



# Driving growth in the 'new normal'

**A blueprint for commercial broker success as  
we emerge from the COVID-19 pandemic**

# Forward

With SMEs accounting for 99% of UK businesses, three-fifths of total employment and around half of private sector turnover, it's little wonder smaller firms are referred to as the 'engine room' of the UK economy.

Pre-COVID-19, the UK's SME sector was certainly buoyant. In 2019<sup>1</sup>, 200,000 new firms were formed – 3.5% more than the previous year. SMEs can often be found at the heart of innovative growth, and professional advisers have a crucial role to play in their success.

COVID-19 will undoubtedly impact the UK SME sector. Time will only tell by how much, but the government's interventions will have cushioned the damage.

From a commercial broking perspective, SMEs remain a natural focus, especially given the entrepreneurial synergies many intermediaries share with smaller organisations hungry for success.

That said, commoditisation is evident across many business lines and brokers lacking the ability to invest heavily in digital innovation, promotion and delivery are feeling competitive pressures from the many tech-based distributors entering the market. In all likelihood, this situation will only worsen.

In the face of COVID-19 and agile new market entrants, wider professional value propositions have created an opportunity for many of the UK's 2,500 brokers. COVID-19 has pushed the demand for professional business advice to new levels. Brokers who are able to satisfy this demand by offering added-value services to their SME clients will drive sustained customer loyalty and protect future revenue streams.

In fact, The Harvard Business Review has declared that: "To redirect demand, your customer value proposition (CVP) must solve a problem more effectively, simply, accessibly or affordably than the alternatives."<sup>2</sup> This statement will resonate strongly with brokers that have achieved sustained growth over the years.

This paper examines the potential market for commercial brokers targeting SMEs in the UK today. The challenges faced by SMEs will be explored and insight into how brokers are able to solve these challenges through added-value partnerships considered.

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<sup>1</sup> file:///C:/Users/User/Downloads/SN06152%20(2).pdf

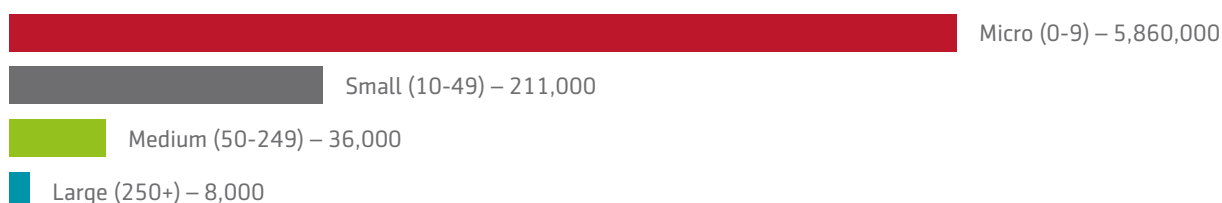
<sup>2</sup> Harvard Business Review

# 1

## SMEs driving the UK economy

With 99% of all UK business in 2019 employing fewer than 250 people<sup>3</sup>, we cannot underestimate the importance of small business to the UK economy. In fact, only 8,000 companies employed more than 250 staff 2019.

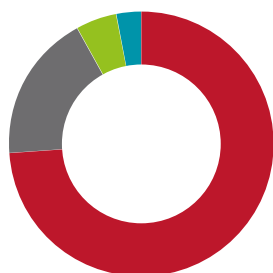
**Figure 1:** Private sector businesses in the UK by number of employees 2019



Source: House of Commons Library Briefing Paper

Business numbers increased by 4% between 2018 and 2019, pointing to a positive upward trend. The proportion of businesses with employees fell during this period and, more widely, has reduced from a third to a quarter since 2000.

