News release

For Immediate Release

Hong Kong SMEs Upbeat, but Cite Weak Economy and Cost Pressures

- *Almost 60% of SMEs operate domestically only, missing out on international expansion and growth opportunities*
- *A third of SMEs say skills shortage hinder digitalisation as a way to reduce costs*
- *Only one-in-five SMEs are insured against business interruptions, despite almost two-thirds saying it is their top concern.*

Hong Kong, 5 March 2019 – Small and medium enterprises (SMEs) in Hong Kong are broadly optimistic about their business despite cost pressures and having a negative outlook on the local economy, according to a new research study.

The study shows that more than half of the SMEs (54%) in Hong Kong expect the economy to worsen in the year ahead, attributing it to increasing international trade disputes (67%), operating costs (54%) and global competition (46%). This, however, does not appear to be reflected in their business expectations as almost three quarters (74%) of SMEs forecast their revenue to remain stable or even increase this year. In fact, only 7% cited an economic downturn or international trade disputes as the biggest top-of-mind challenge for their business.

Commissioned by QBE Hong Kong, a member of the QBE Insurance Group, the independent study entitled "*SMEs: Navigating Opportunities and Risks*" draws on a survey of 415 SMEs conducted in November last year. It paints a picture of Hong Kong-based SMEs squeezed by cost pressures on numerous fronts such as talent recruitment, investment in technology and business-risk mitigation. The findings are significant because Hong Kong has around 340,000 SMEs which account for nearly half of those employed in the city[1].

"At QBE Hong Kong, we are a keen supporter of SMEs, and the study provides valuable insights for us to better support this important segment," said Lei Yu, Chief Executive Officer for North Asia, QBE Insurance. "Concerns over business risks and operating costs are recurring themes in the survey findings. In a world where volatility and unpredictability are now the norm, it is important for SMEs to manage risks and build resilience into their business. We believe by

[1] According to the Hong Kong Government, the 340,000 SMEs in Hong Kong account for 98% of the business units and 46% of those employed in the city – about 1.3 million people. Source: The Trade and Industry Department of Hong Kong, September 2018.

giving SMEs the confidence to achieve their ambitions, it will not only benefit their business, but also the health of our local economy where SMEs are the major driving force."

SMEs' domestic focus creates risk of missing out on international expansion and growth opportunities

The study shows that Hong Kong SMEs' ambitions rest mostly within the domestic market, thereby missing out on expansion and growth opportunities in the international market. A majority of the SMEs surveyed (59%) operate in Hong Kong only, and nearly a half (47%) have no interest in expanding their footprint beyond Hong Kong. For the other half, however, the most popular destinations for cross-border expansion include the Greater Bay Area (46%), mainland China excluding the Greater Bay Area (41%), the U.S. (26%), Singapore (21%), Taiwan (20%) and Japan (18%).

"The economy of Hong Kong, like that of the rest of the world, is going through a tumultuous time. Therefore, it is important for SMEs to go beyond their comfort zone. For SMEs, finding the right protection from an insurer that understands their business plays an essential part in unlocking capital with confidence and helping to create success. We know this after working for so long with so many successful SMEs in Hong Kong," said Yu.

Insurance plays an important role in building confidence, such as professional liability insurance that helps SMEs mitigate risks so they can focus on capitalising on opportunities to grow their business, not the potential barriers holding them back. Some of the top barriers cited by SMEs include insufficient staff or skills to expand international footprint (31%), a lack of knowledge of overseas markets (30%), insufficient funds (25%), and a lack of familiarity with overseas law and regulations (21%).

Cost and skills barriers to digitalisation

Hong Kong SMEs are embracing technology for the digital future. According to the survey findings, eight in ten SMEs are currently using or looking to invest in digital technologies this year, with an aim to raise productivity (39%), make processes more efficient (35%), reduce internal costs (35%), and reduce reliance on manpower (33%). The findings suggest that SMEs are seeking to reconfigure their talent mix and cost structure with more digital specialists and efforts to help better future-proof their business.

Digitalisation, however, is not without challenges – high costs (39%), a shortage of digital and IT skills (30%), data security (26%) and a lack of funds (26%) are the top barriers to digitalisation. In fact, while most of the SMEs (86%) are aware of cybersecurity risks, nearly a quarter (23%) do not have any protection measures at all, such as cybersecurity software and insurance protection.

“Technology is also high on the agenda of the insurance industry. Insurers are looking at ways to enhance the digital experience, and customers want to hear about product offerings which relate to that. One example is our intermediary service platform Qnect that manages insurance transactions online from quotation to policy issuance. This not only creates efficiency for our business partners, but ultimately for our customers as well,” said Yu.

SMEs under-protected in a world of unpredictability

The study reveals that, amid all the global and market uncertainty, SMEs are underinsured. While SMEs are concerned about the loss of income due to business interruptions (62%) and liabilities to third-parties (59%), only a small number of SMEs have the right insurance protection against business interruptions (21%) and liabilities to third-parties (16%). Remarkably, 14% do not have any insurance protection at all, making them vulnerable to risks that could potentially disrupt their business. This is despite 73% of SMEs having experienced at least one business issue in the past year, such as equipment breakdown, damage or loss of inventory, and property damage.

“The findings are significant because the vast majority of SMEs in Hong Kong are clearly underprepared and vulnerable to incidents that could cause a significant business interruption,” added Yu. “Given that they employ nearly half of the workforce in the city, the consequence could be profound for the company and possibly the economy at large.”

About the Research Study

The “*SMEs: Navigating Opportunities and Risks*” research study was conducted by ORC International on behalf of QBE Hong Kong. The study drew on an online survey of 415 Hong Kong SMEs in November last year. Among the SMEs surveyed, 76% were in the service industry offering wholesale/retail, health, arts and creation, IT, finance, education, real estate, professional services, transport, F&B, accommodation and more. The remaining 24% came from the non-service industry, mainly manufacturing, construction and engineering. The SMEs in manufacturing sector employ up to 99 employees, while the non-manufacturing ones have up to 49 employees.

About QBE Hong Kong

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