

# Insurance Cover for Business

Business Information Factsheet

BIF006 · February 2018

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## Introduction

Every business is vulnerable to risks such as claims for compensation as a result of injury or negligence, 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 vehicle insurance, are required by law.

This factsheet introduces the main types of business insurance, indicating those that are legally required.

## Employers' liability insurance

Under the Employers' Liability (Compulsory Insurance) Act 1969 (the Act), any business in England, Wales and Scotland that employs staff is legally required to have employers' liability insurance. Similar laws apply in Northern Ireland, covered by the Employer's Liability (Defective Equipment and Compulsory Insurance) (Northern Ireland) Order 1972. Employers' liability insurance protects a business against claims for compensation in the event of the injury or illness of employees.

The definition of employees includes casual, seasonal and temporary staff as well as permanent employees and trainees. Employers should also inform their insurer if they use volunteers.

Businesses employing only immediate family members are exempt from the requirement to hold employers' liability insurance, provided they are not incorporated as a limited company. Anyone who is the majority shareholder of a limited company but is the only employee of the company does not require employers' liability insurance.

Employers must hold minimum cover of £5 million, but some may need more than this depending on their particular risks and liabilities and most policies automatically provide cover of £10 million. Employers can be fined £2,500 for each day that they do not have appropriate employers' liability insurance. They 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](http://www.hse.gov.uk/toolbox/managing/insurance.htm) for details.

See BIF375, Employers' Liability Insurance, for more information.

## Business vehicle insurance

All vehicles that are used for business purposes must, by law, be covered as a minimum 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 vehicle insurance cover, which provides cover for damage to the driver's own vehicle as well as a third party's vehicle.

Employees and business owners who use 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. Some employers have insurance policies that also cover employees when they are using their own vehicle for work purposes. Others pay employees a (negotiable) mileage rate for using their own vehicle, which covers the additional cost of insuring it for business purposes.

Employers are responsible for taking out cover for any vehicles owned by the business. Some businesses will need specific commercial vehicle insurance policies to cover vans, taxis, coaches or vehicles used on farming or industrial premises. Childminders who carry children in their car as part of their normal working day (for example to take them to toddler groups or on outings) must also have cover for business use.

## **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 loss or damage to someone's 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 legally required. However, this type of insurance is advisable for any business owner who has contact with members of the public, who visits clients or suppliers on their property or who has clients visiting them, for example at a home-based business.

Local authorities and other organisations may refuse to deal with a business supplier or contractor that does not have a specified level of 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. However, the retailer is usually responsible for dealing with and handling any complaints from customers who have bought products from 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, for example as a result of breach of copyright or privacy, medical malpractice, or negligent advice provided 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. For example in England and Wales, solicitors must apply for 'Primary Layer' PII cover from a qualifying insurer registered with the SRA. Sole practitioners and traditional partnerships must hold £2 million of cover, while LLPs and ABSs must hold £3 million of cover. Any business owner who offers advice 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 vehicle 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 BIF017, *A Checklist for Running a Business from Home*, for more information.

## Contents insurance

Contents insurance pays the cost of theft of or damage to business stock or equipment. It is not legally required, but is necessary 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, for example to cover power failure that could lead to chilled or frozen food being spoilt.

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 business vehicles may be covered by some comprehensive commercial vehicle insurance policies.

Anyone that runs their business from a home base should check that their home contents insurance policy also covers them for business activities.

## **Business interruption insurance**

Business interruption insurance covers loss of income when an unforeseen event means that a business can't trade 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 access the business premises, for example due to unconnected incidents in neighbouring properties or the road outside, such as a gas leak.

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 cybercrime 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.

Any business that uses information and communications technology (ICT) will require some level of cyber insurance cover. If a business isn't heavily dependent on ICT, 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. The value of lost or damaged items posted via Royal Mail is usually automatically covered (up to certain monetary limits) by its 'Retail

Compensation Policy for Loss' scheme. Go to [www.royalmail.com/retail-compensation-policy-loss](http://www.royalmail.com/retail-compensation-policy-loss) for more information.

Where business goods are only carried occasionally or in small quantities, it might be possible to get adequate cover as part of a comprehensive commercial vehicle insurance policy. A business that supplies high-value items or carries goods regularly (for example, to sell at trade fairs) is 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 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 the 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 BIF465, *An Introduction to Trade Credit Insurance*, for more information.

## **Loss-of-licence insurance**

Loss-of-licence insurance covers 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 who is 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 or company 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% and 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 BIF408, *A Guide to Income Protection Insurance*, for more information.

## Duty of fair presentation of risk

The Insurance Act 2015 applies to all commercial contracts of insurance and requires all business owners (policyholders) to make a fair and accurate presentation of risk before entering into a contract of insurance. This means that they must disclose every matter that they know about, or ought to know about, that would influence the decision of an insurer about whether to insure the risk and on what terms. If a policyholder deliberately or recklessly fails to disclose this information, the insurer could void the contract and keep any premiums paid by the

policyholder. The Insurance Act applies to all policies taken out, renewed or altered on or after 12 August 2016.

## 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 BIF027, Choosing and Using an Insurance Broker, for more information.
- The Association of British Insurers (ABI) provides a directory of members at [www.abi.org.uk](http://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/find-insurance](http://www.biba.org.uk/find-insurance).
- Trade association membership may enable business owners to benefit from reduced premiums for insurance policies covering their trade or sector. Go to the Trade Association Forum ([www.taforum.org](http://www.taforum.org)) for a list of trade associations and their contact details.

## Further information

BIF017 A Checklist for Running a Business from Home

BIF027 Choosing and Using an Insurance Broker

BIF375 Employers' Liability Insurance

BIF404 An Introduction to Indemnity Insurance

BIF408 A Guide to Income Protection Insurance

BIF465 An Introduction to Trade Credit Insurance

## Useful publications

'Employers' Liability (Compulsory Insurance) Act 1969: A brief guide for employers'  
Health and Safety Executive (HSE)

Website: [www.hse.gov.uk/pubns/hse40.pdf](http://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/globalassets/sitecore/files/documents/publications/public/migrated/liability/insurance-for-small-businesses-a-guide-to-protecting-your-business.pdf](http://www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/migrated/liability/insurance-for-small-businesses-a-guide-to-protecting-your-business.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](http://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](http://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](http://www.fca.org.uk)

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

Tel: (020) 3869 8650

Website: [www.taforum.org](http://www.taforum.org)

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