**Figure 2:** Businesses by industry in the UK 2019



|                                   |     |
|-----------------------------------|-----|
| Total services                    | 74% |
| Construction                      | 18% |
| Manufacturing                     | 5%  |
| Agriculture, mining and utilities | 3%  |

**Figure 3:** Top six service sectors



|  |     |
|--|-----|
| Professional and scientific              | 15% |
| Administrative and support service       | 9%  |
| Retail                                   | 9%  |
| Health and social work                   | 6%  |
| Information and communication technology | 6%  |
| Transportation                           | 6%  |
| All other services                       | 49% |

Source: House of Commons Library Briefing Paper

Figure 2 demonstrates that service-based businesses comprise 74% of all business, emphasising the importance of this sector to the UK economy. The top six service sectors are shown in Figure 3.

These positive numbers were tainted by a major survey of over 5,000 businesses<sup>4</sup> in mid-April 2020, which estimated that one quarter of SME had temporarily closed and the majority were reporting a lower turnover. Ultimately, aftermath of COVID-19 will become clear in the months ahead and the data presented here will change significantly. Despite this, SMEs will remain crucial to the UK economy and make up the lion's share of operating companies.

<sup>3</sup> House of Commons Library Briefing Paper

<sup>4</sup> <https://www.ft.com/content/f9537538-d7a0-44e3-8e86-5cb9a984aae4>





## Understanding SME challenges

Business sector, employee numbers, turnover, customer location and other factors will all have a huge part to play in the individual challenges a business faces. Major social and economic factors such as COVID-19 and Brexit are also playing a crucial role, and will continue to do so as they fully play out.

### COVID-19

We know that COVID-19 has affected the UK economy severely, with the picture changing day-by-day. What is not yet clear is how businesses will respond as the UK begins to open up.

Retail sales declined by a record 18% in April, with the Purchasing Managers' Index (PMI) on a steep downward trajectory. VAT receipts were also 44% lower in April compared to the same month in 2019<sup>5</sup>.

However, as lockdown eases, a Barclaycard business sentiment survey<sup>6</sup> has found that the almost three quarters of SMEs expecting coronavirus to have a significant impact in Q3 2020, drops to 19 per cent after 12 months, and just eight per cent after two years.

Therefore, despite the current negative sentiment, there is light at the end of the tunnel for UK business, with professional support around tax and legal issues likely to be particularly well received.



### BREXIT

BREXIT has happened but the next key deadline is 31 December 2020 – the date by which a trade deal must be agreed or the UK will fall back on WTO rules.

Whilst the outcome of the negotiations could be positive, they will be hugely impactful for SMEs trading with the EU, and affect all organisations in one way or another:

- A café owner will be affected if he/she finds it difficult to recruit staff and/or they source their products via the EU

- An IT company might not be able to recruit or maintain the right talent if originating from the EU
- A manufacturer with clients in the EU might see tariffs on their goods, increased administration and port delays

More broadly, organisations will need to consider how BREXIT will affect their approach to product safety, VAT, patents, environmental standards and a host of other issues.



### TAX EFFICIENCIES

Depending on industry, activity, growth stage, cash generation and other factors, tax considerations can become increasingly important for SMEs.

Professional tax advice can ensure compliance and optimum financial outcomes for an SME in areas such as VAT, HMRC investigations and IR35 arrangements.

Not only that, but forward planning around a range of issues can create significant future financial advantages:

- R&D tax relief
- Grant funding
- Employment taxes and share schemes
- Patent box relief
- Capital allowances
- Entrepreneurs' relief
- Company reconstructions
- VAT minimisation



<sup>5</sup> <https://www.pwc.co.uk/services/economics-policy/insights/uk-economic-update-COVID-19.html>

<sup>6</sup> <https://www.home.barclaycard/media-centre/press-releases/Despite-negative-short-term-outlook-UK-SMEs-begin-road-to-recovery.html>

## RISK AND INSURANCE



Non-specific insurance coverage is sufficient for many SMEs, but by no means all. Certain industries have very particular requirements that need specialist cover.

