



Insurance Advice for Businesses

If you are in business you will need insurance; without it your livelihood is at risk. An unexpected loss could cause financial hardship and destroy years of hard work and by law, some types of insurance are compulsory.

What types of insurance should I consider for a business?

For businesses there are three main areas where you need to consider the insurance requirements of your business. These are:

Insurances that protect against loss or damage caused to your business' property or trade by adverse events. Specific areas of insurance in this group may include cover for:

- Property – buildings and contents
- Engineering failure
- Theft
- Money
- Goods in transit
- Business interruption
- Trade Credit Insurance
- Motor vehicles
- Legal Expenses

And a variety of other risks

Insurances that cover your business's legal liabilities in the event of some aspect of your business causing damage or harm to a third party or their property. Employers' Liability insurance is compulsory by law, but other areas of liability that you may need to consider insurance cover for include:

- Public and Product liability
- Motor Vehicle liability

Insurances that protect both you or your employees against the consequences of serious illness, injury or death, and the effects these events could have on your employees, on their families, and on your business. Areas of insurance you might consider are -

- Personal accident and sickness insurance
- Income protection insurance
- Private medical insurance
- Life insurance

- Pensions

Information on all of these areas is detailed below:

Property

Buildings and contents can be insured against fire, lightning, explosion of gas and boilers used for domestic purposes without the addition of "special perils" such as explosion, riot, malicious damage, storm, flood, impact by aircraft, road and rail vehicles, escape of water from tanks or pipes and sprinkler leakage.

"All risks" insurance gives wider cover including any accidental damage or loss not specifically excluded. However "all risks" will not cover wear and tear, electrical or mechanical breakdown and gradual deterioration that will be specifically stated in the policy document.

How much for should I insure for?

Buildings – the business premises should be insured for the full rebuilding cost (including professional fees and the cost of site clearance) and not just for the market value. You may need expert advice to calculate the rebuilding cost, which often differs significantly from market value.

If your business is in leased premises we suggest that you check with the building owner that they have adequate insurance provision.

Contents – your stock should be insured for its cost price without any addition for profit. Provision can be made for seasonal stock fluctuations. Plant and business equipment can be insured on either a "replacement as new" or an "indemnity" basis. If indemnity is chosen, wear and tear will be taken into account when settling any claims.

Engineering

Engineering insurance provides cover against electrical or mechanical breakdown for most machinery, including computers. By law, many items of plant such as boilers, lifts and lifting machinery must be inspected regularly by a qualified person. Insurers can arrange to provide this service.

Theft

Contents are usually covered against theft providing there has been forcible and violent entry to or exit from the premises. Damage to the building resulting from theft or attempted theft will also normally be covered. Theft by employees is usually not covered – cover against employee dishonesty can be arranged by a fidelity guarantee policy – see the information in other risks.

Money

Money insurance is on an "all risks" basis and covers cash, cheques, postage stamps and certain other negotiable documents.

Different limits will apply to money on the premises in and out of business hours, in safes, at the homes of directors or employees and in transit. There may be requirements in the policy relating to safe keys and the method of transit.

Personal assault cover may be included, which will provide compensation for you or your employees following injury during theft or attempted theft of money.

Goods in transit

Goods in transit insurance covers goods against loss or damage while in your vehicle or when sent by carrier. The sum insured may be a limit for each vehicle or any one consignment.

Business interruption

Even minor damage to your property could seriously disrupt your business leading to loss of income and extra expenses.

Business interruption insurance will compensate for the short-fall in gross profit together with paying any increased working costs and extra accountants' fees incurred.

When arranging this insurance you will need to estimate the maximum time needed to get your business working normally following the most serious damage. The insurers will ask for an estimate of your anticipated gross profit. If an auditor later certifies an actual figure materially lower than this estimate, a return of premium is normally given.

Trade Credit Insurance

Trade credit insurance covers businesses against the risk of bad debt due to the insolvency or default of their buyers. Thousands of firms trading within the UK are covered, but this class of business has perhaps been better known for its application to export trade.

This cover can be an important tool in credit management and can also provide a replacement of working capital when bad debts and late payment impact on cash flow. In addition, credit insurers provide complementary services such as credit assessment and collections management.

The ABI Trade Credit Committee works with the Better Payment Practice Group (BPPG) to improve payment culture within the UK. More information on the BPPG can be found at: www.payontime.co.uk.

Motor vehicles

By law you must insure your legal liability for injury to others and damage to their property arising from the use of vehicles on the road – third party insurance.

Most business policies are either comprehensive or third party, fire and theft. Comprehensive cover includes damage to your vehicle. The third party section of a commercial vehicle policy will meet your legal requirements to cover your liability to others.

