

Insurance Cover for Business

Business Information Factsheet

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Introduction

Every business is vulnerable to risks such as claims for compensation, contractual disputes, accidental damage, fire, flood or theft. It is important for business owners to consider the risks their business may face and take out appropriate insurance cover. Some types of business insurance, such as employers' liability insurance and motor insurance, are required by law.

This factsheet introduces the main types of business insurance available, indicating those that are legal requirements.

Employers' liability insurance

Employers must have employers' liability insurance to cover costs arising from compensation claims by workers who suffer illness or injury as a result of their job. (Workers include casual, seasonal and temporary staff as well as permanent employees and trainees. Business owners should also tell their insurer if they use volunteers.) The legal minimum level of insurance cover is £5 million, but most policies automatically provide cover of £10 million.

Employers' liability insurance is mandatory for most employers, but there are exceptions, such as:

- Business owners who only employ close members of their family (unless their business is registered as a limited company).
- Companies where the owner is the sole employee and owns at least half of the company shares.

Employers can be fined £2,500 for each day that they do not have appropriate insurance. Employers must display their current certificate of employers' liability insurance where their employees can easily access it. Failure to do so can result in a fine of up to £1,000.

The Health and Safety Executive (HSE) has published guidance about employers' liability insurance. Go to www.hse.gov.uk/toolbox/managing/insurance.htm for details. See also BIF 375, Employers' Liability Insurance for more information.

Motor insurance

All vehicles that are used for business purposes must, by law, be covered by third-party motor insurance under a policy that includes business use. Third-party insurance covers the cost of claims made by others for personal injury or damage to their vehicles or property. The insurance must cover at least £1 million for damage to property and an unlimited amount for personal injury.

Most firms also insure against vehicle loss or damage due to fire and theft, or take out comprehensive insurance cover.

Anyone using their privately-owned vehicle for business purposes must tell their insurer. Employers have a legal obligation to check that employees who use their own vehicles for business purposes have the required insurance cover.

Employers are responsible for taking out cover for any vehicles owned by the business. Some firms will need specific commercial motor insurance policies to cover vans, taxis, coaches or vehicles used on farming or industrial premises.

Public liability insurance

Public liability insurance covers the cost of compensation claims arising from death or injury to members of the public, customers and suppliers, or damage to their property occurring as a result of business activity.

With the exception of firms offering horse riding to members of the public, public liability insurance is not mandatory. However, this type of insurance is advisable for any business owner who has contact with members of the public or who visits clients or suppliers on their property.

Local authorities and other organisations may refuse to deal with a business that does not have adequate public liability cover.

Product liability insurance

If someone suffers injury or damage to property as a result of a fault in a product, they can claim compensation from the producer. Product liability insurance covers the cost of such claims.

The main responsibility for product safety lies with producers rather than distributors and retailers. 'Producers' means manufacturers, importers, firms that supply own-brand products and those that modify products by customising, servicing or repairing them.

Product liability insurance policies may not cover faults that occur as a result of poor workmanship or inadequate quality-control measures.

Professional indemnity insurance

Professional indemnity insurance covers the cost of claims made by anyone who has suffered loss or damage as a result of negligent advice or services supplied by a business. For some professions, this type of insurance is a compulsory requirement imposed by regulators and professional bodies. For example, solicitors, accountants, architects, chartered surveyors and financial advisers are all required to have professional indemnity insurance.

The amount of cover required varies from profession to profession. Solicitors, for example, must have at least £2 million cover for any single claim. Any business owner who offers professional advice, knowledge or skills should consider whether they need to take out this type of insurance.

Legal expenses insurance

Legal expenses insurance covers the cost of pursuing legal action or defending cases brought by others against the business. It covers legal expenses related to employment disputes, property disputes, tax investigations and contract disputes. As well as paying lawyers' fees, expert witness fees and court costs, the insurer will often provide access to a support line offering legal advice.

Legal expenses insurance can be taken out 'before the event', in case any future legal action should arise, or 'after the event' if the business owner is already involved in legal action and wishes to take out cover against the costs associated with losing their case.

Employers' liability insurance and many motor insurance policies cover some types of legal expenses, and business owners should take this into account when deciding whether to take out additional legal expenses cover.

Buildings insurance

Buildings insurance covers the cost of repairing or rebuilding business premises if they are damaged. It covers risks such as flooding, fire, storms, subsidence and riot. However, it doesn't cover general wear and tear. Business premises should be insured for the amount it would cost to rebuild them, including site clearance and professional fees, rather than for their market value.