Even if sector-specific cover is not warranted, an SME might still need additional insurance to reduce their exposure in certain areas.

A standard policy might be appropriate for a small telecoms company, but their customer data exposure might be above the norm and the addition of a cyber liability policy could prove beneficial.

Similarly, an organisation in a more regulated environment might need greater protection for their D&O and management liability risks.

## HR AND PEOPLE MANAGEMENT



Every business owner knows that managing people can be both hugely rewarding and also difficult at times.

It's crucial for any SME's HR processes and procedures to be compliant, including having appropriate contractual arrangements in place. Failure to do this can result in costly employee disputes and also unwelcome attention from HMRC.

Considerations include:

- Hiring contractors operating under personal service companies, and the new IR35 regulations
- Employee contracts
- Staff handbooks
- Dispute procedures and resolution
- Sickness and absence policies

Fully compliant and communicated procedures and processes can mean the difference between business success and failure for many SMEs.

## HEALTH AND SAFETY



Maintaining an environment that complies with the UK's stringent health and safety regulations not only needs resources, but expert advice too.

Firms often need practical assistance on risk reduction to make sure they stay on the right side of the law, and legal representation should they face an investigation.

Health and safety requirements differ by industrial sector, but generally the law requires that companies adhere

to general duties which employers have towards employees and members of the public, and employees have to themselves and to each other.

As part of the risk assessment process, employers must identify hazards, evaluate the risks, record significant findings and regularly review. In addition, firms must:

- appoint competent people
- establish emergency procedures
- inform and train employees

## CASH FLOW



Cash is king for all organisations, but particularly SMEs which might have low financial reserves. Clients paying slowly, or not at all, can have a catastrophic effect.

It is estimated that late payment debt for UK SMEs now stands at £23.4 billion, up from £13 billion owed in 2018.<sup>7</sup> SMEs also spend £4.4 billion a year chasing the money they are owed.

Much of the issue stems from scope-of-work contracts that put the SME at a disadvantage, and lack of legal support when payment disputes do occur, leaving smaller organisations at the mercy of large and/or unreasonable clients.

Going some way to solve this issue can reap invaluable benefits for SMEs.

<sup>7</sup> <https://www.wearepay.uk/uk-smes-face-debt-burden-of-23-4-billion/>



## UNEXPECTED EVENTS



Coronavirus has taken the world by storm and some SMEs will unfortunately struggle to survive.

Other events can be more 'everyday' but high-impact in their own right. An abuse incident in a care facility, for instance, can be tremendously damaging for the victim and care provider alike.

While some risks associated with unexpected events can be insured, this won't always be the case. Insurance cannot necessarily protect the long-term viability of a business or safeguard an individual.

Forward planning through business interruption strategies, safeguarding procedures and staff welfare policies can all come into play and help SMEs avoid the worst of any unexpected events that befall them.

## HMRC TAX INVESTIGATIONS



We understand that it can sometimes be an unsettling time when a small business owner receives an investigation letter from HMRC for a tax inspection. HMRC is now putting greater emphasis on tax investigations, meaning that the chances of a visit are greater than ever.

Enquiries are taking more time to handle and becoming more expensive as a consequence. Yet the cost of not defending enquiries properly can be huge and SMEs that

cannot afford professional representation can end up paying a much higher tax bill.

There are answers for an SME. Insurance is available for this type of scenario, and having this protection in place can be the difference between a successful and pain-free event, and a damaging and stressful chapter for an organisation.

## LEGAL AND COMPLIANCE



Even the smallest SMEs need to put their legal affairs in order to avoid future problems and falling foul of the law.

