

Business insurance

The purpose of this guide is to review the main types of business insurance available to small and medium sized businesses. This advice is for guidance only and it is important to seek appropriate professional advice before making any final decisions.

WHERE DO I START?

The list of possibilities for business insurance seems almost endless, and you can almost hear the cry, "Where do I start?" and perhaps more to the point, "Where do I stop?"

Clearly businesses need to be judicious in choosing the cover they take out. Insurance premiums can represent a significant cost to a business and with premiums seemingly rising year on year it is important to control this by not spending more on insurance than you need to.

CONDUCTING AN INSURANCE REVIEW

Rather than approaching business insurance in a piecemeal fashion, we recommend conducting a general review in conjunction with a

comprehensive risk assessment process. This will not only ensure that you cover all the important areas and not leave your business unnecessarily exposed, but also enable you to examine ways to manage your risks and thereby hopefully reduce your insurance bill.

In assessing your insurance needs, there are three main concerns:

1. Finding the right type of insurance
2. Determining the right level of insurance
3. Paying the right price for your insurance

The choices you make here can have a considerable impact on your business, so it is important that your decisions are well informed and where appropriate based on professional advice.

Below we list the main types of insurance and indicate in what circumstances they might be needed:

MANDATORY INSURANCE

If you are an employer it is a legal requirement for you to have employers liability insurance, which protects you against claims from your employees for sickness or injury they might incur while working for you.

Some employers are exempt from this requirement; but again if you think you might be in this category, do take professional advice first.

It is also compulsory for businesses to have at least third party motor insurance for any of their vehicles they use on the road, but, of course, you might want to consider taking out higher levels of cover. If your business makes use of private vehicles check that the individual's insurance is extended to cover this use.

Another type of insurance that can be mandatory is professional indemnity insurance, which covers professionals against claims arising from giving negligent advice. In some professions this is discretionary but in others such as architects, accountants, solicitors, surveyors, insurance brokers and financial advisers it is mandatory. Your professional body or trade association is a good source of advice and information here.

In general, public liability insurance is discretionary, but in a few cases such as horse riding establishments it is legally required. This insurance covers claims for death, injury, loss or damage caused to members of the public by any of your business activities.



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OTHER LIABILITY INSURANCE

Besides these, there are other forms of liability insurance you might want to consider, including:

Product liability insurance, which provides cover against anyone being hurt or killed, or their property damaged by something you have produced, sold or repaired. This cover is often included with public liability insurance.

Directors insurance, which protects directors and officers of a limited company to the extent that they might be held personally liable for their actions.

INSURING YOURSELF AND YOUR PEOPLE

There are various types of insurance you can take out to cover both yourself and your key employees in the event of you or they being unable to work. This is particularly important in a business that relies upon a few critically important individuals.

Key person insurance will compensate your business for the loss or unavoidable absence of a key person. You might also consider, critical illness cover or income protection insurance for certain individuals.

Finally, you might want to offer private health insurance to some of your employees as part of a benefits package.

GENERAL INSURANCE

Businesses will generally want to take out some cover for the nuts and bolts of their operation such as premises, contents, equipment, and goods in transit, and also for vulnerable elements of their financial operation such as credit insurance, cash handling, and perhaps general employee fidelity. There might also be other more specialised types of insurance relevant to your operation. See panel for examples of these.

You might also consider taking out business continuity insurance to cover any losses arising from events such as floods, strikes, or systems failures that might cause serious disruption to your business continuity.

If you work from home you will need to check with your insurers what is covered by your domestic insurance and what extra cover you will need for your business activities – and if customers or members of the public visit your house as part of your business activities you might want to consider public liability insurance.

DETERMINING THE RIGHT LEVEL OF INSURANCE

Deciding on the right level of insurance is a delicate balancing act, weighing up the level of risk against the cost of the premiums. Having too little insurance can be risky, and in some cases illegal, but being over insured can be detrimental to your profitability.

In some cases, such as employers liability insurance, minimum levels of cover are set by law, but even here you will need to decide whether to take out higher levels of cover or remain with the minimum requirement.

Basically, taking out insurance is a way of transferring risk from your business to the insurer – and the premium you pay is the cost of that offset. So to determine whether you need a particular type of insurance, and if so at what level of cover, you can conduct a risk assessment.

PAYING THE RIGHT PRICE FOR YOUR INSURANCE

With UK businesses becoming increasingly concerned about the rising cost of insurance, more and more SMEs are showing a willingness to shop around to achieve a more competitive price.

Recent reports suggest that a significant number are even looking to buy insurance directly from the provider, thereby avoiding the intermediary's fee. While this might prove practicable in some cases, again we would emphasise the importance of being properly advised before making a purchasing decision.

One of the main considerations for insurers when assessing premiums is the extent to which a business has an effective risk management policy in place.

Demonstrably taking practical steps to reduce levels of risk can significantly strengthen your hand in negotiating lower premiums. It is particularly important to ensure that you are in full compliance with all relevant regulations, especially Health and Safety. Examples of other steps you might take to reduce risks are:

- A regular maintenance programme for all premises, plant, and equipment
- Comprehensive on-site security measures
- Adequate vetting and training of employees
- A regularly monitored IT security system, including user permissions and access controls
- Back up procedures for all essential data
- Internal financial controls

Having a robust and up-to-date business continuity plan in the event of a disaster can also help to reduce insurance premiums.

REGULAR REVIEWS

Your insurance needs will fluctuate in dependence upon both internal and external factors, and it is important that you review them and your level of cover on a regular basis. At the very least we would recommend an annual across the board review.

If you would like further advice or assistance in this area, please feel free to call, or contact us to arrange a meeting.

INSURANCE CHECKLIST

Below is a list of the main types of insurance businesses. Check those you think you might need to consider for your business:

- | | |
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| <input type="checkbox"/> Employers' liability* | <input type="checkbox"/> Motor vehicle** |
| <input type="checkbox"/> Professional indemnity*** | <input type="checkbox"/> Public liability**** |
| <input type="checkbox"/> Product liability | <input type="checkbox"/> Directors and officers |
| <input type="checkbox"/> Premises | |
| <input type="checkbox"/> Glass and sign (often not included in premises) | |
| <input type="checkbox"/> Contents (including stock, plant, and business equipment cover) | |
| <input type="checkbox"/> Engineering (covers machinery, including computers, against breakdown) | |
| <input type="checkbox"/> Data processing | <input type="checkbox"/> Tradesman's tools |
| <input type="checkbox"/> Hazardous activities | <input type="checkbox"/> Pollution risk |
| <input type="checkbox"/> Goods in transit | <input type="checkbox"/> Employee travel |
| <input type="checkbox"/> Fidelity guarantee (insures against losses resulting from staff dishonesty) | |
| <input type="checkbox"/> Trade credit | <input type="checkbox"/> Money (cash loss) |
| <input type="checkbox"/> Business interruption | <input type="checkbox"/> Key person |

* Mandatory for all employers, unless exempt

** Mandatory where a business uses its own vehicles on the road

*** Mandatory in certain professions such as law, accountancy and financial services

**** Mandatory in a few cases, such as horse riding establishments