

MarkelTech

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

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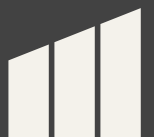


Table of contents

This document contains the following sections:

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

04 Key business challenges for tech SMEs

- ✓ External environment
- ✓ Internal operations
- ✓ Driving profitable growth

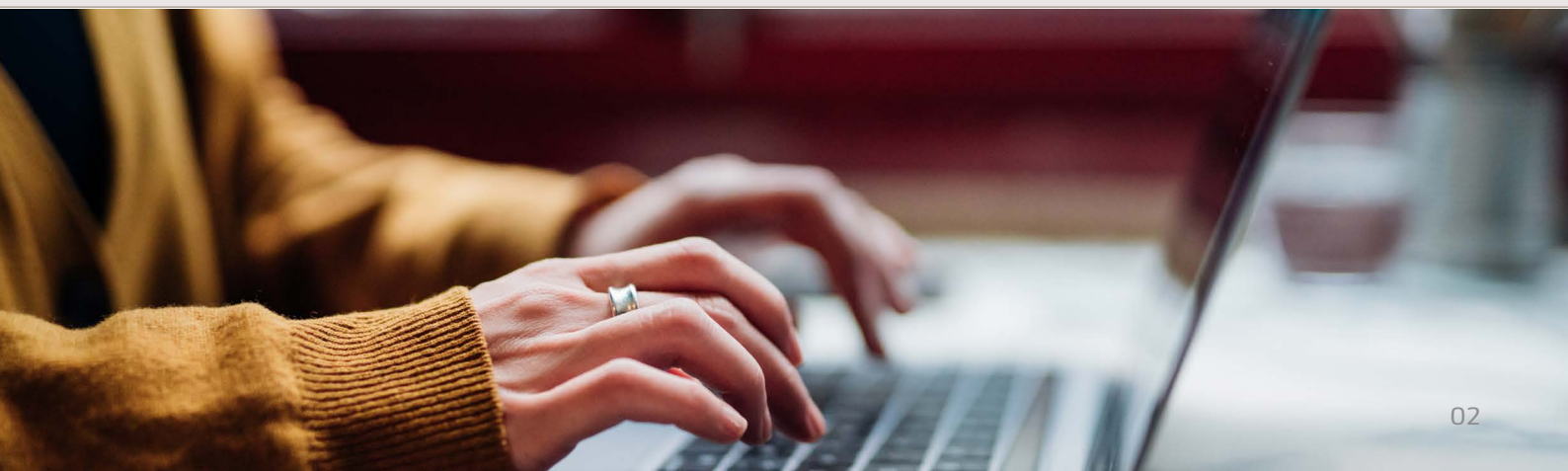
05 How tech businesses view insurance

- ✓ Insurance cover and wordings
- ✓ The need for specialist broker guidance

06 How brokers view insurance for the technology sector

- ✓ Growth, funding and profitability are all key considerations
- ✓ The need for specialist and flexible covers

07 How technology businesses view Markel's specialist technology proposition



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.



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

"Clients are being more reluctant, a bit more careful about where and how they spend their money, so I'd say that's one of the challenges in terms of building up a client base and a regular income." – Broker

"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

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

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

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 obtain 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."

"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."

"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."

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."

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

"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."

"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."

How technology businesses view Markel's specialist technology proposition.



MarkelTech has been specifically designed for companies that innovate, design, develop, manufacture, supply, or support technology products or services. This specialist insurance package is for SME companies in the technology, IT and communications, and biomedical and life sciences space, at all stages of their lifecycle.

The cover comes with unrivalled support services, such as tax and legal support, to ensure businesses get the most robust solutions, every time.

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

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

Service summary.

Service name	Summary of service
 eRiskHub	<p>24/7 online access to cyber-specific white papers and webinars from leading technical specialists</p> <p>24/7 online access to cyber security training</p> <p>24/7 access to an online cyber risk management toolkit</p>
 Cyber incident response service	<p>24/7 phone access to cyber incident response services</p> <p>Access to a specialist team that is able to provide dedicated crisis and PR management in the event of cyber crime</p>
 Business and legal helpline	<p>24/7 phone access to a team of employment & business law solicitors</p>
 Business Hub	<p>24/7 access to online tools and templates curated for SME businesses by subject matter experts</p>
 Incentives and reliefs	<p>Access to innovation incentives specialists, who can help companies optimise how they fund innovation</p>
 Market Law	<p>Access to a legal team that can offer advice and conduct contract reviews on your behalf</p> <p>Access to a team of specialists who can advise on debt recovery matters *</p>
 Contractor tax solutions	<p>Access to a team of contractor, employment status & IR35 Tax advice experts</p>

Feedback from technology business owners 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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