Numerous areas need consideration and professional legal support secured to avoid costly disputes further down the line, including:

- Contracts, including those for premises lease and client works
- Staffing arrangements, such as handbooks and employment

- GDPR, to comply with the latest guidelines
- Intellectual property, to protect commercially sensitive ideas and inventions

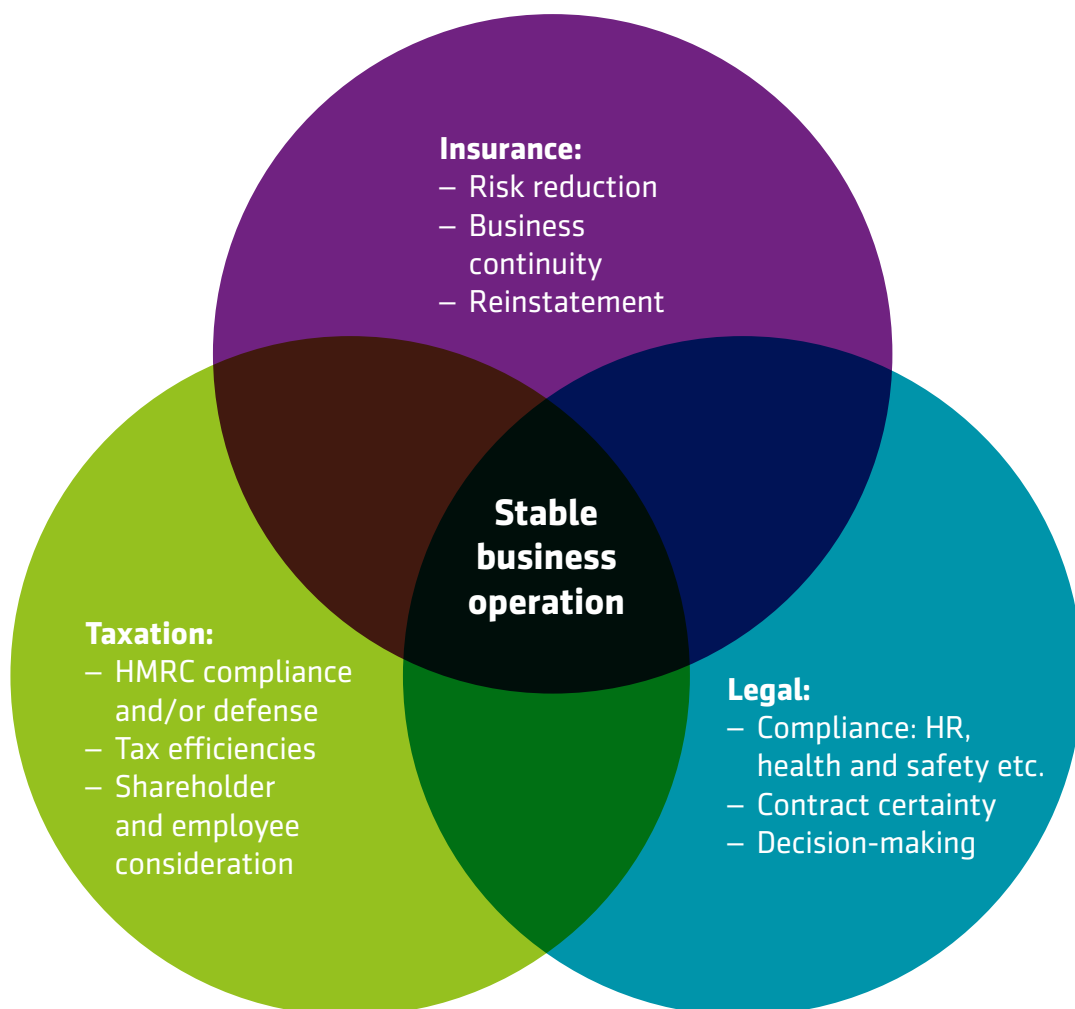
Exposure to legal wrongdoings can be significant and pose a very real business threat. Unfair dismissal claims, for instance, can top out at £86,444 and GDPR fines can be up to €10m or 2% of turnover.



