

Small Businesses, Reimagined: COVID-Related Innovation and the Role of Insurers



Small business owners have always faced many challenges and obstacles on their road to success. Clientele, expenses, supply and demand, income, and regulations are just a few of the factors that can affect them as they work to build their operations.

In 2020 and 2021, the COVID-19 pandemic brought new and unforeseen challenges. Social distancing, masks, outdoor dining, governmental oversight and regulation, and supply chain issues caused many small businesses to navigate in uncharted territory. Some businesses found ways to stay afloat and adapt to their new environment, while others weren't as fortunate.

Agile business operators have developed unique ways to innovate and stay resilient through the indefinite period of COVID-19. Insurers would be wise to keep on top of these ongoing changes, so that they can continue to serve the evolving needs of their commercial policyholders.

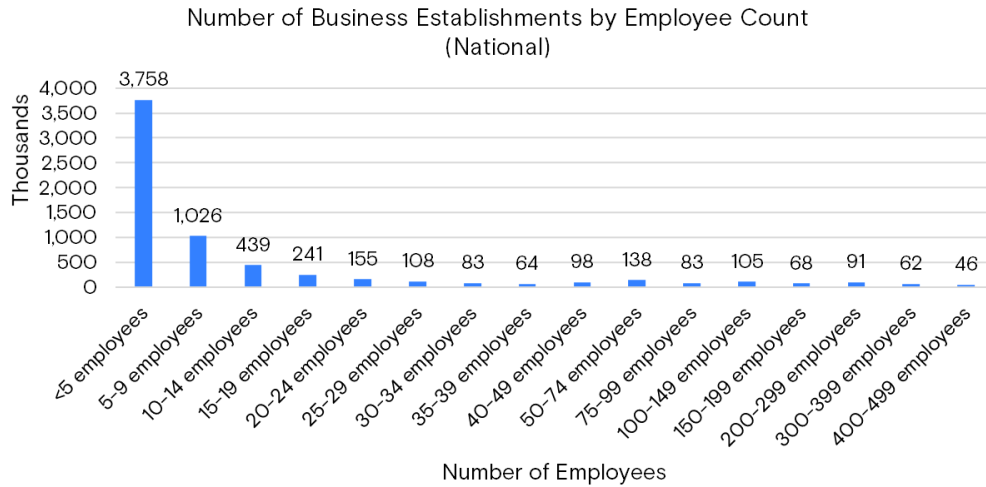
What Is a Small Business?

The definition of "small business" can vary. Within the insurance industry, for example, different companies have different classifications.

The US Small Business Administration (SBA) generally considers an enterprise to be a small business if it has fewer than 1,500 employees and a maximum of \$38.5 million in average annual receipts.¹ Other requirements must be met as well – the SBA also considers factors such as the size of the firm, start-up costs and entry barriers, level of competition, and the way firms are distributed by size. Specific regulations can be found in Part 121 of the Small Business Size Regulations.²

¹ "Size standards methodology white paper," U.S. Small Business Administration, <https://www.sba.gov/document/support-size-standards-methodology-white-paper>, accessed November 2021.

² Part 121 Small Business Size Regulations, <https://www.ecfr.gov/current/title-13/chapter-1/part-121>, accessed November 2021.

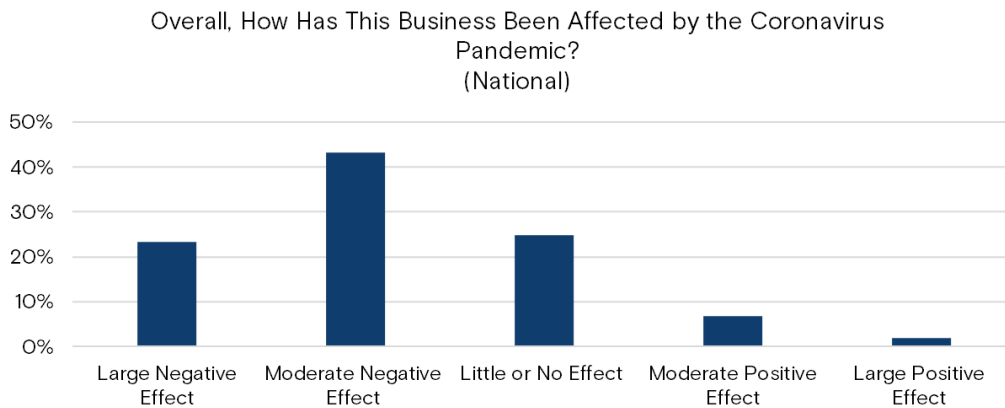


Source: [Dataset] U.S. and States, North American Industry Classification System (NAICS), detailed employment sizes (U.S., 6-digit and states, NAICS sectors), US Census Bureau, [Census.gov/data/tables/2018/econ/susb/2018-susb-annual.html](https://www.census.gov/data/tables/2018/econ/susb/2018-susb-annual.html), Revised October 18, 2021

