a point where the insurer turns around and says: 'No, it's too big for us.' It's quite frustrating to have to go through the whole process again and does generally have a big impact on my decision on where to place it." – **Broker**

"70% of our tech clients will have exposures either in the EU or the Rest of the World. Tech companies will utilise certain areas e.g. India to get a workforce with the right experience." – **Broker**



Introducing MarketTech – Tech insurance, and beyond



For your tech clients to feel empowered to be bold and grow, they need to know their insurance coverage goes above and beyond. Designed specifically for businesses in the technology sector, MarketTech is built on insights, backed by experts and delivered with a suite of services that help them achieve their growth ambitions.

In the fast-paced world of technology, where threats emerge and evolve all the time, having flexible, scalable insurance cover tailored to the unique risks tech companies face is a must. Whether they're a start-up, emerging SME or a mid-market tech business, we understand that your client needs specialist cover that goes beyond what standard business insurance can provide—so we offer comprehensive policies specifically designed for tech businesses.

“One wording covering both Technology products and services providers.” – **Broker**

Professional Indemnity

- ✓ Silent cyber exclusion not applicable when the loss derives from the technology products and services being provided
- ✓ Infrastructure exclusion amendment
- ✓ Includes coverage for third-party suppliers

Cyber

- ✓ Increased 1st party limits for cyber business interruption & fines/penalties
- ✓ Reputational harm/betterment sub limits
- ✓ Removes data extortion limit
- ✓ Emergency mitigation costs coverage
- ✓ Worldwide jurisdiction

Public/Products Liability

- ✓ Limits up to £10,000,000
- ✓ Efficacy cover available
- ✓ Product demonstration, advice or training extension
- ✓ Additional insureds (vendors) extension
- ✓ Worldwide exports

Property and Business Interruption

- ✓ Increased business intelligence extension limits
- ✓ Goods in transit coverage
- ✓ Full Theft
- ✓ Research and development risks
- ✓ Cover for controlled environments
- ✓ Flexible first loss limits for business interruption

Excess layers

- ✓ Technology specific excess wording
- ✓ First-party coverage included
- ✓ For professional indemnity and cyber only

Tech insurance, and beyond: Value added benefits included with a MarketTech policy



24/7 cyber incident response service

Only 22% of small businesses and 55%† of medium businesses have a formal cyber incident response plan. Minimise the impact of a cyber breach with specialist 24/7 phone support and up to £10,000 of emergency costs cover should the worst happen.



Cyber crime: PR crisis management

When a tech business has worked hard to build up their brand and instil trust, the last thing they need is the reputational damage of a cyber breach. Our dedicated PR crisis management service helps tech business owners navigate the reputational aspects of a cyber incident to keep damage to a minimum.



Cyber training

Reducing the risk of cyber crime starts by giving tech businesses the knowledge, skills and best practices to prevent it. They can become cyber safety experts with online training from MarketTech cyber experts.



Cyber risk management toolkit

From ransomware stress tests to remote working policies and mock breach exercises, our online eRiskHub gives tech businesses the tools they need to proactively lower their risk of cyber crime.



Cyber knowledge hub

Implementing best practices around cyber security helps reduce risk for tech businesses. Our cyber knowledge hub supports their cyber training and best practices with whitepapers and webinars from leading cyber specialists.



Business Hub

Getting the right resources in place can be challenging for tech businesses, and especially start-ups. That's why policyholders get 24/7 access to our Business Hub, an online portal packed with DIY contracts, policies, forms and letter templates covering every area of business.



Incentives and reliefs

Our specialist team helps tech businesses find and secure funding, as well as offering proposal writing services, partner recruitment and project support. We've worked with over 500 technology, manufacturing and creative companies, and our services typically secure over £15 million in grant funding for UK businesses each year.



R&D tax relief consultancy

R&D opportunities are central to the innovation at the heart of the technology sector, but finding the time to pursue them can be tricky. Our expert team supports tech business in identifying the right R&D opportunities, as well as reviewing existing claims and compiling technical reports and submissions.



Contractor tax solutions

Short-term employees are common in the technology sector, but tax can be tricky when it comes to contractors. That's why our experts are on hand to support policyholders navigate these complications, ready to offer advice on contractors, employment status and IR35.



Debt recovery service

Debt can make or break a tech business, with a potentially huge impact on cash flow. Our debt recovery service gives policyholders access to a team of specialists who can advise on all things debt recovery, helping them find a way forward in the face of late or non-payments.



Business and legal helpline

For help with recruitment challenges, your tech clients have 24/7 access to our in-house lawyers for advice and support at any stage of the employment cycle, from drafting employment contracts to supporting employee terminations or director exits.



Contract review service

New contracts mean new opportunities, but they can also present challenges for tech businesses. Our contract review service highlights concerning clauses and advises policyholders on improvements they can make to ensure they get the best possible terms every time they sign the dotted line.



Technology business owners feedback on MarketTech

“I feel like this is more specialist. It is aimed at that tech/digital world. The others I have seen are more generic... I haven't seen many that are talking about cyber security and protection specifically.”



“Think it's great. I have a technology business and they would insure me for my entire business rather than an element of it, which is very appealing.”



“Having someone you can call on when you need help and someone you can call on 24/7 is great. I think a lot of that stuff is quite useful, especially when you are running an SME when you don't have other people you can call on.”

“I may be an expert, but I'm not an expert on everything. I'm not an expert on cyber-security at all. Anything I can do to prevent disaster is great.”

“I love that. I think it's a really well-rounded offering.”

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All information accurate at the time of production May 2024.

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