## Solution-led SME support

Every business needs risk certainty, financial efficiency and legal compliance. Access to appropriate insurance, tax, legal and specialist consultancy services can support the stable business environment SMEs need to prosper, especially at a time so heavily influenced by the COVID-19 pandemic:

**Figure 4:** A basis for growth: stability, efficiency compliance





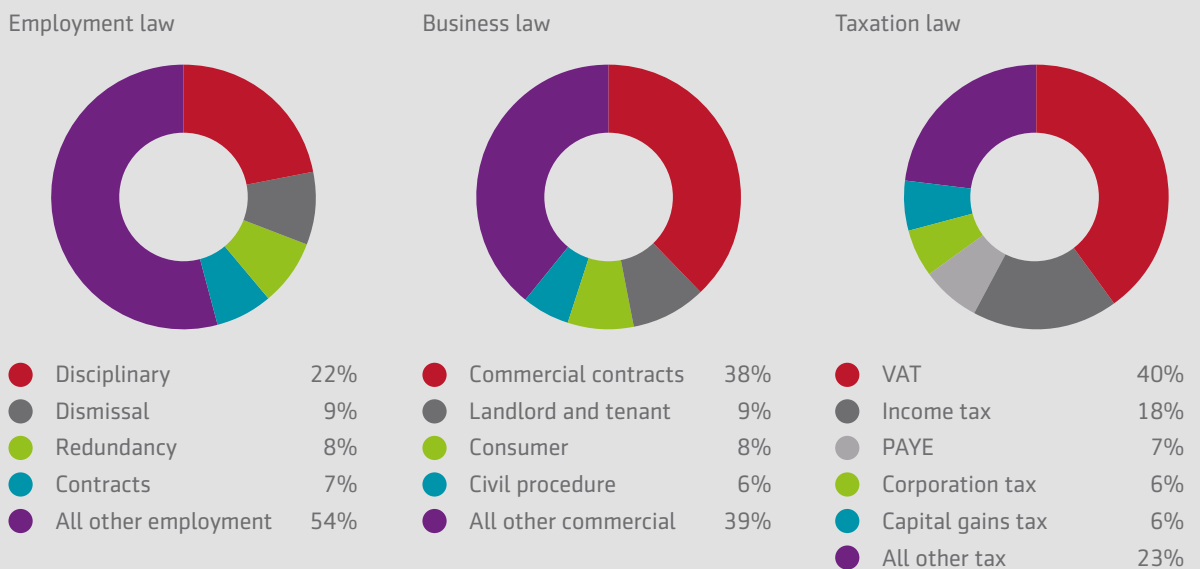
Research and data analysis enable us to delve deeply into the business-service needs of SMEs up and down the country, and across all industry sectors.

Sample data from Market's business and legal helplines across 120,000 enquiries in 2019 reveals a wealth of insight.

**Figure 5:** Total number of calls to Market's business and legal helpline 2019



**Figure 6:** Advice calls enquiry breakdown



## THE CHANGING FACE OF GUIDANCE – THE COVID-19 EFFECT

The economic picture, of course, changed sharply in the early part of 2020 as COVID-19 began to take hold and lockdown became a reality.

Further data from Markel's legal advice line and online Law Hub facility shows a dramatic shift in both the volume and nature of demand for high-quality, business-related information and advice.

Law Hub guide downloads and page views both increased by well over 50% from Q1 to Q2, and the nature of enquiries shifted dramatically as employers looked to clarify crucial questions for their business.