Buildings insurance is not required by law, but it will usually be required by a mortgage provider as a condition of providing a commercial loan. If business premises are rented, the landlord has responsibility for buildings insurance, but the tenant should check with the landlord that the building is insured before signing the lease.

Anyone that runs their business from a home base should check that their home insurance covers them for business activities. See BIF 17, A Checklist for Running a Business from Home.

Contents insurance

Contents insurance pays the cost of theft of or damage to business stock or equipment. It is not legally required, but is advisable for any business that holds stock or expensive equipment. Stock should be insured for the amount it costs to purchase it, not for its sale price.

It is important to check that a policy covers all stock on the premises at any time. For example, if there is more stock than usual in the run-up to Christmas or at other key times of the year, this should be covered in the policy. Firms with stock that is vulnerable to spoilage may need to arrange specific stock cover.

Business equipment can be insured either with a 'replacement as new' policy, which means that an item that has been stolen or damaged beyond repair can be replaced with a new one, or an 'indemnity' policy, which takes wear and tear into account and pays out at the item's current value.

Contents that are stored in motor vehicles may be covered by some comprehensive motor insurance policies.

Business interruption insurance

Business interruption insurance covers loss of income when an unforeseen event means that a business can't carry on as usual. It will compensate the business for shortfalls in pre-tax profit and any increased business costs that arise from the interruption.

Most policies cover interruption caused by the breakdown of essential equipment or damage to premises or equipment due to flooding, fire or storm. Some may also cover interruptions due to other circumstances, such as being unable to get into the business premises.

Business interruption insurance is often included as part of a commercial insurance package or as an optional extra to buildings and contents insurance.

Cyber insurance

Cyber insurance protects business owners against loss of income or reputation caused by cyber crime or by damage to computers or computer networks. It can cover loss of or damage to digital assets such as data or software; business interruption resulting from networks going offline; cyber extortion (threats to damage or release data if a ransom isn't paid); reputational damage arising from breaches of privacy; and electronic theft. It can also cover third-party losses, usually losses sustained by customers as a result of damage to computers or networks.

Many firms use information technology (IT) sufficiently to make some level of cyber insurance advisable. If a business isn't heavily dependent on IT, an optional extension to other forms of insurance such as business interruption or professional indemnity insurance might be adequate.

Goods in transit insurance

Goods in transit insurance pays out when goods are lost, stolen or damaged while they are being transported, either by employees or by a carrier.

Where business goods are only carried occasionally, or in small quantities it might be possible to get adequate cover as part of a comprehensive motor insurance policy. Firms that carry goods regularly (for example, to sell at trade fairs) are likely to need a separate goods in transit insurance policy.

When choosing a policy, it is important to look out for any maximum limit of cover for each vehicle, or each batch of goods in transit, and make sure it meets the firm's needs.

Money insurance

Firms that regularly handle large amounts of cash may take out insurance cover against loss of money, either from the business premises or while cash or cheques are in transit. For example, shop owners will need money insurance if they take in a large amount of cash each day which is temporarily stored on the premises and then taken to the bank. Policies will typically cover money in transit, money on business premises, in or out of safes, money temporarily in the home of an employee or director, and money in safety deposits. Policies may also compensate for injury to employees as a result of assault during theft or attempted theft of business money. Money insurance is often offered as part of a commercial insurance package.

Trade credit insurance

Trade credit insurance provides cover for a business when trade customers fail to pay, or fail to pay on time. It can be useful for small firms as they are particularly vulnerable to insolvency resulting from late-paying or non-paying trade customers. Trade credit insurance pays out a percentage of outstanding debt (usually about 90%) when a customer of the insured business is either declared insolvent or continues to default on payment longer than a period specified in the policy.

A business can take out trade credit cover for all their customers, or just for individual accounts. For example, a business owner might take out trade credit cover for a single customer if the contract with that customer involves a financial outlay large enough to threaten the survival of their business if the customer does not pay. See BIF 465, A Guide to Trade Credit Insurance for more information.

Loss of licence insurance

Loss of licence insurance covers firms against financial losses resulting from the loss of a licence to sell alcohol. It usually provides cover against a reduction in gross income or a reduction in the value of the business or its premises in cases where the licensee has lost their licence to sell alcohol for reasons beyond their control.

Pubs, restaurants, hotels, guest houses and shops whose viability is dependent on the sale of alcohol need to consider this type of cover. Loss of licence insurance is often sold as an optional extension to shop insurance, licensed trade insurance and guest house insurance policies.