Your insurers will require full details of the types of vehicle and their usage, details of goods and samples carried, details of drivers and, where applicable, the maximum number of fare-paying passengers.

If you own more than five vehicles, a fleet policy may be arranged. The claims experience of your fleet will provide the main rating factor in assessing the cost of the policy.

Legal expenses

The cost of taking or defending legal action could place a considerable financial strain on your business. Legal expenses insurance (LEI) covers legal costs such as solicitors' fees and expenses, the cost of barristers and expert witnesses, court costs and opponent's costs if awarded against you in civil cases.

Types of dispute normally covered include contractual and employment matters, for example claims for unfair dismissal; racial or sexual discrimination, the recovery of bad debts, and disputes with a landlord other than those relating to rent or service charge (particularly relevant for small businesses when dealing with a large corporation or local authority landlord). The policy cover will also include the cost of employing specialist accountants and lawyers to protect your rights, for example if your business is subject to investigations on tax or VAT matters. Most policies will offer a confidential telephone legal advisory service to answer commercial legal enquiries. The vast majority of LEI policies are sold 'before the event', to cover the consequences of an event which has not yet occurred. However, there is a very small part of the market which is sold 'after the event', to cover legal expenses in a case where the disputed event has already happened, although the expenses of the court case resulting from it have yet to be incurred. It is likely to be available only where the chances of winning the case are high, in which case the insurer is likely to be able to recover the costs from the other side.

Other risks

The following insurances may be provided under a "package" business policy. Separate individual policies can also be issued.

Book Debts – cover against loss of money arising from accidental damage or theft of books of account.

Fidelity Guarantee – cover against loss of money or stock arising from dishonesty by your employees.

Frozen Food – cover against loss of frozen food in deep-freeze units caused by breakdown or damage to the unit or failure of the electricity supply.

Glass – cover for the replacement of glass following malicious or accidental damage.

Travel Insurance – individual or group travel insurance policies can be arranged providing cover during business journeys abroad which includes medical and legal expenses, personal accident and loss of baggage.

Your Legal Liabilities

Running a business creates considerable legal responsibilities towards your employees, the public and customers. Injury to your employees and members of the public could result in you being legally liable to pay damages if you or your employees have been negligent or found in breach of a statutory duty. An employer's statutory duties are set out principally in the Health and Safety at Work etc Act 1974 and associated Regulations. You must identify the safety and health needs of your particular business activities by carrying out a risk assessment and take action to remove or control the risks in line with the appropriate legislative requirements. Good management is an ongoing process. Should you make any changes in your workplace, you should reassess the hazards present.

Advice on good health and safety management is available from the Health and Safety Executive and local authority environmental health departments. Further, your liability insurer or broker will be able to provide assistance with risk assessments and action plans.

Liability insurance will pay the amounts of any court awards or damages, claimants' costs and expenses where you or your employees are held legally liable, subject to any policy limits.

The main liabilities which you face in business are:

Employers' liability

By law, all employers must insure against their legal liability for injury, disease or death to employees sustained by them and arising from their employment. Employees will normally include, in addition to those under a contract of employment, apprentices and other trainees and those hired from another employer. The only exception is where all your employees are close relatives and you should check if you think that this may apply to you.

You are legally required to insure for at least £5 million but in practice, most policies offer £10 million minimum cover. The law also requires that you exhibit a certificate of employers' liability insurance at each place of work. Failure to meet this requirement could constitute a criminal offence.

Public liability

Public liability insurance covers your legal liability to pay damages to members of the public for death, bodily injury or damage to their property which occurs as a result of your business activities. It also covers legal fees,

costs and expenses such as representation at any coroner's inquest, fatal accident enquiry or other court hearing because of an accident.

When deciding on how much cover to buy, you should carefully consider the maximum claim that could be made against you. Awards for injury can exceed £1 million. Certain businesses, where there is a spreading fire or possibility of multiple personal injuries, could face claims for damages far exceeding this figure. The limit of indemnity will apply to claims arising from a single incident.

Product liability

If you make, repair or sell products, you could be held legally liable for damage or injury arising from defects in their design or manufacture even if you have not been negligent. Product liability insurance covers you in these circumstances up to a maximum amount each year.

The Consumer Protection Act 1987 makes it a criminal offence to supply unsafe consumer goods.

Motor vehicle liability

By law you must insure your legal liability for injury to others and damage to their property arising from the use of vehicles on the road – third party insurance.

Most business policies are either comprehensive or third party, fire and theft. Comprehensive cover includes damage to your vehicle. The third party section of a commercial vehicle policy will meet your legal requirements to cover your liability to others.