# 50%

increase in Law Hub page views and downloads from Q1-Q2 2020

**Figure 7:** Top 10 guides downloaded from Law Hub Q1 2020

| Page name   | Downloads | Category               |
|---|-----------|------------------------|
| 1 Coronavirus guidance for employers                  | 27%       | Coronavirus – COVID-19 |
| 2 Furlough and the Coronavirus Job Retention Scheme   | 26%       | Coronavirus – COVID-19 |
| 3 Lay-offs, short time working and guarantee payments | 11%       | Coronavirus – COVID-19 |
| 4 Coronavirus contract issues                         | 6%        | Coronavirus – COVID-19 |
| 5 FSB Coronavirus financial support                   | 6%        | Coronavirus – COVID-19 |
| 6 Coronavirus business interruption insurance         | 5%        | Coronavirus – COVID-19 |
| 7 Employment law changes 2020                         | 5%        | Coronavirus – COVID-19 |
| 8 Employment law issues during a pandemic virus       | 5%        | Coronavirus – COVID-19 |
| 9 Dismissing short-serving employees                  | 5%        | Coronavirus – COVID-19 |
| 10 Varying terms of contracts of employment           | 4%        | Coronavirus – COVID-19 |

**Figure 8:** Top 10 guides downloaded Q1 2019

| Page name   | Downloads | Category          |
|---|-----------|-------------------|
| 1 How to use the staff handbook                         | 19%       | Employment        |
| 2 GDPR – A checklist for SMEs                           | 14%       | Employment        |
| 3 Riddor flowchart                                      | 10%       | Health and safety |
| 4 Guidance notes to the contract of employment          | 9%        | Employment        |
| 5 Employment status                                     | 9%        | Employment        |
| 6 Health and safety policy                              | 9%        | Health and safety |
| 7 Notice periods  | 8%        | Employment        |
| 8 Recruitment and appointment                           | 8%        | Employment        |
| 9 Fixed-term employees                                  | 7%        | Employment        |
| 10 Points to remember when conducting a risk assessment | 7%        | Health and safety |

Pre COVID-19, the data clearly indicated that advice on employment issues is a priority for SMEs, with 60% of all information downloads related to this category. Information on how to use the staff handbook was in great demand, together with contract of employment guidance.

Health and safety is another area of obvious interest, making up 26% of overall downloads during the period, with the GDPR checklist also proving popular.

A variety of factors will, of course, shape the demand for information needs of SMEs. Seasonal employers might require advice on casual employment at certain times of the year and one-off events like the COVID-19 pandemic will spike demand for related guidance.

Illustrating this point is the changing nature of guidance sought in Q1 2020 with all of the 10 most popular downloads from Law Hub relating to COVID-19. Of these, the vast majority were employment related, with financial issues and insurance also proving popular.

This data provides a useful insight into both the popularity and what information SMEs need, with many struggling with a lack of internal resource or budget to access this guidance.

Research amongst 250 SMEs in March 2020 adds further to the helpline and Law Hub insights.

**Figure 9: Demand patterns**

### Changing demand patterns



Tax and legal considerations very or somewhat important to **92%** of SMEs...



and **57%** would be more likely to purchase business insurance that included a free legal helpline and a tax support helpline. Just **4%** would be **less likely** to buy.

### Legal support: strong SME demand



**Half** of SMEs do not have a regular lawyer they can turn to for advice.



And **48%** would find it difficult to easily access legal advice when needed. Only **32%** didn't feel this was an issue.



Cost would be a barrier to accessing legal advice for **70%** of those responding to the survey.



But demand is high, with **82%** would be very likely or likely to access legal advice that came with their business insurance.

### Specialist tax advice: driving SMEs financial efficiency



**54%** of SMEs need specialist tax advice during a typical year.



And **20%** would look to a dedicated tax consultancy for specialist tax advice. With a further **27%** equally likely to seek advices from their accountant or a specialist firm.



But **75%** felt cost was a barrier to accessing specialist tax advice.

Source: Markel UK research amongst 250 UK SMEs in March 2020

Insurance is the final piece of the jigsaw for SMEs looking to create a stable business operation, and a platform for future success.

## SPECIALIST COVER IS KEY FOR SOME SECTORS



SMEs have a variety of insurance requirements and, whilst a general policy might be right for some, specialist cover will be more appropriate for others. Knowing what to advise can be tricky, especially if a brokerage lacks specialist knowledge in a client's commercial sector.

