



INSURANCE FACT SHEET

INFORMATION FOR THE START UP BUSINESS

When starting your own business, it is important that you consider the types of insurance appropriate for you. This fact sheet will help guide you through the process.

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INFORMATION FOR THE START UP

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The Business Insurance Service

(www.businessinsuranceservice.co.uk) is here to help. Call us on 01273 789 979 or email us at hello@businessinsuranceservice.co.uk

START YOUR OWN BUSINESS

Understanding the various types of insurance on offer, let alone deciding on a supplier can be a daunting business for small companies. The Business Insurance Service can help you navigate through this process, providing a one-stop shop for all your risk management and insurance needs.

1) *What is Risk Management*

Put simply, risk management is the identification, and evaluation of risks facing your business. When risks are identified, procedures are then put in place to mitigate their impact.

Risk is unavoidable and present in our everyday world. We practice risk management by instinct and it becomes second nature to us. The fact that you have taken the commendable step of starting your own business shows that you understand that often, to create accelerated rewards, we have to take on risk. This type of risk taking is positive. A number of risks businesses face however, can have catastrophic consequences if they are not managed properly.

2) *Why is it important?*

This may sound like a silly question but too often companies rush to insurance as the answer to their risk management needs without actually understanding what risks their businesses actually face. The start point for any decision to take out insurance is the understanding of the risk that you are seeking to mitigate. A good first step for any business owner is to undertake this exercise themselves. List all the risks you face, prioritise them, and then look at mitigation steps. For example, you may worry about flooding. Leaving aside insurance, is the risk great enough that you should have a business continuity plan? You may worry about human error causing an injury or loss. Again, leaving aside insurance should you therefore have strict procedures laid out in writing?

Good insurers are also skilled risk managers. They can help you through this process too, identifying things you may not have considered as well as other mitigating steps that will help you reduce the risk. This is beneficial all round. A business that practices risk management well is likely to be better controlled. A better controlled business is less risky. Less risky business means less losses for insurers and less losses for insurers mean lower premiums for you!

3) *What does the law say?*

The law states that you must, in certain circumstances, have two types of insurance:

- Employer Liability Insurance (EL) if you employ any staff
- Commercial Motor Insurance if you operate motor vehicles within your business.

All other types of insurance are for you to consider on their merits.

4) *Employers Liability Insurance*

EL insurance covers you in the event that an employee becomes sick, injures themselves or dies as a result of your employment. As mentioned previously, EL insurance is a legal requisite if you employ any staff. This includes temporary or holiday labour as well as salaried staff and you must obtain cover with a minimum value of £5m.

The only exceptions to this are if your employees are all family members or if they all work abroad.

If you fail to have this insurance in place you are liable for a fine of £2,500 per day for the period that you are not covered.

You will be granted an EL certificate when this insurance is granted which you should display at your premises. As a minimum you must have the certificate to hand if you are inspected. Failure to do so could result in a fine of £1,000.

Please note that you should keep all records related to this cover going forward. It is possible for ex-employees to bring claims against your business many years after they have left your employment.

5) *Commercial Motor Insurance*

In the event that your business uses motor vehicles in the course of its activities, the other type of insurance required by law is commercial motor insurance. If you use company vehicles in the course of your business, it is your responsibility to ensure that your vehicles are insured.

If your employees use their own vehicles in the course of company business, it is not your legal obligation to insure them, it is theirs. However, it is pertinent to ask of such employees whether they have notified their insurer that the vehicle can be used on company business as well as for domestic activities. This does not include travelling to and from the place of work.

As with private motor insurance, the insurance industry offers three types of cover:

- Third party insurance
- Third party fire and theft insurance
- Fully comprehensive insurance

If your business uses a large number of vehicles, for example couriers or taxis, it is worth asking about specialist motor cover.

6) Commercial Property Insurance

While it is not a legal obligation to take out property insurance, there are few businesses that would argue they don't need cover in this area. Commercial property insurance covers your buildings, contents, fixtures, fittings and stock against loss.

Losses could be brought about by events such as water damage from floods, fire damage, wind and storm damage or subsidence. If you are a manufacturing business in particular you are going to have unique requirements in this area. Your insurer will need to understand what stock levels you hold at various times of year for example.

As with private property insurance, the values that are important to insurers are replacement costs rather than selling prices or market values. This means you insure your property to the rebuilding cost estimate in addition to the costs of any fixtures, fittings or stock.

Property cover does not cover you for wear and tear damage to building or contents and you may need to pay attention to other exclusions too. For example, "war and terrorism" is often specifically excluded from property cover. If you think this is a particular concern for your business you should speak to the insurer as there are specific policies available to cover these risks.

You should also consider whether you require business interruption insurance as part of your property cover. In the unfortunate event of damage to your facility, would you still be able to trade, sell and make profits? If not, you can ask for additional cover to protect your revenues through that difficult time.

7) Professional Indemnity Insurance

If your business sells any form of advice you should consider professional indemnity insurance (PI). PI insurance covers you in the event that the advice offered turns out to be incorrect and results in losses to your clients. For example if you are a firm of accountants, solicitors, management consultants, IT consultants or architects to name but a few, you would be well advised to consider this form of cover.

PI insurance is often more complex and you will need to agree the terms of your cover carefully with the insurer. Claims in this area are also complicated and expensive, often running for significant periods of time at great expense.

8) Product Liability Insurance

If, rather than services, you sell physical products, you may need to consider product liability insurance (PL). PL cover protects your business in the event of a claim that your product caused personal injury or damage to property.

It is important to note that you could be held liable for faulty products even if you did not manufacture them. This is an example where practicing good business and risk management pays off. If you are an on-seller of goods and do not manufacture, your cover should protect you provided you have undertaken good business practices such as:

- Being able to prove that the products have not been changed and were therefore faulty when they were supplied to you.
- Ensuring that your customers are given adequate safety instructions and warnings about misuse.
- You include terms for the return of faulty goods to the manufacturer.
- You have put in place contracts with your manufacturer that guarantee product safety, quality control and returns.
- All of this is supported by good quality control and record-keeping systems.

Be sure to agree the insurance terms with the insurer or broker to ensure you are happy with any restrictions. Often insurance of this type will not cover you if the loss occurs as a result of your negligence or poor workmanship.

9) Credit Risk Insurance

No business goes into bankruptcy because it failed to make profit, they enter liquidation because they ran out of cash. Securing your debtors can be a cause for concern for small businesses. This is particularly the case if, during the early stages they have a concentration of sales with a small number of customers.

Credit Risk Insurance can protect you in the event that one of your customers fails to pay you. Obviously you need to have cover in place before things start to go wrong and you will need to discuss the specifics of your situation and requirements with your insurer.

10) Other forms of Insurance

It is often said that there is nothing that can't be insured, from footballer's knees to racehorse's virility. This is true but you may not need to worry about these examples! So called 'key-man insurance' though protects businesses against the loss of a key individual or manager. Kidnap and ransom, cyber security, crop failure, shipping, pollution are just some examples of specialist risks that insurers can offer.

For more information contact your broker or insurer to discuss your risks or in the first instance call the Business Insurance Service on 01273 789979 for a no obligation discussion.