Your Health, Life Insurance and Pension Needs

You should consider all the consequences, both personal and for the business, that might follow from the serious injury, illness or death of yourself or your employees. As well as the impact on individuals and their families, the loss of a "key" person – whether permanent or temporary – could have a significant impact on the profitability of your business. Policies providing benefit for serious illness, disability or death of employees and retirement benefits can be arranged on either an individual or group basis. There are valuable tax concessions for both employers and employees for retirement benefits schemes. There are usually tax concessions for employers who arrange insurance for their employees against death, disability or sickness. Your accountant or insurance adviser should be able to provide further details.

Personal accident and sickness insurance

This type of policy pays a regular cash benefit to a person unable to work as a result of an accident or sickness. This is especially valuable if you are self-employed and would have no income if disabled or sick. Personal accident

policies are arranged for one year and are renewable at the option of the insurer. If you are sick or injured, regular payments are usually made on a weekly basis up to a maximum number of weeks (usually 52 or 104). There will normally be a deferred period (such as 7 days) before payments start. A lump sum may also be payable on death or specified disabilities such as loss of a limb or eye.

Income protection insurance

Income protection (IP) policies are arranged on a long-term basis, usually until the retirement age of the insured. They provide a regular income to compensate for the loss of earnings through incapacity and being unable to work. The benefits are payable while the insured is unable to work, but stop at the end of the policy term. The benefits will be limited to a proportion of normal earnings, e.g. up to 60%, to reflect their tax-free status.

IP insurance will normally have a deferred period such as 4, 13, 26 or 52 weeks before benefits are paid, to take into account any statutory sick pay and other state sickness benefits for employees.

The deferred period is usually arranged so that payments under the policy start when any contractual sick payments stop. It is possible for employers to arrange group IP schemes to cover their employees in the event of long-term sickness.

IP insurance is also available to protect the business against the financial impacts of losing a "key" employee through illness or injury. It is then known as "key person insurance".

Private medical insurance

Private medical insurance is designed to cover treatment for curable, short-term illness or injury (commonly known as acute conditions). It provides the reassurance of knowing that treatment is available promptly. This can be particularly valuable to small employers as it enables them to better manage employee absence and illness.

Different policies will cover different optional treatments. However, some illnesses or treatments will not be covered by any PMI policy.

Private medical insurance is arranged for one year at a time.

Life insurance

Life insurance can provide financial security for employees' dependants and protect the profitability of the business upon the death of a "key" employee. Group life assurance schemes provide lump sum death benefits for the dependants of employees who die in service. The benefit is usually a multiple of salary – under current Inland Revenue rules the limit is four times salary at the date of death. These schemes can also provide a spouse's pension on death in service of an employee.

Many businesses rely on the knowledge and expertise of a "key" employee whose death might severely affect the business' profitability. Such key employees can be insured for an amount which it is estimated the business would lose in the event of their death.

Life insurance can also protect partnerships so that the future of the business is not put at risk from the withdrawal of the deceased partner's capital. Short-term life insurance cover can be arranged for employees who frequently travel abroad on business.

Life insurance can be used to pay any inheritance tax liability. Inheritance tax may be payable on death and on gifts made within seven years of death. A policy can be arranged so that the sum insured will not be part of the estate and can be paid directly to dependants to meet any inheritance tax due.

Pensions

Offering a pension has a positive effect on employees

A good pension scheme should not be looked at as an expense, but as an investment in your business. Rewarding and motivating employees with good pension provision sends a strong signal of commitment to staff, and can aid motivation, recruitment and retention of the best employees.

A pension provided, and contributed to, by an employer regularly tops polls of employees as the most valuable benefit that an employer can offer. This trend is set to continue due to the growing awareness amongst individuals of the need to take responsibility for one's own future retirement needs.

Offering a pension to employees makes economic sense

Pensions have attractive tax benefits.

For the employee this means that they get the full value of any contributions that you make for them. For example, if you, as an employer, contribute £1000 towards an employee's pension, £1000 will be invested in their plan. If you were to put that sum towards a pay rise, the employee would only get £680 in their pay packet after National Insurance and income tax deductions (based on 2002/2003 tax and NI rates). That's £320 less.

For the company, contributions can be offset against corporation tax. This means that a £1,000 contribution towards pensions will cost the company, assuming they are paying 30% full rate corporation tax, only £700.

Stakeholder Pensions

All companies with 5 or more employees must provide access to a stakeholder pension (unless otherwise exempt)

Under the Welfare Reform and Pensions Act 1999 all companies with 5 or more employees (and who are not exempt) must:

- discuss the choice of scheme with relevant employees before designating a scheme;
- provide access to a stakeholder pension scheme for their employees;
- inform their employees about the new scheme;
- deduct pension contributions from employees' pay packets and pass them promptly to the pension scheme (if required by the employees). There may be fines for delay;
- maintain a record of the payments made to the stakeholder scheme provider.