Key person insurance

Key person insurance provides cover in the event of the death of an individual so important to the operation of a business that it would suffer greatly from their absence - either through a reduction in sales and profits or because workloads for remaining staff would increase significantly. If the insured individual dies, the policy pays a lump sum to the business that can be used to help it recover. Policies can be extended to cover specific critical illnesses that may prevent a key person from working. It may be suitable for firms that rely heavily on just one or two people or for those employing highly skilled individuals whose expertise would be hard to replace.

Directors' and officers' liability insurance

Directors' and officers' liability (D&O) insurance covers the costs of defending company directors and key managers against charges that they have committed wrongful acts. (These include allegations of breaches of trust, breaches of duty, making misleading statements, neglect, error and wrongful trading). D&O insurance only covers claims against individuals carrying out duties as company directors or officers - it does not cover claims against the business as a whole.

Income protection insurance

Income protection is a type of insurance that can pay a business owner an income if they are prevented from trading as a result of an accident or serious illness. A policy will typically pay out an income of between 50-65% of an individual's pre-tax earnings, though the amount may be reduced if the individual is receiving any payments from:

- Employment (including sick pay).
- Self employment.
- Other insurance policies.
- State benefits.

Self-employed individuals' earnings will be based on the average annual pre-tax profits from their business. Company directors can be insured under an Executive Income Protection plan, which is taken out by the company and can also include cover for any dividends paid by the company. Insurers will consider family medical history and cover may exclude payments for certain illnesses.

See BIF 408, A Guide to Income Protection Insurance for more information.

Hints and tips

- Some insurers offer commercial insurance packages that include a range of policies. These may be tailored to the needs of a particular business. Examples of specific business packages include tradesman insurance, restaurant and bar insurance, and shop and office insurance.
- A reputable insurance broker can help a business owner identify the best policy to suit their needs. See BIF 27, Choosing and Using an Insurance Broker.
- The Association of British Insurers (ABI) provides a directory of members at www.abi.org.uk and the British Insurance Brokers' Association (BIBA) provides a directory of brokers and types of policies for businesses at www.biba.org.uk/CustomHome.aspx.
- All insurance companies should be authorised by the Financial Conduct Authority (FCA, www.fca.org.uk). Business owners can check that an insurer is authorised by calling the FCA's enquiry line (0800 111 6768) or by searching the financial services register (www.fca.org.uk/firms/systems-reporting/register).
- Trade association membership may allow business owners to benefit from reduced premiums for insurance policies covering their trade or sector. Go to the Trade Association Forum (www.taforum.org) for a list of trade associations and their contact details.

Further information

To access hundreds of practical factsheets, market reports and small business guides, go to:

Website: www.scavenger.net

BIF 17 A Checklist for Running a Business from Home

BIF 27 Choosing and Using an Insurance Broker

BIF 375 Employers' Liability Insurance

BIF 404 An Introduction to Indemnity Insurance

BIF 408 A Guide to Income Protection Insurance

BIF 465 A Guide to Trade Credit Insurance

Useful publications

'Employers' Liability (Compulsory Insurance) Act 1969: A brief guide for employers'

HSE

Website: www.hse.gov.uk/pubns/hse40.pdf

'Insurance for Small Businesses: a guide to protecting your business'

Association of British Insurers (ABI)

Website: www.abi.org.uk/~media/Files/Documents/Publications/Public/Migrated/Liability/Insurance%20for%20Small%20Businesses%20a%20guide%20to%20protecting%20your%20business.pdf

Useful contacts

The Association of British Insurers (ABI) is a trade association for UK insurance firms that has a useful guide to business insurance on its website.

Tel: (020) 7600 3333

Website: www.abi.org.uk

The British Insurance Brokers' Association (BIBA) represents insurance brokers and intermediaries. Their website includes a jargon buster, insurance guides and a 'find a broker' facility.

Tel: 0870 950 1790 (find a broker line)

Website: www.biba.org.uk

The Financial Conduct Authority (FCA) regulates the financial services industry and lists authorised insurance companies on its financial services register.

Tel: 0800 111 6768

Website: www.fca.org.uk

The Trade Association Forum provides an online directory of trade associations in the UK.

Tel: (020) 3170 0898

Website: www.taforum.org

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Cobweb Information Ltd, Unit 9 Bankside, The Watermark, Gateshead, NE11 9SY.

Tel: 0191 461 8000 Website: www.cobwebinfo.com