Care and charity SMEs, for example, operate in a highly regulated environment and can benefit from specialist cover. Technology companies can experience rapid growth, so flexible cover that grows with them might be the one to choose.

## BOLT-ON COVERS FOR SPECIFIC PROTECTION



Bolt-on covers can be vital. All SMEs will benefit from cyber cover, but those handling significant amounts of customer data might particularly warrant the additional protection. Others in regulated environments might value additional management liability protections, should unexpected events occur.

## CLAIMS: THE MOMENT OF TRUTH



Insurance delivers when a claim is made and, as an advisor, the onus is on brokers to recommend insurers that will settle qualifying claims quickly, and with the minimum of fuss.

It is also important to consider add-on features to insurers' claims services. What extra support, for example, does an insurer's claims service provide? Is there a digital approach that smooths out the process for all parties? Does the insurer provide legal support in the event of payment disputes? Explaining these and other benefits to clients can influence buying decisions.

In truth, a broker's role is complex. Understanding product and additional benefit detail available via several products and insurers isn't straightforward. However, those able to do this will successfully position themselves as an advisory firm, differentiated from those at the commodity end of the market.

## PICKING VALUED INSURANCE PARTNERS



Brokers have the difficult job of choosing from a panel of insurers and a variety of products offered by each provider, but there are some useful pointers to help choose partners that can support their growth prospects:

- How does an insurer stack-up in industry surveys amongst brokers that benchmark insurers' service against one another?
- Does the insurer offer specialist covers that might be particularly attractive to your clients?
- Does the insurer provide a range of additional services that will improve your customer proposition?





## Developing a winning customer-value proposition

Transactional commercial business has all but been confined to online channels, leaving advisory brokers with fewer risks to chase. Nevertheless, an Insurance Age<sup>8</sup> report highlighted that the larger brokers – those in the top 100 list – currently focusing on organic growth have been enjoying expansion rates of 4% to 7% per annum.

To maintain positive growth rates such as these, commercial brokers have to continually navigate environmental uncertainties, from Brexit to tech-based competitors, and now COVID-19.

Brokers outside the tech-focused transactional space must look to developing their advisory services and building a differentiated proposition.

But how?

Client interaction for commercial brokers generally happens once a year at renewal where a singular need is met – that of protecting insurable risks. Whilst brokers have the opportunity to advise clients – especially those with more complex risks – about the insurance covers they need, there is little scope for further interaction or added-value support.

In this report, we've seen that SMEs face multiple challenges around tax, legal and insurance, which have only been exacerbated with the onset of COVID-19. Brokers have an opportunity to extend their range of services to meet many of these additional requirements. Clients will be more willing to buy from a single trusted partner and the combination of insurance, tax and legal services creates an important holistic service provision for SMEs, especially given the lack of time to shop around for these services by most business owners.

**By developing an advisory approach, and adding legal and tax services to insurance offerings, brokers can become strategic business partners to their SME clients, and add greater value in the relationship.**

To do this, partnerships need to be built with organisations that can add value to brokers' SME clients and/or an insurer chosen that can support in offering these additional services.

Key to this process is brokers fully understanding their extended offer, allowing them to advise clients on how these additional advisory services can boost value over and above the traditional insurance offering.