Small businesses, as defined by the SBA, play an outsized role in the US economy – they make up more than 99 percent of businesses in the country and employ 60 million people.³

The Effects of COVID-19 on Small Businesses

Beginning in April 2020 and continuing through the fall of 2021, the United States Census Bureau conducted a series of surveys designed to measure the effect of the COVID-19 pandemic on US small businesses. The Small Business Pulse Survey (SBPS) poses 21 questions about business conditions. According to the survey, a significant number of small businesses have experienced large or moderate negative effects.⁴



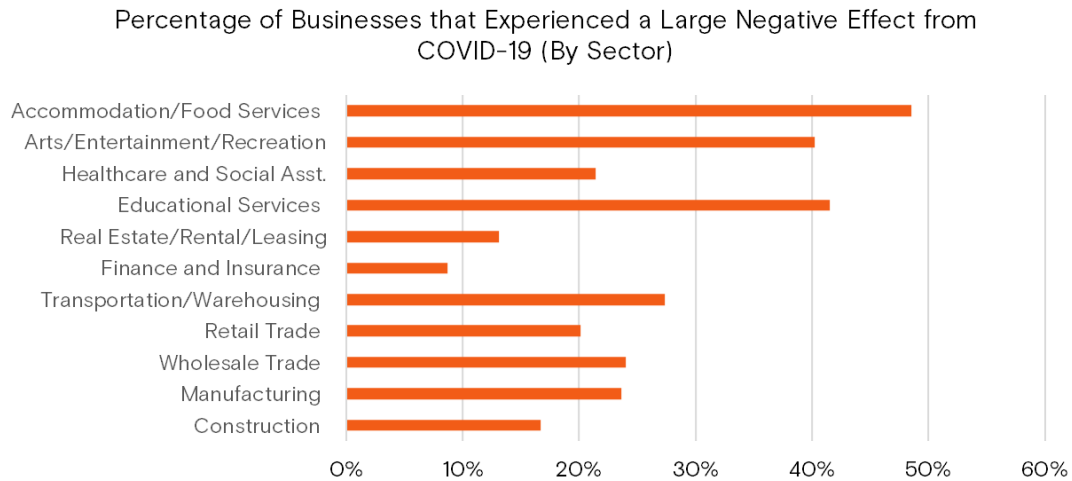
Source: [Survey] Overall, how has businesses been affected by the Coronavirus pandemic? U.S. Census Small Business Pulse (Data Collected 10/11/2021-10/17/2021) https://portal.census.gov/pulse/data/?utm_campaign=20211022mspuls1ccdtanl&utm_medium=email&utm_source=govdelivery

³ Frequently Asked Questions About Small Business, 2020, U.S. Small Business Administration, <https://cdn.advocacy.sba.gov/wp-content/uploads/2020/11/05122043/Small-Business-FAQ-2020.pdf>.

⁴ Small Business Pulse Survey, U.S. Census Bureau, August 5, 2021, https://portal.census.gov/pulse/data/downloads/small-business-pulse-survey-questionnaire_08_05_2021.pdf.

It may be possible that COVID-19 intensified challenges that already existed – circumstances such as decreased demand, increased health and compliance requirements, necessary technology upgrades, and the adoption of new business models were already a resource drain for many small businesses before the pandemic.

That being said, the impact of the pandemic has also varied by sector. Highly affected sectors include accommodation/food services, educational services, entertainment and recreation, and transportation/warehousing.



Source: [Survey] Overall, how has businesses been affected by the Coronavirus pandemic? U.S. Census Small Business Pulse (Data Collected 10/11/2021-10/17/2021) https://portal.census.gov/pulse/data/?utm_campaign=20211022mspuls1ccdtanl&utm_medium=email&utm_source=govdelivery

Adaptation and Innovation

With the slowdown or halt of many businesses during COVID, owners had the chance to look at their business models and evaluate potential changes and improvements.

Today, more businesses are working from home but still functioning as a fully interactive team. With this shift, owners and employees have reported a multitude of benefits. Working remotely allows for an improved work/life balance and more flexibility to handle family and personal matters. It also allows employees to save time, money, and vehicle maintenance due to decreased commuting. In addition, some employees have reported that the pandemic has allowed for enhanced disability accommodations that were not previously available in the workplace.⁵

The pandemic has also provided opportunities for small business owners to cut costs. Utilities; physical supplies such as paper, printing, and materials; and cleaning or maintenance costs have diminished with the rise in remote work settings. Leases for significant office spaces and equipment are major costs that small business owners have reconsidered.