Employers do not have to offer employees access to a stakeholder pension scheme if:

- they employ fewer than 5 employees;
- they already offer an occupational pension scheme to all staff aged between 18 and five years before the normal pension age of the scheme. Staff must be able to join within a year of starting work;
- they offer to pay at least 3% of salary into personal pensions on behalf of all staff aged 18 or over who have worked at their company for the last three months. To qualify there must be no penalties for stopping payments or transferring into another scheme.

These exemptions will be reviewed after 3 years. Even if an employer is exempt they can still provide access to a stakeholder pension scheme if they wish.

The Occupational Pensions Regulatory Authority (Opra) provides an online employer decision tree to help employers decide if they are exempt.

Further information

There is a great deal of information on the Occupational Pensions Regulatory Authority's (Opra) website, which has a section dedicated to stakeholder pensions, and includes information on:

- do all employers have to provide stakeholder pension?;
- what do employers have to do?;
- designating a stakeholder scheme;
- deducting contributions from employee salaries;
- record keeping; and
- an on-line decision tree to help employers decide if they have to offer a stakeholder pension.

The Financial Services Authority's (FSA) guide – 'Helping your employees with their pension options – a guide for employers offering stakeholder pensions or group personal pensions' – provides useful information for any employer unsure of their

How do I buy these insurances?

Package or combined policies are available, which provide cover against many of the risks described in the previous section in a single policy document. These policies can be tailored to the requirements of your business. Some businesses may find individual policies more appropriate. You may choose to buy your insurance from a specialist commercial insurance broker or directly from an insurer.

What do I need to think about or ask when buying insurance for a business?

Insurance documentation - When applying for insurance cover, you may be asked to complete a proposal form giving information to enable the insurers to assess your risk. Details will include name, address and business of the

proposer, previous losses, and details of the risk to be insured. When completing the proposal form, it is important that all questions are fully answered and all relevant facts concerning the business are disclosed to the insurer. Failure to disclose all relevant facts fully, whether specifically asked or not, might entitle the insurer to treat the policy as invalid.

Before cover is granted, the premises may be surveyed by an insurance surveyor to accurately assess the risk. He will draw attention to any hazardous features and advise on ways to improve the risk. Some improvements may be required before the cover is given.

When your proposal is accepted, you will receive a policy document which sets out details of the contract including the scope of the cover and the exclusions and conditions. With motor and employers' liability insurance the law requires evidence of cover to be provided by a certificate of insurance in a prescribed form.

Insurance premium tax - Most types of general insurance are subject to insurance premium tax (IPT), while life insurance, pensions and income protection insurances are not. The premium quoted by the insurer will include the tax where necessary. You are not able to set IPT paid by you against VAT on the goods and services you sell to others.

If you sell cars, electrical or domestic appliances, or holidays, and you also arrange insurance for your customers, then in certain circumstances you may be liable to administer IPT yourself. You should ask your accountant, tax adviser or HM Customs and Excise for details if necessary.

What can I do to minimise the insurance risks for my business?

Protecting against fire

Protecting against theft, vandalism & arson

Protecting against adverse weather

Insurance issues with multi-tenure buildings

Buildings occupied by several firms are more hazardous, and therefore, more expensive to insure than those with a single occupant.

Ideally, multi-tenure work places should be purpose-built as it can be extremely costly to convert an old multi-storey building into a more acceptable insurance risk.

Construction and access

Fire-break walls can be erected to divide a building into separate fire compartments. Your insurance company surveyor will be able to advise on the fire resistance properties of existing walls and the requirements for satisfying fire-break standards. The surveyor will also be able to give advice on the fire-break requirements for fire resisting floors.

Access control should ensure that only bona fide visitors can gain admission to the premises. Callers should be escorted at all times by the person they are visiting.

Tenancy control

Management of the property should ensure the following:

- there should be a safe and adequate method of heating the entire building. If this is not possible, each tenancy agreement should stipulate the acceptable types of heating;
- waste should not be allowed to accumulate in tenants' units and all waste should be removed at the end of each working day. Suitable containers for the collection of waste should be supplied and a reliable means of disposing of each day's combustible waste away from the premises, should be arranged;
- where hazardous processes or materials are used by tenants, they should be required to take proper precautions;
- constant supervision of the premises is undertaken which will help ensure that standards are maintained;
- care should be taken in the selection of tenants. The tenancy agreement should ensure that management can maintain adequate control over the selection of sub-tenants.

Association of British Insurers