<sup>8</sup> <https://www.insuranceage.co.uk/broker/4268441/top-100-2019-state-of-the-market>

# 5

## Proving the concept

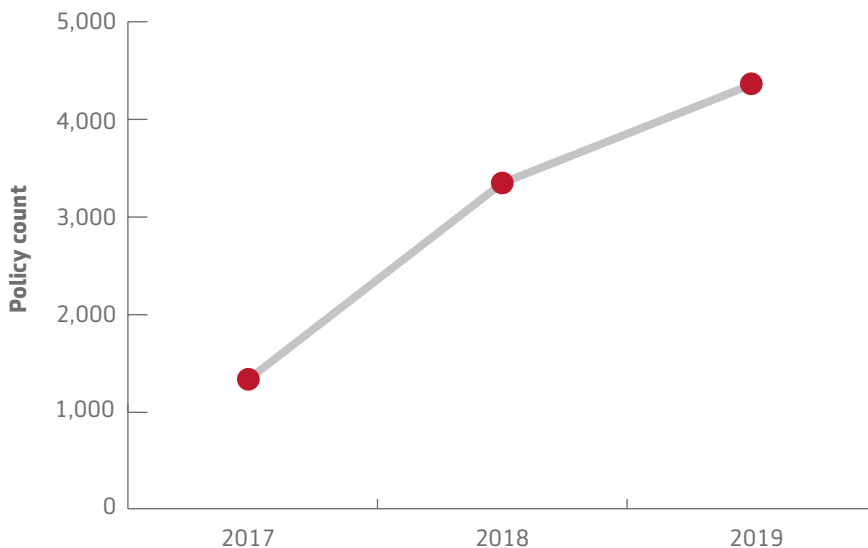
Markel UK is a leading insurer within the UK’s care and charity sector. Our enduring 25-year commitment to this industry has enabled us to create a tailored insurance solution and provide policyholders with a suite of complimentary services which are designed to support their organisation’s development:

- **Markel’s specialist care consultancy** – bespoke care practitioner support is available to policyholders, covering HR, OFSTED and CQC licence disputes, health and safety, safeguarding and many other issues
- **Markel’s in-house tax and law helplines** – handle 250,000+ queries from SMEs each year and provide policyholders with access to professionals who can advise on their tax and legal issues
- **Markel’s legal portal** – policyholders benefit from immediate access to Markel’s dedicated legal portal, Law Hub, for legal and business guides. Law Hub saw over 120,000 visits from March through to May and includes dedicated sections on Covid-19 and care.
- **PR crisis management** is available where a policyholder is subject to adverse media attention

### DELIVERING MEASURABLE RESULTS

Our care and charity book has grown rapidly:

**Figure 10:** Growth chart



We now insure over 10,000 organisations in this sector, including 50% of the UK’s largest 10 not-for-profit organisations. To date, our care consultancy has delivered over 3,000 hours of consultancy to policyholders.

Our approach creates a unique combination of specialist insurance protection and management support which is best illustrated by real-life client-support examples:

### CASE STUDY 1: SUPPORTING WITH LICENCING ISSUES



A children’s care home was judged ‘inadequate’ by OFSTED who proposed cancelling their licence. The home worked with legal experts at Markel Law to challenge the notice. Follow-up work with Markel’s care consultancy resulted in significant improvements. The home is now rated ‘good’.

### CASE STUDY 2: HELPING A CHARITY SUPPORT BENEFICIARIES



A charity was struggling to turn raised funds into deliverables for its beneficiaries. After working with Markel’s care consultancy, the charity’s processes have been overhauled, enabling it to benefit hundreds of in-need people across the UK.

#### Broker testimonials add further added-value evidence:

“With the key strategic role of Jerry Oliver (Head of Consulting – Health and Social Care, Markel), his awareness of compliance and his advice and objectivity, we were able to come to a favourable resolution with OFSTED. The service would no longer be running without Jerry’s expertise and involvement, for which we are hugely grateful.”

Director of specialist residential care broker, Wiltshire

“Markel UK brings to market a unique combination of insurance and business support services that provide policyholders with fundamental business maintenance and growth solutions. It puts the customer and their needs at the heart of everything Markel UK does.”

Leeds and Manchester-based broker

#### Our awards and credentials:



At Markel, we believe you should Expect **More** from your insurance partner, meaning we are committed to supporting brokers and their customers through COVID-19 so they can drive growth in the 'new normal'.

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### Markel (UK) Limited

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