As a result, the pandemic has had a devastating effect on the commercial real estate market. In April and May of 2020, just under 60% of the rent owed to landlords was actually paid by struggling retailers, as restrictions forced them to close their doors.⁶ Retailers began negotiating leases that include a base rent fee and additional monthly adjustments based on the sales for that month. Retailers are continuing to look for ways to adjust costs as they work to stabilize their businesses.

⁵ Smale, Thomas, "How the Pandemic-Related Changes Small Businesses Made are Impacting Their Bottom Lines – In a Good Way," Entrepreneur, <https://www.entrepreneur.com/article/367324>.

⁶ Edelson, Sharon, "Rethinking Leases: The Pandemic is Changing How Retailers Want to Pay Rent," Forbes, 6/30/2020, <https://www.forbes.com/sites/sharonedelson/2020/06/30/rethinking-leases-the-pandemic-is-changing-how-retailers-want-to-pay-rent/?sh=580b8432d68f>.



One of the most significant challenges that many small businesses faced was maintaining a sense of interaction and presence with their clients and the public, despite the multitude of restrictions and mandatory closings. In response, many companies shifted their strategy and chose a more virtual approach. The growth in ecommerce has allowed them to reach a broader audience and increase the customer base that they had pre-COVID.

In many ways, the pandemic has forced businessowners to stop, refocus, strategize, and reorganize. Many took the opportunity to revisit their plans and processes and refresh their images and commitments. Additionally, many small businesses stepped out of their comfort zones and ventured into new territories and markets, offering new products and services that they didn't before, including new ideas for shipping and delivery.

Reopening: What Challenges Are Businesses Facing Today?

Many factors are challenging small businesses as they plan and implement strategies to get back to a new level of 'normal.' Re-opening in phases has required efficient methods of communication and proper training so that everyone is clear on how rules will be enforced. For some, there may be the added costs of safety regulations such as sanitation stations, gloves and masks, thermometers, plexiglass barriers, and upgraded online systems. Some businesses have found that passing a 'COVID-19 surcharge' on to the customer has helped to alleviate that additional burden.

Staffing issues have emerged as a very common problem as well. Finding employees that are willing to come back and work for the wages that enable a business to thrive can be difficult. As businesses evaluate this issue, they will need to remain flexible. Work-from-home policies, when possible, can be helpful for families that struggle with transportation, childcare, or online schooling situations.

Supply chain risk is another area of growing concern. Disruptions in facilities, available workers, and manufacturing, along with raw materials shortages, congested shipping routes, container prices, truck driver shortages, and railroad bottlenecks have all caused shortages. Consequently, delivery delays, backlogs, increased transportation expenses, and rising commodity prices may continue to impact small business owners. It is likely that the problem will not be going away soon.

Finally, in the area of insurance, there is the question of how courts have treated challenges to the denial of business interruption-related claims advanced by businesses due to COVID-19 closure orders. To date, court decisions have favored insurers that denied coverage based on virus exclusions or lack of "physical" damage. However, there will still be a fair amount of future litigation tied to these issues. While the issue of business interruption coverage and its availability is beyond the scope of this article, it is a significant consideration for small business owners.

How Insurers Can Respond

The impact from the pandemic on small businesses has varied based on the type of business and where they are located. Some businesses have fully reopened, and others are at the beginning stages. As insurers, it is important to consider the resilience of these businesses and understand how they have changed to adapt and survive during COVID.

Of course, we will need to consider how the exposures have changed, but should we also consider how our commercial insurance products could change to fit the needs of these transformed businesses?

Here are just a few of the ways insurers can provide support and guidance to small businesses as they reimagine and rebuild their operations:

- Check in with customers, take the time to thoroughly review their coverages and exposures, and ensure that business assets and property are re-inventoried and insured to value
- Educate policyholders on the importance of cyber safety and encourage them to properly cover cyber exposures
- Remind businessowners to consider changes to their operations due to COVID-19 and make sure new exposures are properly covered
- Adapt underwriting guidelines and coverage forms to respond to changes in business when within your organization's risk appetite
- Provide additional support to customers, educating them about their coverage and what is available to them
- Engage with the small business community, offering support on matters that impact them
- Offer money-saving coverage options to customers that need to reduce costs



Conclusion

The pandemic has likely changed people, processes, and systems forever, but the resilience, creativity, strength, and ambition of many small business owners has helped them stay afloat and even thrive during these difficult times.

As they continue to change strategies and develop innovative solutions, it is important for insurers to keep pace so that they can continue to serve as a source of support for these commercial policyholders.

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