Insuring Your Business

When starting a new business, you will no doubt recognise the need for insurance. It can provide compensation and peace of mind should things go wrong but can also represent a significant cost.

In this factsheet we consider the different types of insurance you need to consider.

Compulsory insurance

Employers' liability insurance is compulsory to cover your employees. By law you must have at least £5 million of cover and this must come from an authorised insurer, although a minimum of £10 million is now provided by most policies. You must display the certificate of insurance in the workplace. If your business is not a limited company, and you are the only employee or you only employ close family members, you do not need compulsory employers' liability insurance. Limited companies with only one employee, where that employee also owns 50% or more of the company's shares, have also been exempt from compulsory employers' liability insurance.

Motor vehicles liability insurance is also compulsory and must cover third party insurance: this is the legal minimum.

Optional insurance

Other categories of insurance are optional and a decision as to whether or not you need cover under any given heading will depend on the nature of your business and an assessment of the risks.

Public liability

Although strictly this is not compulsory you will almost certainly feel that you need cover under this heading. It covers claims for damages to third parties.

Property

You can think about limiting cover to specific risks such as fire and flood or providing more general cover. Consider the level of cover you would need for the premises (if you own the building), equipment and stock. If you rent your premises then you should check that the landlord has the appropriate cover.

Theft

If your business does not involve expensive items of equipment then you might decide to pass on this one, at least initially. If you do decide to provide cover for theft then an insurer will require a reasonable minimum level of security.

Professional indemnity

This is only likely to be necessary if you give advice which could make you liable. It protects against any loss suffered by your customers as a result of negligent advice. In some professions it is compulsory – examples being the law, accountancy and financial services. However it is common in other sectors such as computer consultancy and publishing.

Business interruption

This covers compensation for lost profits and extra costs if your business is disrupted, due to say a fire. It is also referred to as 'consequential loss' insurance.

Key man

A small business is often dependent on key members of staff. What would happen if they became seriously ill or died? Do you need to consider insurance cover to pay out in such a situation?

Specialised insurance

A whole host of different policies cover a range of specialist situations – for example engineering insurance and computer policies.

Working from home

If you are planning to start your new business from home then don't assume that your normal household insurance will be enough. It will not usually cover business risks. It is possible to obtain special 'working from home' policies.

Shopping around

It may be stating the obvious but it is important to shop around to get the best deal. You should obtain several quotes and always be wary of cheap deals. A personal recommendation may be the best way to decide.

Level of cover

Again it may be stating the obvious but too much cover and your cash flow will suffer, too little and the consequences can be catastrophic.

Consider the level of cover you need. With buildings and equipment make sure you are covered for the full replacement cost.

If there is to be an excess on any policy make sure that it is set at a sensible level.

How we can help

Please talk to us if you would like any further help on insuring your business.

For information of users: This material is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm.